

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

11 January 2019

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, 21st January, 2019 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

A G E N D A

PART 1 - PUBLIC

- | | | |
|----|--------------------------|-------|
| 1. | Apologies for absence | 5 - 6 |
| 2. | Declarations of interest | 7 - 8 |

3. Minutes 9 - 12

To confirm as a correct record the Minutes of the meeting of Audit Committee held on 1 October 2018

Matters for Recommendation to the Cabinet

4. Risk Management Strategy 13 - 38

The report asks Members to review the Risk Management Strategy and accompanying Risk Management Guidance and to recommend to Cabinet its adoption by full Council. The report also provides an update on the risk management process and the Strategic Risk Register.

5. Treasury Management Update and Treasury Management and Annual Investment Strategy for 2019/20 39 - 78

The report provides details of investments undertaken and return achieved in the first nine months of the current financial year and an introduction to the 2019/20 Treasury Management and Annual Investment Strategy. Members are invited to recommend adoption of the Strategy to Cabinet.

Decisions to be taken under Delegated Powers

6. Annual Review of Anti-Fraud Policies and Whistleblowing Policy 79 - 126

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

7. Internal Audit Charter 127 - 134

The report provides information on the outcome of the review of the Internal Audit Charter.

8. Annual Review of Anti-Money Laundering Policy 135 - 156

The report provides information on the outcome of the annual review of the Council's Anti-Money Laundering Policy and supporting guidance notes.

9. Accounting Policies 157 - 170

The report presents the Accounting Policies proposed for the 2018/19 Financial Statements for consideration and endorsement.

10. Proposed Scale of Audit Fees 2019/20 171 - 172

The report gives details of the proposed scale of audit fees for 2019/20.

Matters submitted for Information

11. Internal Audit and Counter Fraud Update 173 - 190

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

12. Grant Thornton Certification Letter 2017/18 191 - 196

The report summarises the outcomes for 2017/18 from certification work carried out by the external auditor, Grant Thornton.

13. Grant Thornton - 2018/19 Audit Plan and Progress Report 197 - 224

The report introduces two papers from the external auditor: the 2018/19 Audit Plan and Audit Progress Report and Sector Update.

14. Urgent Items 225 - 226

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

15. Exclusion of Press and Public 227 - 228

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

16. Urgent Items 229 - 230

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, 1st October, 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 Mrs J A Anderson, M R Rhodes and H S Rogers were also present pursuant to Council Procedure Rule No 15.21.

An apology for absence was received from Councillor T C Walker

PART 1 - PUBLIC

AU 18/40 DECLARATIONS OF INTEREST

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

AU 18/41 MINUTES

RESOLVED: That the Minutes of the meeting of the Audit Committee held on 23 July 2018 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE CABINET

AU 18/42 REVISED STATUTORY INVESTMENT GUIDANCE AND TREASURY MANAGEMENT AND PRUDENTIAL CODES OF PRACTICE

The report of the Director of Finance and Transformation gave details of the additional requirements imposed on local authorities through revised statutory guidance and codes of practice. These were aimed at addressing concerns arising from the commercialism agenda, in particular the use of loans and the purchase of property to generate a profit.

RESOLVED: That the Cabinet be recommended to

- (1) note the new requirements and disclosures contained in the Statutory Guidance on Local Government Investments 2018 Edition set out at Annex 1 to the report;
- (2) readopt the four clauses to be formally adopted, as set out in the Code and reproduced at Annex 2 to the report;

- (3) readopt the Treasury Management Policy Statement, as set out in the Code and reproduced at Annex 3 to the report;
- (4) note the new statement pertaining to investments that are not part of treasury management activity, reproduced at Annex 4 to the report;
- (5) note the additional paragraphs to be added to the Council's Treasury Management Practices, as set out at Annex 5 to the report;
- (6) note the additional paragraphs to be added to the Council's Capital Strategy, as set out at Annex 6 to the report; and
- (7) note the prudential indicators set out at Annex 7 to the report.

AU 18/43 TREASURY MANAGEMENT UPDATE AND MID-YEAR REVIEW 2018/19

The report of the Director of Finance and Transformation provided an update on treasury management activity undertaken during the period April to August 2018. It also included an update on progress in securing additional property fund investment and a mid-year review of the Annual Investment Strategy and risk parameters.

RESOLVED: That the Cabinet be recommended to

- (1) endorse the action taken by officers in respect of treasury management activity for the period April to August 2018;
- (2) note the £5 million in property fund investments undertaken since June 2017; and
- (3) retain the existing parameters intended to limit the Council's exposure to investment risks.

MATTERS SUBMITTED FOR INFORMATION

AU 18/44 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

The report of the Chief Audit Executive provided an update on the work of the Internal Audit and Counter Fraud functions for the period April to August 2018.

RESOLVED: That the report be received and noted.

AU 18/45 ANNUAL AUDIT LETTER

The report of the Director of Finance and Transformation set out details of the key messages contained in the Annual Audit Letter for the year ended 31 March 2018.

RESOLVED: That the report be received and noted.

AU 18/46 GRANT THORNTON PROGRESS REPORT AND SECTOR UPDATE

The report of the Director of Finance and Transformation provided an update from external auditors, Grant Thornton, on emerging national issues and developments relevant to Tonbridge and Malling Borough Council.

RESOLVED: That the report be received and noted.

AU 18/47 EXCLUSION OF PRESS AND PUBLIC

The Chairman moved, it was seconded and

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

PART 2 - PRIVATE**MATTERS SUBMITTED FOR INFORMATION****AU 18/48 INSURANCE CLAIMS HISTORY; APRIL - AUGUST 2018**

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

The Director of Finance and Transformation reported on the nature and volume of liability and property damage insurance claims submitted during the period April 2018 to August 2018.

RESOLVED: That the report be received and noted.

The meeting ended at 8.08 pm

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

21 January 2019

Report of the Management Team

Part 1- Public

Matters for Recommendation to Council

1 RISK MANAGEMENT

The report asks Members to review the Risk Management Strategy and accompanying Risk Management Guidance and to recommend to Cabinet its adoption by Full Council.

The report also provides an update on the risk management process and the Strategic Risk Register.

1.1 Introduction

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

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

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

1.2 Review of the Risk Management Strategy

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

1.2.2 This latest review of the Risk Management Strategy and the accompanying Risk Management Guidance, found that no changes were required to either the Strategy or Guidance.

1.2.3 A copy of the current Risk Management Strategy and accompanying Risk Management Guidance is attached at **[Annex 1]** and **[Annex 2]** respectively.

1.3 Risk Management Escalation Process

1.3.1 The risk management process has previously been considered by the Committee in some detail. Effectively risks are assessed/scored in terms of their likelihood/impact and those being assessed as potentially “High” will feature on the Strategic Risk Register (SRR).

1.3.2 Risks which are scored as “Low” in terms of their potential likelihood or impact are managed by Senior Managers within the Service.

1.3.3 Should the risk score increase, these risks are escalated to Service Management Team with a “Medium” categorisation.

1.3.4 Service Management Teams will escalate the risk via the Management Team for corporate attention if it is felt that the likelihood or impact of the risk now carries a categorisation of “High”. As mentioned at paragraph 1.3.1 risks with a “High” categorisation will find their way onto the SRR. By way of example, at the meeting in July 2018 Members might recall that the new waste services contract had been escalated to Management Team as a “High” risk and added to the SRR.

1.3.5 To give Members some reassurance as to the effectiveness of the regime outcomes from the risk management escalation process are reported bi-annually to the July and January meetings of this Committee.

1.4 Risks recorded by Service Management Teams

1.4.1 Risks identified by Service Management Teams since the last report to this Committee in July 2018 are given below:

- Support Accommodation – impacts on Housing Benefits Subsidy
- Cyber security
- Universal Credit – impact on client base
- Potential failure of major contractors
- Annual Billing for Council Tax and Business Rates
- Recycling bring sites
- Legionella

1.5 Strategic Risk Register (SRR)

- 1.5.1 A “snapshot” of the SRR as at the time of writing is appended at **[Annex 3]**.
- 1.5.2 Members will note the updates in red font since the last iteration of the Register, including the risk relating to ‘Brexit impact and economic stability’. At the time of writing this report it is not known whether we are likely to have a ‘deal’ or a ‘No deal’ Brexit. As Members will appreciate, the prospect of a ‘No deal’ Brexit could have a significant impact on service delivery.
- 1.5.3 Unless there is something significant that needs to be brought to Members’ attention in the interim, we will present the SRR to this Committee in July 2019 in accordance with the agreed process of bi-annual reports.

1.6 Member Training

- 1.6.1 The Strategy places specific responsibility on this Committee in managing and promoting the risk management process. Paragraph 5.3 of the Strategy says:

“The Chairman of the Audit Committee will take a lead role in promoting the application of sound risk management practices across the Council.

Training will be provided periodically for all Audit Committee members.

The Audit Committee will consider the Risk Management process as part of the assurance evidence in support of any Corporate Governance Statement.

The Audit Committee will provide independent assurance of the adequacy of the risk management framework and will monitor the effective development and operation of risk management in the Council.”

- 1.6.2 In order to assist Members in discharging their responsibilities an interactive workshop, led by our Insurers, on risk management is to be arranged post the May 2019 Borough election on the following lines:
- 1) *Overview of risk management in local authorities, including recent global trends and their relevance to TMBC.*
 - 2) *The Risk Management process at the Council and the key steps for identifying, quantifying and mitigating risk.*
 - 3) *The roles and responsibilities for Members in overseeing effective risk management.*
 - 4) *Risk Horizon Scanning; a discussion around the key risks emerging for the Council including a discussion around the current strategic risk register.*

1.7 Legal Implications

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

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

1.8 Financial and Value for Money Considerations

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

1.9 Risk Assessment

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

1.10 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. There is no perceived impact on end users.

1.11 Recommendations

1.11.1 Members are asked to review the Risk Management Strategy and accompanying Risk Management Guidance and, subject to any amendments required, to **recommend** to Cabinet for adoption by Council.

Background papers:

contact: Sharon Shelton

Nil

Sharon Shelton

Director of Finance and Transformation on behalf of the Management Team

RISK MANAGEMENT STRATEGY



January 2019

1. Introduction

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

2. Mandate and commitment

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

3. Applicability

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

4. Objectives

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

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

5. Roles and responsibilities

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

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

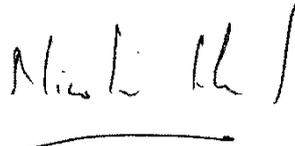
	<p>The Audit Committee will consider the Risk Management process as part of the assurance evidence in support of any Corporate Governance Statement.</p> <p>The Audit Committee will provide independent assurance of the adequacy of the risk management framework and will monitor the effective development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

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

- 6.1. It is the responsibility of the Audit Committee to: 'On behalf of the Council ensure that Risk Management and Internal Control systems are in place that are adequate for purpose, and are effectively and efficiently operated.' Internal Audit will support their role in assuring its effectiveness and adequacy.
- 6.2. Information from Internal Audit and from other sources will be used to inform recommended changes to the strategy and framework at least annually. Any changes will be presented to the Audit Committee for approval before publication. The Strategy was last reviewed in January 2019 and will be reviewed next in January 2020.

7. Approval

Signed: 

Print Name: Nicolas Heslop

Date: 19 February 2019

Position: Leader of the Council

Signed: 

Print Name: Julie Beilby

Date: 19 February 2019

Position: Chief Executive

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TONBRIDGE AND MALLING BOROUGH COUNCIL
RISK MANAGEMENT GUIDANCE

CONTENTS	PAGE NUMBER
1. Introduction	2
2. Achieving strategy objectives	2
3. Risk management at a glance	2
4. Identifying risks	4
5. Assessing risks	4
6. Evaluating risks	5
7. Escalating risks	6
8. Proximity of risk	6
9. Summary of risk profile	7
10. Allocating risks and determining actions	8
11. Monitoring risks	8
Appendix A – Risk Register	9
Appendix B – Risk Assessment Form	10
Appendix C – Determining Likelihood	11

TONBRIDGE AND MALLING BOROUGH COUNCIL
RISK MANAGEMENT GUIDANCE

1. Introduction

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

2. Achieving strategy objectives

- 2.1. The Council shall achieve its objectives, as outlined in the Strategy, through:

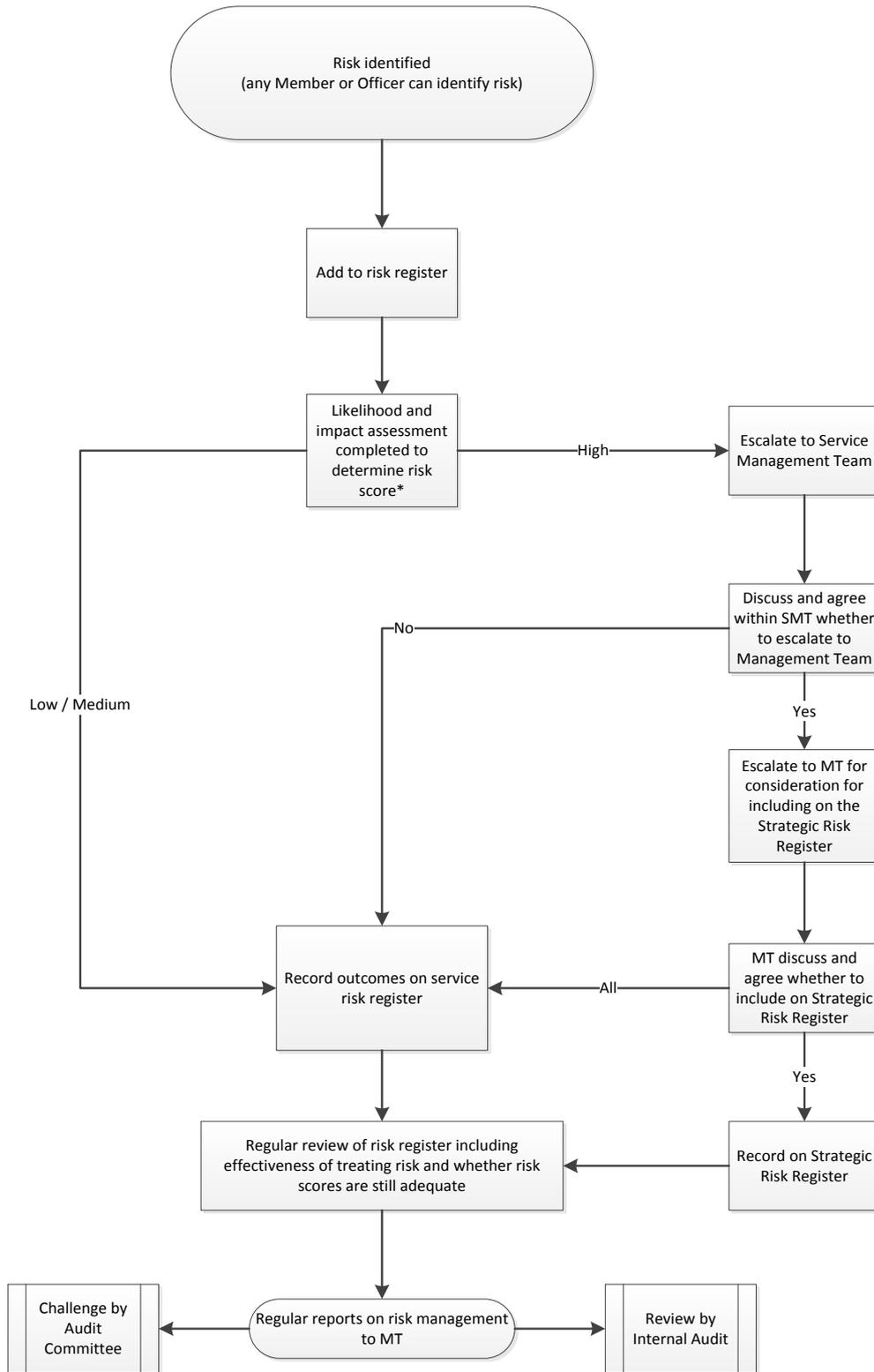
- Integrating effective risk management practices into the Council's management, decision making and planning activities.
- Maintaining common links between business planning, performance and risk management.
- Maintaining the frequency and effectiveness of monitoring of key risks.
- Providing a mix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

3. Risk management at a glance

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

TONBRIDGE AND MALLING BOROUGH COUNCIL

RISK MANAGEMENT GUIDANCE



* A risk assessment form is available at appendix B which can be used to help this part of the process

TONBRIDGE AND MALLING BOROUGH COUNCIL
RISK MANAGEMENT GUIDANCE

4. Identifying risks

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

5. Assessing risks

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

LOW	MEDIUM	HIGH
1 – 4	5 – 12	15 – 24

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

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

TONBRIDGE AND MALLING BOROUGH COUNCIL
RISK MANAGEMENT GUIDANCE

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

6. Evaluating risks

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

For example:

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

7. Escalating risks

TONBRIDGE AND MALLING BOROUGH COUNCIL
RISK MANAGEMENT GUIDANCE

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

8. Proximity of risk

- 8.1. Some risks identified may pose an immediate risk whereas others may not be a risk for several months or even years. Establishing risk 'proximity' adds an additional dimension especially when planning and prioritising resources to deal with risk actions.

TONBRIDGE AND MALLING BOROUGH COUNCIL
RISK MANAGEMENT GUIDANCE

and resources to be expended on managing the risk need to be re-factored into plans to ensure the activity in question remains a viable one.

10. Allocating risks and determining actions

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

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

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

11. Monitoring Risks

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

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

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

Appendix A - Risk Register

Area _____

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

Page 31

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

Appendix B - Risk Assessment Form

SECTION 1 – RISK									
Risk Owner:			Service:				Directorate:		
Risk Event:			Source/ cause:				Consequences:		
							Likelihood score: Impact score: Overall risk score: Accepted?*		
Likelihood F	Almost inevitable	6	6 Medium	12 Medium	18 High	24 High	* If yes, provide rationale. * If no, go to Section 2.		
	Very likely	5	5 Medium	10 medium	15 High	20 High			
	Likely	4	4 Low	8 Medium	12 Medium	16 High			
	Unlikely	3	3 Low	6 Medium	9 Medium	12 Medium			
	Very Unlikely	2	2 Low	4 Low	6 Medium	8 Medium			
	Almost impossible	1	1 Low	2 Low	3 Low	4 Low			
			1	2	3	4			
Impact <input type="checkbox"/>		Negligible	Marginal	Significant	Critical				
SECTION 2 – CONTROLS/ MITIGATING ACTIONS (copy this section for each control/ action)									
Control/ Action Owner:			Service:				Directorate:		
Control/ Action:			Dependencies:				Key Dates:		
							<ul style="list-style-type: none"> Implementation: Review date: Reporting intervals: 		

TONBRIDGE AND MALLING BOROUGH COUNCIL
RISK MANAGEMENT GUIDANCE

Appendix C - Determining Likelihood and Impact

	Likelihood	Example – winter weather
Almost Inevitable	<ul style="list-style-type: none"> Is expected to happen 	<ul style="list-style-type: none"> Rain
Very Likely	<ul style="list-style-type: none"> More likely to happen than not 	<ul style="list-style-type: none"> Strong winds
Likely	<ul style="list-style-type: none"> Strong possibility it will happen 	<ul style="list-style-type: none"> Snow
Unlikely	<ul style="list-style-type: none"> This could happen 	<ul style="list-style-type: none"> Flooding
Very Unlikely	<ul style="list-style-type: none"> There is a remote possibility this could happen 	<ul style="list-style-type: none"> Hurricane
Almost Impossible	<ul style="list-style-type: none"> Once in a lifetime occurrence 	<ul style="list-style-type: none"> Thames freezes over

	Impact*	Example
Critical	<ul style="list-style-type: none"> Unacceptable level of loss or damage 	<ul style="list-style-type: none"> Significant material financial loss e.g. impacts statutory service delivery/going concern status Loss or life or permanent/ debilitating damage National media coverage, judicial review, government intervention
Significant	<ul style="list-style-type: none"> Considerable level of loss or damage 	<ul style="list-style-type: none"> Material financial loss e.g. impacts non-statutory service delivery, risk of redundancies Major injury Local media coverage, government interest
Marginal	<ul style="list-style-type: none"> Limited loss or damage 	<ul style="list-style-type: none"> Some financial loss but manageable impact on service delivery Minor injury Limited social media interest
Negligible	<ul style="list-style-type: none"> Tolerable level of loss or damage 	<ul style="list-style-type: none"> No or very minimal financial loss Minor ‘trips and slips’ No media interest

*Impact should always be considered in terms of financial loss, harm to a person or people and the Council’s reputation and should link to Tonbridge and Malling Borough Council’s risk appetite.

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STRATEGIC RISK REGISTER

No	Risk Title	Risk Type	Consequences	Date identified	Current Mitigation	Likelihood Score	Impact score	Overall risk score	Desired risk score	Actions required	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Risk Assessment complete?	Review Date
1	Safeguarding and PREVENT	R, S	Significant reputational impact should a child, young person or vulnerable adult come to harm, including radicalisation and child sex exploitation, and TMBC are unable to demonstrate appropriate processes were in place.	01/04/17	The responsibility for safeguarding has recently moved to the Chief Executive, rather than an individual service and a review implemented. An Audit review was commissioned which identified progress to date. Positive direction of travel noted in majority of areas (policy, training, engagement with other agencies). Areas of weakness identified and an action plan is being developed to address areas/necessary actions. Corporate Safeguarding Policy, DBS checking, Staffing/Member training. PREVENT training for staff. Attendance at K&M Adults Safeguarding Board, Local Children's Partnership Group. Training delivered to all Hackney Carriage and Private Hire drivers. UPDATE: The majority of actions identified from the Audit review have now been completed and signed off. A secure database with secure access for recording details of all safeguarding concerns and referrals has been developed and is currently in the testing phase. The database is now live.	3	4	12	12	Posts eligible for DBS checks being reviewed by Legal Services and a Central recording system being commissioned. A revised implementation date of 30/5/18 was agreed to create a single TMBC DBS register and complete any necessary DBS checks. UPDATE Dec 18 MT has agreed revised list of posts requiring DBS checks. Safeguarding Audit review is currently underway for completion in 18/19 financial year	Safeguarding Policy	Chief Executive		Jul-19
2	Financial position/budget deficit	F, R	Financially unstable organisation. Failure to deliver a balanced budget, detrimental impact on quality of service, increased intervention. Failure to maximise New Homes Bonus.	01/04/17	Medium Term Financial Strategy (MTFS) in place and reviewed regularly. Annual review of Treasury Management and Investments strategies. Effective budget setting process and financial monitoring in place; Robustness tested and adequacy of reserves. External Audit review MTFS. Savings & Transformation Strategy (S&TS). External audit of Accounts. Financial Procedure Rules. Monitor tax base. UPDATE: Refreshed version of MTFS to be considered by Cabinet in Feb 2019. Following receipt of provisional LG Finance Settlement, funding gap anticipated to be circa £500-£600k. Negative RSG removed for 19/20. Tax base updated Dec 2018 showing growth. NHB figures received and exceed initial expectations as parameters unchanged. With Kent and Medway authorities, bid for Business Rate Retention Pilot 19/20 unsuccessful. Business rates RVs and appeals reviewed. Now above Business Rate Baseline.	4	3	12	9	Areas of potential savings to be formally identified and prioritised, with commitment to delivery of those selected. Commissioning of in service reviews via MT to identify potential areas of transformation and savings. Strategic asset management review. O&S Committee Jan 18 identified programme of work to identify potential savings. Tendering of Waste contract has delivered savings to contribute. UPDATE: Cabinet Oct 2018 advised that review of MTFS expected to show savings to be circa £500-£600k. Cabinet and Council to commit to an update to STS. O&S reviews to continue as planned. Fair Funding Review currently underway and need to await results to see wider impact on finances into medium term.	Vision- to be a financially sustainable Council. Taking a business like approach.	Director of Finance and Transformation		Oct-19
3	Brexit Impact and Economic Stability	F	Financial impact and effect on the economy as well as uncertainty around current EU legislation, i.e. what replaces it, could have a significant financial impact and lead to legislative changes impacting on finance and resources. A number of key threats to business continuity including: border delays and congestion impacts on the Kent road network creating difficulties for local businesses, TMBC staff and potential air quality issues; loss of KCC staff e.g. welfare/social services support; potential loss of TMBC waste contract workforce, general increase in costs as imports become restricted.	01/04/17	Regular review of MTFS. Kent-wide working to understand, plan for and react to pressures. Regular review of Treasury Management and Investment strategies. Economic factors reflected in MTFS. UPDATE: The potential for No Deal BREXIT could have far wider and more impactful implications that has been factored into MTFS. Bid being considered for government funding to assist with wider impacts.	4	4	16	12	UPDATE: Bid for government funding Jan 2019, particularly in view of potential No Deal BREXIT. Work with partner organisations via KRF. O&S Committee report Jan 2019 to update Members.	N/A - external risk.	Chief Executive / Director of Finance and Transformation/ Management Team		Mar-19
4	Corporate Strategy and Savings and Transformation Strategy	F, R, S	Failure to meet objectives and/or make savings, including those arising from the planned West Kent Waste Partnership. Impact on quality of service, budget overspends, salami slicing, etc. staff motivation impacted and increased risk of fraud or error.	01/04/17	Savings and Transformation Strategy reviewed and updated. Corporate Strategy reviewed and updated. Regular update reports to MT and Members Annual review of Savings & Transformation Strategy. Remaining funding gap now assessed as £500-£600k following local govt finance settlement.	3	4	12	9	Areas of potential savings to be formally identified and prioritised, with commitment to delivery of those selected. Commissioning of in service reviews via MT to identify potential areas of transformation and savings. Strategic asset management review to deliver new income. O&S programme to be supported in order to deliver savings to contribute to STS. UPDATE: New targets to be recommended for STS in Feb 2019	Vision- to be a financially sustainable Council focusing on ensuring good value for money, continuously reviewing how our services are provided and funded, focusing our available resources where they will have most beneficial impact, and maximising commercial opportunities. Taking a business like approach.	Chief Executive / Director of Finance and Transformation/ Management Team		Mar-19

STRATEGIC RISK REGISTER

No	Risk Title	Risk Type	Consequences	Date identified	Current Mitigation	Likelihood Score	Impact score	Overall risk score	Desired risk score	Actions required	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Risk Assessment form complete?	Review Date
5	Local Plan	F, R	Lack of sound legal footing for Plan leading to risk of failure at Examination. Risk of challenge from not meeting identified development needs. Reputational risk and widespread public concern arising from decision making on strategic development. Lack of infrastructure to support future development.	01/04/17	Audit of Local Plan process completed. Update and review of evidence base nearing completion. Specialist consultants engaged where appropriate and counsel briefed. Duty to Cooperate discussions and audit in hand. Clear explanation of local plan process and requirement to Members and through consultation with communities. Liaison with service and infrastructure providers.	4	3	12	9	Final refinement of evidence and narrowing down of sites to address development needs. Response to issues raised by Members at PTAB in June. Liaison with adjoining authorities and other agencies. UPDATE JAN 19: Local Plan approved by full Council in September 2018, Reg 19 consultation concluded in November 2018 with a view to submitting plan to Sec of State by 23 Jan 2019.	Local Plan assists in economic growth, delivering the supply of future housing and addressing affordability. Procedures set by National Government	Director of Planning, Housing and Environmental Health		Feb-19
6	Organisational development inc staff recruitment and retention/skills mix	F, R, S	Lack of resources or the right skills to deliver required outcomes, loss of key professionals/senior officers due to pay constraints and pressures, reduced staff morale and quality of work, leading to financial loss, reputational damage and detrimental impact on staff wellbeing.	01/04/17	Review of staff resources and skills via service reviews. Organisational structure review as part of S&TS to achieve efficiency, coordinated service delivery and reflect changing legislative and policy requirements and priorities.	4	4	16	12	Succession planning Develop further skills and expertise through strategies such as shared services and specialist Commissioning. Engagement of external consultants and specialists. Resilience and rationalisation of existing structures. Further discussions to be undertaken by MT to agree strategies and resultant actions for recruitment and retention. 2% pay award was agreed by Members in line with National Offer. Structural reviews agreed by GP on 26/6/17, 20/11/17, and 29/1/18. Responses to any recruitment advertisements are carefully monitored for trends. UPDATE: A new member of personnel staff has been recruited with specialist experience in recruitment. We continue to have a mixed response to job adverts. Further reports to GP on 25/6/18. Update Dec 18. revised methodology for recruitment into DPEHH post successful.	HR Strategy Savings and Transformation Strategy	Chief Executive		Jul-19
7	Health and Safety	F, R, S	Significant reputational impact should a service user, officer, member or contractor come to harm and TMBC are unable to demonstrate appropriate processes were in place (could be merged with safeguarding although arguably a different thing).	01/04/17	Health and Safety Policy review. Lone working policy and service based practices to be continuously monitored. Item on SMT agendas Staff involved in JECC (supported by Members) Ongoing review undertaken to react to potential key risk areas Organisational learning and response to national events	3	4	12	12	Further embedding and dissemination of good practice through staff briefing. UPDATE: Newly formed corporate Health and Safety Group picking up cross organisational issues and feeding back to Management Team and H&S Officer.	Staff wellbeing and customer care underpin the Council's fundamental service and corporate objectives	Director of Planning, Housing and Environmental Health		Jun-19
8	Compliance with legislation inc new GDPR requirements	F, R	Failure to meet legislative requirements or statutory obligations may result in loss of personal data, financial penalties and/or damage to the Council's reputation.	01/04/17	Nominated Senior Information Risk Officer, and Data Protection Officer Compliance/legal assessment of decisions included in all Board reports Constitution General Data Protection Regulation requirements are being addressed by Information Governance Group & Procurement OSG CPD and professional monitoring Corporate Governance and GDPR audits Legal involvement and sign-off of key projects and involvement in governance groups	3	4	12	8	Continued dissemination of new legislative requirements to Officers & Members. Officers to ensure maintenance of professional training requirements. GDPR training for Members provided July 2018. All Officers were required to complete e-learning GDPR module prior to implementation of GDPR in May 2018.	Need to ensure that all 7 key themes of the Corporate Strategy are delivered in lawful manner.	Director of Central Services and Monitoring Officer		Jun-19
9	Cyber security	F, R	Loss of data and legislative breach, leading to financial penalties and reputational impact.	01/04/17	IT Security Policy. Network Security measures (firewall, access level controls). Consideration of cyber insurance. Information Governance Group work underway. Data held by the Council being reviewed and cleansed. Work underway to mitigate global processor flaw issues leading to Spectre and Meltdown attacks. Cyber awareness training rolled out to all staff. UPDATE: Results of national LGA cyber stocktake being reviewed.	4	4	16	12	Procurement of cyber security "recovery" contract via Kent Connects. Prioritisation of resources (financial and human) to ensure that priority is given to relevant updates etc. TMBC have been involved in developing specification for Kent Connects cyber security "recovery" contract. Continued rollout of mitigation for processor flaw issues dealt with as priority and in line with guidance. Varonis software procured, installed and being utilised to better control the risk of access to confidential unstructured data on shared drives. UPDATE: Bid for Funding made following Cyber Stocktake. Cyber security now being built into disaster recovery/business continuity plans. Report to FIPAB Jan 2019 - Member cyber champion to be appointed.	IT Strategy	Director of Finance and Transformation		Jun-19

STRATEGIC RISK REGISTER

No	Risk Title	Risk Type	Consequences	Date identified	Current Mitigation	Likelihood Score	Impact score	Overall risk score	Desired risk score	Actions required	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Risk Assessment form completed?	Review Date
10	IT Infrastructure	F, R	Failure to adequately invest resulting in inability to keep pace with technological change, leading to systems that are not fit for purpose to meet organisational need.	01/04/17	IT Strategy and Action plans reviewed and updated. Invest to Save opportunities and funding.	4	4	16	12	New IT Strategy for period 2018-22 . Linkage with MTFs and Savings and Transformation Strategy. Development of virtualisation project to enable efficient and effective ways of working. Review and upgrade of data quality within systems to ensure that improvements and efficiencies can be achieved. iPads for Members have been deployed. iPads and citrix being rolled out to MT. New IT Strategy approved by Members in May 2018 who placed a specific emphasis on website improvements. UPDATE: Website work commissioned by SDS and report to FIPAB Jan 2019.	IT Strategy	Director of Finance and Transformation		Jun-19
11	Elections	R	Failure to comply with legislation, miscounts and significant reputational impact.	01/04/17	Ensure experienced staff are in place, corporate team reviewing activity and monitoring progress.	2	4	8	8	Broadening of staff skills and experience to build resilience. Update: New elections Manager appointed.	Statutory requirement	Chief Executive		Feb-19
12	Business Continuity and Emergency Planning	F, R, S	Failure to provide statutory service or meet residents' needs resulting in additional costs, risk of harm and reputational impact. Impact/pressures on services and resources. Failure to ensure proper safeguards to prevent or to respond adequately to a significant disaster/event e.g. terrorist attack at a large scale public event or fire.	01/04/17	Business Continuity Plan inc Corporate (BC) Risk Register, Disaster Recovery Plan, Inter-Authority Agreement, Mutual Aid Agreement and Partnership Agreement with Kent Resilience Team (Please see Business Continuity Plan and Corporate Risk Register for more detail). Emergency Planning Support Officer in post and new Duty Emergency Coordinator system introduced to provide greater resilience.	3	4	12	12	Emergency planning documentation undergoing constant review and key aspects exercised on an annual basis. Members of Management Team and Duty Emergency Coordinators undertaking advanced training organised by Kent Resilience Team training. Business Continuity working group established to review and update existing Plan. Updated plan to be considered by Management Team and tested by a training exercise. New positions of Emergency Duty Officer to be introduced, following training of staff in 2019/20.	Business continuity underpins the delivery of the Council's essential services	Director of Street Scene, Leisure & Technical Services		Jun-19
13	Devolution	F, R, S	Uncertainty about future operating models and changes / opportunities in responsibilities or service provision leading to financial pressures, impact on quality of services, reputational damage.	01/04/17	Continual scanning of national / regional and Kent wide agenda by CE / Corporate Services manager. Participation in county wide debate via Joint Kent Chief Execs and Kent Leaders meetings. Update DEC 18 - County wide devolution discussions have been formally ceased. Horizon scanning and continued participation in Kent Leaders and CE meetings is ongoing.	3	3	9	9	N/A	External risk/national issue	Chief Executive		As required
14	Partnerships inc shared services	F, R, S	Reliance on partners to deliver key services, including private sector companies. Could include specific partnership or shared service models such as the Leisure Trust and risks around service delivery and impact on staff morale / retention if base moves from TMBC . Potential resistance to shared services / partnerships impacting on ability to deliver Savings & Transformation Strategy. Private sector partnerships failing having consequences for service delivery.	01/04/17	Regular liaison meetings with partners. Partnership Agreements in place and reviewed as appropriate. Good communication with staff. In the light of the Carillion situation (which does not affect TMBC directly) maintain awareness of issues relating to private sector partners and plans formulated for service delivery in the event of failure via business continuity.	3	3	9	9	FIPAB Jan 2018 updated on GBC's decision to pull out of progressing shared service for Revs and Bens. Review of Revs and Bens being conducted to ensure service continuity.	Savings and Transformation Strategy	Chief Executive		As required
15	Welfare reform inc Housing need	F, R, S	Safeguarding impact on TMBC residents due to reduction in benefits, introduction of UC and increase in applications for DHP, etc. Failure to adequately understand and meet housing needs and return unsuitable properties to use leading to increase in homelessness or occupation of unsuitable homes. Financial impact of increased emergency accommodation and failure to maximise new homes bonus.	01/04/17	Cross sector working (e.g. welfare reform group) to identify issues and solution. Providing advice to residents on welfare and housing issues, or signposting to relevant providers. Working with partners to identify land and funding opportunities. Working with Registered Provider Partners to ensure needs of residents are being met. Working with owners to bring long term empty properties back into use. New initiatives for Temporary Accommodation, including purchase of flats. Review implications for new Homeless Reduction Act requirements. Concessionary charges for key services. EQIA assessment of key decisions included in all Board reports. HRA implications assessed and GPC agreed new posts to deliver service which have been recruited to. Universal Credit rolled out Nov 18 for Tonbridge & Maidstone Job Centres. Signposting now to UC rather than HB for new working age claimants.	4	3	12	9	Prepare for impact of further roll out of Universal Credit by learning from other areas earlier in the programme. Consideration of review of housing service to meet the needs following Housing legislative changes. Flats purchased. UPDATE: Member training from DWP provided re UC Nov 2018. Continue to facilitate Welfare Reform group and widen participation from external partners so as to ensure best support for those affected by welfare reforms in T&M.	Promoting Fairness - acting transparently at all times and being accountable for what we do, and promoting equality of opportunities. Embracing Effective Partnership Working - achieving more by working and engaging effectively with a wide range of local partners from the private, public, voluntary and community sectors.	Director of Finance and Transformation/ Director of Planning, Housing and Environmental Health		Jun-19
16	Political factors including stability of political leadership and decision making	F, R	Decisions required to achieve objectives including corporate strategy and savings and transformation may not be made and therefore required savings not achieved.	01/04/17	Close liaison with Leader, Deputy Leader and Cabinet in developing the Savings & Transformation Strategy. Clear and comprehensive reports to support Members in making appropriate decisions to support the S&TS.	3	3	9	9	Member briefings and training sessions.	Underpins delivery of overall strategy and Savings and Transformation.	Chief Executive		As required

STRATEGIC RISK REGISTER

No	Risk Title	Risk Type	Consequences	Date identified	Current Mitigation	Likelihood Score	Impact score	Overall risk score	Desired risk score	Actions required	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Risk Assessment form complete?	Review Date
17	Flooding	F, R, S	Impact on resources to support emergency planning, financial impact due to damage, loss of resources, etc. Residents and staff put at risk of harm. Impact on key flood risk areas - Tonbridge, Hildenborough, East Peckham and Aylesford.	01/04/17	Working with partners (EA/KCC/LEP) to secure funding and implement flood defence schemes which will reduce risk of future flooding. Assistance provided to Parish/Town Council's to help develop local Flood Plans. Team of Volunteer Flood Wardens in place.	3	4	12	12	Funding committed to assist in implementation of flood defence works including increasing capacity of Leigh Flood Storage. Council represented on Strategic and Operational Working Groups led by Environmental Agency. Scheme for East Peckham has funding gap and is dependent on partnership funding contributions. Ongoing support of Leigh and Hildenborough and East Peckham scheme. Involvement in the Medway Flood Partnership. Reduction of risk dependent on funding, design and implementation. Leigh and Hildenborough now programmed for construction 2020 - 2023. UPDATE: Scheme for East Peckham has funding gap and is dependent on partnership funding contributions. Leigh and Hildenborough design and works in progress. Signed off by SELEP accountability Board as green for these elements. Scheme at EP still has funding gaps. Options being sought by EA / KCC.	Emergency Plan Contingencies Act 2004 Civil Kent Emergency Response Framework West Kent Partnership and Medway Catchment Partnership	Director of Street Scene, Leisure & Technical Services		Mar-19
18	Contaminated Land	F, R, S	Impact on homes, public health. Residents put at risk of harm.	01/01/18	Working with partners (EA and other) and specialist consultants to monitor potential sites and assess risk to inform action as is needed	3	4	12	9	Potential issue identified at Joco Pit, Borough Green. Residents engaged. Public sessions held Jan 2018. Report to Members Feb 2018. Additional boreholes secured and monitoring in place until May 2018. UPDATE: Results indicate low risk and insufficient levels to be 'part 2 contaminated land. Briefing of Members and letters/drop-in session for residents planned for June/July. Ongoing monitoring required for 12 month period before further review. Initial investigations underway in respect of Priory Wood site.	Contaminated Land Strategy	Director of Planning Housing and Environmental Health		May-19
19	Procurement and Implementation of Waste/ Recycling Contract	F, R, S	Failure to provide new service and deliver described outcomes in accordance with contract timescales. Significant reputational risk. Risk of challenge from tenderers. Failure to achieve financial targets for garden waste scheme.	01/07/18	Partnership arrangement with TWBC, with allocation of key tasks. Internal Project Group reports regularly to MT. Regular update reports to Members including separate Member Working Group. External advice sought from specialists on key decisions. Detailed project plan and risk register. Operational Marketing Plan in place. Inter Authority Agreement with KCC encourages improved recycling performance and shares financial risks. 3 crucial work streams have been identified (IT, Communications and Operations) and individual sub-working groups have been established to monitor and implement these work areas.	3	4	12	9	New contractor appointed and due to commence 1/3/19. New service delivery arrangements to be introduced later in the year, including opt-in garden waste scheme. No formal challenges received from unsuccessful tenderers. SS&EAB 11/2/19 to approve Operational Marketing Plan and Mobilisation arrangements. Contractor to produce Annual Service Plan, monitored by Partnership Manager. Garden waste charges set to encourage take up.	Delivery of cost effective service to meet customer needs.	Director of Street Scene, Leisure & Technical Services		Mar-19

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

21 January 2019

Report of the Director of Finance & Transformation

Part 1- Public

Matters for Recommendation to Cabinet - Council Decision

1 TREASURY MANAGEMENT UPDATE AND TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2019/20

The report provides details of investments undertaken and return achieved in the first nine months of the current financial year and an introduction to the 2019/20 Treasury Management and Annual Investment Strategy. Members are invited to recommend adoption of the Strategy to Cabinet.

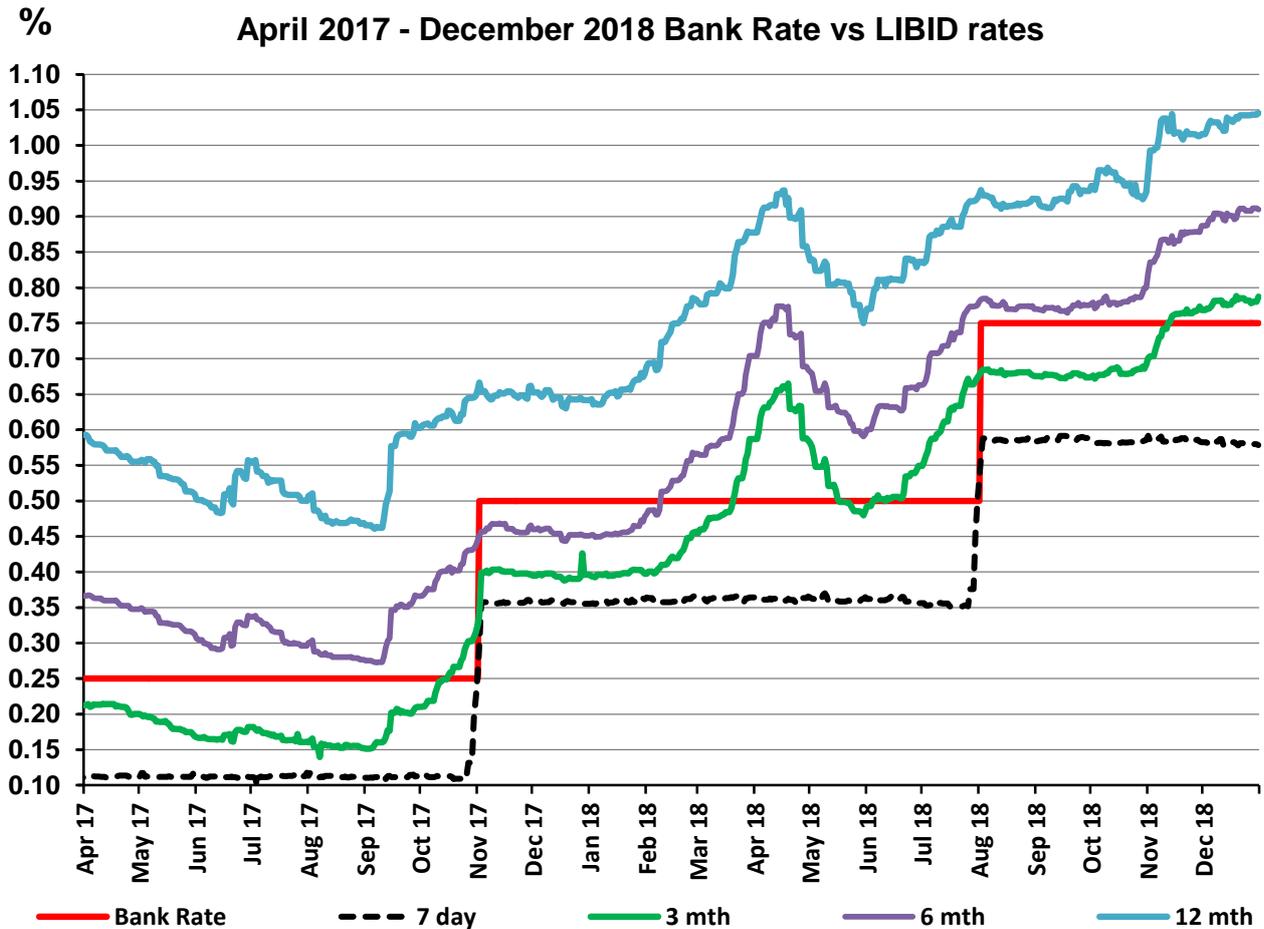
1.1 Introduction

1.1.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are 'affordable, prudent and sustainable'.

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

1.2 Treasury Management Update

1.2.1 Having satisfied security and liquidity requirements, the Council aims to optimise the yield on its investments. Since the 2008 financial crisis yields have been low reflecting the 0.5% Bank Rate introduced in March 2009. The Bank Rate having remained at 0.5% for seven years was reduced to 0.25% in August 2016. The reduction by the Bank of England was accompanied by other initiatives to help bolster economic activity which included 'Term Funding' for banks. In November 2017, the Bank of England returned the Bank Rate to 0.5%. Bank Rate was increased to 0.75% in August 2018. Link's current forecast (November 2018), which assumes an orderly Brexit, anticipates Bank Rate rising to 1.0% by June 2019 and to 1.25% by March 2020. The impact these measures have had on investment rates is demonstrated in the chart below.



Source: Link Asset Services

- 1.2.2 The Council's investments are derived from cash flow surpluses, core cash balances and other long term cash balances.
- 1.2.3 Cash flow surpluses are available on a temporary basis and the amount mainly dependent on the timing of council tax and business rates collected and their payment to precept authorities and government. Less significant cash flows relate to receipt of grants, payments to housing benefit recipients, suppliers and staff. Cash flow surpluses build up during the course of a financial year and are spent by financial year end. Thus far in 2018/19 cash flow surpluses have averaged £14m.
- 1.2.4 The Authority also has £24m of core cash balances. These funds are for the most part available to invest for more than one year, albeit a proportion is usually transferred to cash flow towards the end of the financial year to top-up daily cash balances. Core cash includes the Council's capital and revenue reserves which are being consumed over time to meet capital expenditure and 'buy time' to enable the authority to deliver its revenue savings targets. The core cash balance

also includes some £6m to meet business rate appeals which are expected to be resolved during 2019/20 and beyond.

1.2.5 Long term investment comprises £5m in property fund investments.

1.2.6 A full list of investments held on 31 December 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 income earned at the end of December.

	Funds invested at 31 Dec 2018 £m	Average duration to maturity Days	Weighted average rate of return %	Interest / dividends earned to 31 Dec 2018 £	Annualised return %	LIBID benchmark (average from 1 April) %
Cash flow	18.7	29	0.83	75,400	0.70	0.48 (7 Day)
Core cash	24.0	144	0.97	149,200	0.88	0.65 (3 Mth)
Sub-total	42.7	93	0.91	224,600	0.81	0.58 (Ave)
Long term	5.0			118,050	3.54	
Total	47.7					

Property funds pay dividends quarterly. The return quoted above is based on dividends due April to December 2018.

1.2.7 **Cash flow and core cash investments.** Interest earned of £224,600 from cash flow surpluses and core cash balances to the end of December is £87,500 better than the original estimate for the same period. The authority also outperformed the LIBID benchmark by 23 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. Investment income from cash flow surpluses and core cash balances is expected to exceed the original estimate for the year as a whole by some £98,000 and this increase is reflected in the revised estimates.

1.2.8 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 September 2018 our return at 0.89% (purple diamond) was above the local authority average of 0.79%. 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.

1.2.9 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.

1.2.10 £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), disposal proceeds from the Teen & Twenty site, Tonbridge (£0.75m) and a further £0.25m in anticipated sale proceeds. Further investments are envisaged though timing will be dependent on the progress of planned disposals (River Walk Offices).

Property fund <small>(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)</small>	Purchase price	Sale value at date of purchase	Current sale value December 2018	Current sale value above (below) purchase price (c-a)
	(a) £	(b) £	(c) £	£
LAPF (Primary, July 2017)	1,000,000	922,200	979,100	(20,900)
Lothbury (Primary, July 2017)	1,000,000	927,700	993,900	(6,100)
Hermes (Secondary, October 2017)	1,000,000	939,000	1,011,100	11,100
LAPF (Primary, June 2018)	1,000,000	922,200	938,800	(61,200)
Lothbury (Secondary, July 2018)	1,000,000	973,000	974,700	(25,300)
Total	5,000,000	4,684,100	4,897,600	(102,400)

1.2.11 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 table above compares the current sale value of each investment if sold to the fund manager with the initial purchase price.

1.2.12 Income from property funds of £118,050 is due thus far in 2018/19 (quarter ending December 2018) which represents an annualised return of 3.54%.

1.3 Annual Investment Strategy for 2019/20

1.3.1 **Long term balances.** Property fund investment was introduced in the 2017/18 investment strategy to mitigate the impact of the August 2017 bank rate cut (to 0.25%) and provided diversification into other asset classes. At that time the Council's long term balances were assessed at some £10m of which £2m (20%) was considered an appropriate amount to set aside for long term investment. That figure also matched the medium term financial strategy requirement that a minimum of £2m be retained in the General Revenue Reserve by the end of the 10 year strategy period providing some assurance over the availability of funds. Excluding proceeds from the sale of assets the Council's long term balances are currently expected to be some £15m. The 2019/20 investment strategy allows up to **£3m of existing resources to be invested in property funds.** £3m (20% of long term balances) may also be invested in diversified income funds used for medium term investment should that option be taken-up.

1.3.2 **UK sovereign rating.** The rating agencies have signalled that in the event of a disorderly Brexit the UK sovereign's current rating AA (very high) is likely to be downgraded. Whilst the Council doesn't usually invest in sovereign bonds it does use sovereign ratings as a starting point in its selection of appropriate financial institutions. The current strategy draws on those institutions who's sovereign is rated AA- or higher. The 2019/20 strategy maintains the minimum AA- requirement for all other sovereigns but introduces some flexibility by lowering the **minimum requirement for the UK to A-** (high).

1.3.3 **UK nationalised banks.** The economic consequences of a disorderly Brexit may also result in some UK centric financial institutions being downgraded. The current minimum credit requirement (Fitch long term A-, short term F1) is retained for all institutions including UK ones. The only exception in the 2019/20 investment strategy relates to **UK nationalised / part nationalised banks where a lesser requirement of Fitch BBB** (good), **F2** (good) **will be tolerated.**

1.3.4 **Risk parameters.** The strategy sets out the parameters that limit the Council's exposure to investment risks by requiring investments to be placed with highly credit rated institutions and that those investments are diversified across a range of counterparties. Except where indicated by ***bold italic*** text, the 2019/20 Annual Investment Strategy [**Annex 4**] adopts the same risk parameters as currently approved. In summary these are :

- 100% of funds can be invested in the UK. Exposure to non-UK financial institutions is restricted to no more than 20% of funds per sovereign.
- Non-UK counterparties must be regulated by a sovereign rated AA- or higher as recognised by each of the three main rating agencies (Fitch, Moody's or Standard & Poor's).
- **Investment in UK institutions is subject to the UK sovereign being rated A- or higher by each of the three main rating agencies.** The UK's current rating is AA.
- Exposure to individual counterparties / groups of related counterparty must not exceed 20% of funds.
- In selecting suitable counterparties for overnight deposits and deposits up to 2 years in duration, the Council has adopted Link's credit worthiness methodology. The methodology combines the output from all three credit rating agencies including credit watches / outlooks and credit default swap data to assign a durational band to a financial institution (100 days, 6 months, 1 year, 5 years, etc.). At the time of placing an investment the financial institution must be assigned a durational band of at least 100 days (based on credit ratings alone). Other than for UK nationalised / part nationalised institutions this broadly equates to a minimum long term credit rating of Fitch A- (high) and a short term credit rating of Fitch F1 (highest).
- **Investment in UK nationalised and part nationalised banks is subject to the bank having a minimum long term credit rating of Fitch BBB (good) and a short term credit rating of Fitch F2 (good).** The Royal Bank of Scotland and National Westminster Bank are currently rated Fitch A+, F1.
- The duration of an investment in a foreign bank must not exceed Link's post CDS recommendation. For UK financial institutions Link's duration recommendation can be enhanced by up to 6 months subject to the combined duration (Link recommendation plus the enhancement) not exceeding 12 months. The Council's Treasury Management Practices have been modified to ensure that: where duration is being enhanced by more than 3 months the bank's CDS must be below the average for all other banks at the time of placing the investment; the discretion is only to be applied to take advantage of an exceptional offer and; counterparty exposure in respect of the additional enhancement (plus 6 months instead of the standard plus 3 months for a UK institution) will be limited to 10% of **investment balances**.
- Money Market funds should be AAA rated and exposure limited to no more than 20% per fund. LVNAV (low volatility) or VNAV (variable net asset value) funds may be used as an alternative to CNAV (constant net asset value) funds.
- Enhanced Money Funds should be rated AAA and exposure limited to no more than 10% per fund and 20% to all such funds.

- Exposure to non-credit rated property funds is limited to no more than 20% (£3m) of expected long term cash balances. No limit applies where invested funds are derived from or in anticipation of new resources e.g. proceeds from selling existing property.
- Exposure to non-credit rated diversified income (multi-asset) funds is limited to no more than 20% (£3m) of expected long term cash balances.
- The strategy also limits the type of instrument (e.g. fixed term deposits, certificates of deposit, commercial paper, floating rate notes, treasury bills, etc.) that can be used and establishes a maximum investment duration for Gilts of 10 years and 2 years for all other types of investment other than in property funds and diversified income funds.

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

1.3.6 The 2019/20 strategy [**Annex 4**] reflects the current economic environment, Link Asset Services' latest interest rate forecast and incorporates the risk parameters summarised in paragraph 1.3.4.

1.4 Legal Implications

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

1.4.2 This report fulfils the requirements of the Chartered Institute of Public Finance & Accountancy's Treasury Management and Prudential Codes of Practice 2017.

1.5 Financial and Value for Money Considerations

1.5.1 Investment income from cash flow and core cash at the end of December 2018 (month nine of the financial year) is £87,500 better than budget for the same period. Income for the 2018/19 financial year as a whole is likely to exceed budget by some £98,000.

1.5.2 Property funds are presently performing in-line with budget albeit just below the 4% target return. Income for the year as a whole is expected to be £172,000 some £23,000 below the original estimate for 2018/19. This reflects the delay in the disposal of surplus office accommodation at River Walk, Tonbridge.

- 1.5.3 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 (November 2018) anticipates Bank Rate rising to 1.0% by June 2019 and to 1.25% by March 2020.
- 1.5.4 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.
- 1.5.5 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.
- 1.5.6 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.
- 1.5.7 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.
- 1.5.8 Diversified income funds aim to limit risk by spreading investment across a broad range of asset classes (equities, bonds, property and cash). Nevertheless, the principal sum invested may fall as a consequence of adverse economic or market events.

1.6 Risk Assessment

- 1.6.1 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.
- 1.6.2 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.

1.6.3 In the light of these safeguards and stringent Treasury Management Procedures it is considered that any risks to the authority implicit in the 2019/20 Strategy have been minimised.

1.7 Equality Impact Assessment

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

1.8 Recommendations

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

- 1) Note the treasury management position as at 31 December 2018 and the higher level of income incorporated in the 2018/19 revised estimates;
- 2) Adopts the Treasury Management and Annual Investment Strategy for 2019/20 set out at **[Annex 4]**.

Background papers:

contact: Mike Withey

Link Asset Services - Interest rate forecast (November 2018), economic commentary and benchmarking data.

Sharon Shelton
Director of Finance & Transformation

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**Tonbridge and Malling Borough Council
Investment Summary at 31 December 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	UK	A+	F1	1 year	03/09/2018	03/09/2019	1 year	1,000,000	1.05%		Fixed term		1,000,000	
Bank of Scotland Total								2,000,000		4.20%				
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		8.39%				
Blackrock MMF	n/a	AAA	mmf (Eq)	5 years	31/12/2018	02/01/2019	Overnight	100,000	0.71%		MMF	100,000		
Blackrock MMF Total								100,000		0.21%				
BNP Paribas MMF	n/a	AAA	mmf (Eq)	5 years	31/12/2018	02/01/2019	Overnight	4,460,000	0.77%		MMF	4,460,000		
BNP Paribas MMF Total								4,460,000		9.36%				
Deutsche MMF	n/a	AAA	mmf	5 years	31/12/2018	02/01/2019	Overnight	100,000	0.74%		MMF	100,000		
Deutsche MMF Total								100,000		0.21%				
Federated MMF	n/a	AAA	mmf	5 years	31/12/2018	02/01/2019	Overnight	1,000,000	0.75%		MMF	1,000,000		
Federated MMF Total								1,000,000		2.10%				
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								4,000,000		8.39%				
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	UK	A+	F1	1 year	03/09/2018	04/03/2019	6 months	2,000,000	0.85%		Fixed term	2,000,000		
Lloyds Bank Total								4,000,000		8.39%				
Morgan Stanley MMF	n/a	AAA	mmf	5 years	31/12/2018	02/01/2019	Overnight	1,000,000	0.76%		MMF	1,000,000		
Morgan Stanley MMF Total								1,000,000		2.10%				
Hermes Property Unit Trust	n/a	n/a	n/a	n/a	29/09/2017	n/a	n/a	1,000,000	3.50%		Property fund			1,000,000
Hermes Property Unit Trust Total								1,000,000		2.10%				
Local Authorities' Property Fund	n/a	n/a	n/a	n/a	29/06/2017	n/a	n/a	1,000,000	4.32%		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	3.98%		Property fund			1,000,000
Local Authorities' Property Fund Total								2,000,000		4.20%				
Lothbury Property Trust	n/a	n/a	n/a	n/a	06/07/2017	n/a	n/a	1,000,000	3.08%		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	2.97%		Property fund			1,000,000
Lothbury Property Trust Total								2,000,000		4.20%				
National Westminster Bank	UK	A+	F1	1 year	20/06/2018	20/03/2019	9 months	2,000,000	0.85%		CD		2,000,000	
National Westminster Bank	UK	A+	F1	1 year	29/06/2018	29/03/2019	9 months	2,000,000	0.88%		CD		2,000,000	
National Westminster Bank	UK	A+	F1	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		12.59%				
Nordea Bank Abp	Finland	AA-	F1+	1 year	08/08/2018	08/02/2019	6 months	2,000,000	0.84%		CD	2,000,000		
Nordea Bank Abp	Finland	AA-	F1+	1 year	14/12/2018	14/03/2019	3 months	2,000,000	0.89%		CD	2,000,000		
Nordea Bank Abp Total								4,000,000		8.39%				
Santander Fixed Term	UK	A	F1	6 months	15/11/2018	15/02/2019	3 Months	2,000,000	0.90%		Fixed term	2,000,000		
Santander Fixed Term	UK	A	F1	6 months	23/11/2018	23/08/2019	9 Months	2,000,000	1.13%		Fixed term		2,000,000	
Santander Fixed Term	UK	A	F1	6 months	05/12/2018	05/09/2019	9 Months	2,000,000	1.13%		Fixed term		2,000,000	
Santander UK Plc Total								6,000,000		12.59%				
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								4,000,000		8.39%				
Toronto Dominion Bank	Canada	AA-	F1+	1 year	11/10/2018	11/10/2019	1 year	2,000,000	1.03%		CD		2,000,000	
Toronto Dominion Bank Total								2,000,000		4.20%				
Total invested								47,660,000		100.00%		18,660,000	24,000,000	5,000,000

Number of investments	29	Average investment value £		1,643,000	
Number of counter parties	17	Average counter party investment £		2,804,000	
Group exposures:		Core £	Cash £	Combined £	%
Royal Bank of Scotland + National Westminster Bank (20% UK Nationalised)		6,000,000	-	6,000,000	12.59
Bank of Scotland + Lloyds Bank (20%)		4,000,000	2,000,000	6,000,000	12.59
Property funds Total			£	%	
			5,000,000	10.49	

Total non-specified investments should be less than 60% of Investment balances 10.49%

Notes:

CD = Certificate of deposit, MMF = Money market fund
Property fund returns are based on dividends distributed from the start of each investment. Capital appreciation / depreciation is recorded elsewhere. Last update Dec 2018.

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Tonbridge and Malling Borough Council Lending List

Checked against Link's Duration Matrix dated 28/12/18								
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 Term	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
Nordea Bank Abp	Finland	AA+	AA-	F1+	n/a	£6m	1 year	1 year
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
Svenska Handelsbanken AB (Group Limit with Handelsbanken Plc)	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
Handelsbanken Plc (Group Limit with Svenska Handelsbanken AB)	UK	AA	AA	F1+	Exempt	£6m	1 year	1 year
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+	F1	Ring-fenced	£6m	1 year	1 year
The Royal Bank of Scotland (Group limit Nat West and RBS £6m). UK Nationalised.	UK	AA	A+	F1	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 AAA				
Fund Name	Moody	Fitch	S&P	Exposure Limit
Blackrock	AAA-mf	-	AAAm	£6m
BNP Paribas	-	-	AAAm	£6m
Deutsche Fund	AAA-mf	AAAmmf	AAAm	£6m
Federated	-	AAAmmf	AAAm	£6m
Goldman Sachs	AAA-mf	AAAmmf	AAAm	£6m
Insight Liquidity Group limit IL & ILP of £6m	-	AAAmmf	AAAm	£6m
Morgan Stanley	AAA-mf	AAAmmf	AAAm	£6m

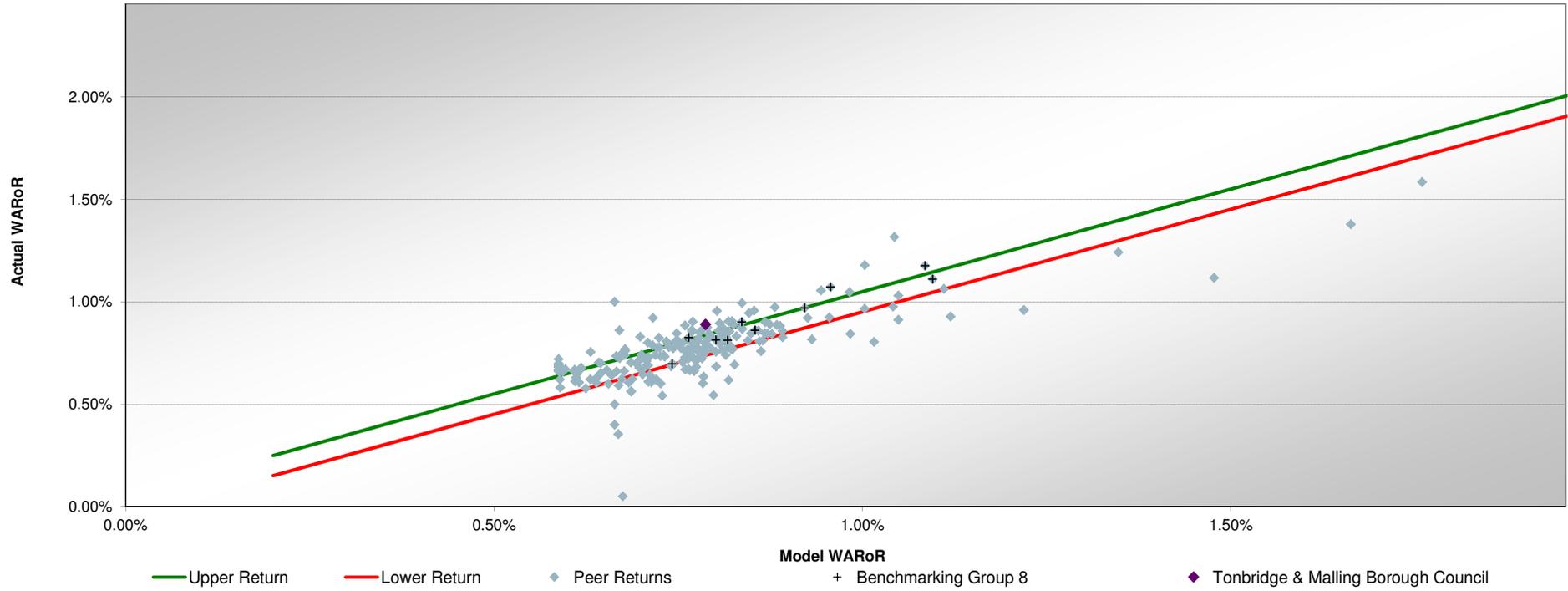
Enhanced Cash Funds				
Minimum investment criteria AAA				
Fund Name	Moody	Fitch	S&P	Exposure Limit
Insight Liquidity Plus Group limit IL & ILP £6m	-	-	AAAf /S1	£3m

Approved by Director of Finance and Transformation 31st December 2018
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Tonbridge & Malling Borough Council

Population Returns against Model Returns 30 September 2018



Page 53

	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge & Malling Borough Council	0.89%	0.79%	0.10%	0.74%	0.84%	Above

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Treasury Management and Annual Investment Strategy 2019/20

1 Introduction

1.1 Treasury management is defined as:

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

1.2 The strategy covers:

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

2 Statutory and regulatory requirements

- 2.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to ‘have regard to’ the Chartered Institute of Public Finance (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.
- 2.2 The Act requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy

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

- 2.3 The Ministry for Housing, Communities and Local Government (MHCLG) issued revised Statutory Guidance on Local Government Investments (2018 Edition). CIPFA also amended the Prudential Code for Capital Finance in Local Authorities (2017 Edition) and the Treasury Management in the Public Services: Code of Practice and Cross Sectorial Guidance Notes (2017 Edition). The MHCLG and CIPFA Codes came into effect on 1st April 2018.
- 2.4 Historically the scope of the statutory guidance and CIPFA codes was limited to the investment of an authority's cash surpluses and the management of borrowing undertaken to support its capital expenditure plans. The updated statutory guidance and codes broaden that scope to include expenditure on loans and the acquisition of non-financial assets (property) intended to generate a profit. The Council has not engaged in any commercial investments and has no material non-treasury investments.
- 2.5 The Council formally adopted the revised CIPFA Treasury Management Code of Practice (2017 Edition) on 30 October 2018. The primary requirements of the Code are as follows:
- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the full Council of an Annual Treasury Management Strategy, including the Annual Investment Strategy, for the year ahead; a mid-year Review Report; and an Annual Report (stewardship report) covering activities during the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.
- 2.6 The scheme of delegation and role of the Section 151 officer that give effect to these requirements are set out at **[Appendix 1]**.

3 **Balanced budget requirement**

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

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

4 **Prudential and treasury indicators**

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

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

4.3 Whilst termed an 'Affordable Borrowing Limit', the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The 'Authorised Limit' is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

4.4 Prudential and Treasury Indicators relevant to setting an integrated treasury management strategy are set out in **[Appendix 2]**.

5 **Borrowing requirement**

5.1 Other than for cash flow purposes and then within the limits set out at **[Appendix 2]** borrowing will not be necessary. All capital expenditure in 2019/20 will be funded from the Revenue Reserve for Capital Schemes, grants, developer contributions and capital receipts arising from the sale of assets.

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

6 Current treasury position

- 6.1 The Council is debt free and as such the overall treasury position at 31 December 2018 comprised only investments which totaled £43m generating an average return of 0.91%. The Council also held £5m in externally managed property fund investments at 31 December which are expected to return 3.75% in the 2018/19 financial year and 4% in subsequent years.
- 6.2 The Council has no material non-treasury investments (e.g. directly owned commercial property, shares in subsidiaries or loans to third parties).

7 Prospects for interest rates

- 7.1 The Council has appointed Link Asset Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. **[Appendix 3]** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. Link's expectation for the Bank Rate for the financial year ends (March) is:
- 2018/ 2019 0.75%
 - 2019/ 2020 1.25%
 - 2020/ 2021 1.50%
 - 2021/ 2022 2.00%
- 7.2 The flow of generally positive economic data after the quarter ended 30 June 2018 led the Bank of England's Monetary Policy Committee (MPC) on 2 August to make the first increase in Bank Rate above 0.5% since the 2008 financial crash. Growth has been healthy since that meeting, but is expected to weaken somewhat during the last quarter of 2018. At their November meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate ahead of the March Brexit deadline. The next increase in Bank Rate is therefore forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

- 7.3 The overall long run trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of an increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Federal Reserve (Fed) has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We have, therefore, seen US 10 year Treasury bond yields rise above 3.2% during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.
- 7.4 Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.
- 7.5 From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.
- 7.6 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

7.7 Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years.

7.8 Link's more detailed view of the current economic background is included at **[Appendix 4]**.

8 Investment policy

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

8.2 In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

8.3 Ratings are not the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.

8.4 Other information sources used will include the financial press, share price and other information relating to the banking sector in order to establish a robust scrutiny process on the suitability of potential investment counterparties.

8.5 Investment instruments identified for use are listed in **[Appendix 5]** under 'specified' and 'non-specified' investment categories. Counterparty limits are detailed in section 10 below.

9 Creditworthiness policy

9.1 The creditworthiness service provided by Link has been progressively enhanced over the last few years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings are supplemented using the following overlays:

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

9.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to inform the duration of an investment and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments.

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

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

9.4 The Council does not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. Moody's tends to be more aggressive in giving low ratings than the other two agencies and adopting the CIPFA approach may leave the Council with too few banks on its approved lending list. The Link creditworthiness service uses a wider array of information than just primary ratings and in combination with a risk weighted scoring system undue preponderance is not given to any one agency's ratings.

9.5 All credit ratings are reviewed weekly and monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty no longer meeting the Council's minimum criteria its use for new investment is withdrawn immediately.

- In addition to the use of credit ratings the Council is advised of movements in Credit Default Swap data against the iTraxx benchmark and other market data on a daily basis. Extreme market movements may result in a scaling back of the duration assessment or removal from the Councils lending list altogether.

9.6 Sole reliance is not placed on the use of the Link service. In addition the Council uses market information including information on any external support for banks to assist the decision making process.

10 Country, counterparty and group exposure limits

10.1 The Council has determined that it will only use approved counterparties from the UK subject to a minimum sovereign credit rating of A- and from other countries subject to a minimum sovereign credit rating of AA-. The minimum will be the lowest rating determined by Fitch, Moody's and Standard and Poor's. The list of countries that qualify using this credit criteria as at the date of this report are shown in **[Appendix 6]**. The list will be amended in accordance with this policy should ratings change.

10.2 Avoidance of a concentration of investments in too few counterparties or countries is a key to effective diversification and in this regard the limits set out below are thought to achieve a prudent balance between risk and practicality.

Country, Counterparty and Group exposure	Maximum Proportion of Portfolio
UK regulated financial institutions subject to UK Sovereign rating of A- or higher and the institution limits detailed below.	100%
Non-UK regulated financial institutions as an amount per sovereign rated AA- or higher and subject to the institution limits detailed below.	20%
Group of related financial institutions.	20%
Each financial institution rated Fitch A-, F1 or higher (green excluding CDS using Link's credit methodology).	20%
Each UK nationalised or part nationalised bank rated Fitch BBB, F2 or higher (green excluding CDS using Link's credit methodology).	20%
Each AAA rated multilateral / supranational bank.	20%
Each AAA rated CNAV, LVNAV or VNAV money market fund.	20%

Each AAA rated enhanced cash fund / government liquidity fund / gilt fund subject to a maximum 20% exposure to all such funds.	10%
Non-specified investments over 1 year duration.	60%
Each non-rated property fund used for long term investment subject to a maximum £3m (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.	N/A
Each non-rated diversified income (multi-asset) fund used for medium term investment subject to a maximum £3m (20% of expected long term balances) per fund and across all such funds.	N/A

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

11 Cash flow and core fund investment

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

- 11.2 **Cash flow investments.** The average daily cash flow balance throughout 2019/20 is expected to be £12m with a proportion available for longer than three months. Cash flow investments will be made with reference to cash flow requirements (liquidity) and the outlook for short-term interest rates i.e. rates for investments up to 12 months. Liquidity will be maintained by using bank deposit accounts and money markets funds. Where duration can be tolerated, additional yield will be generated by utilising term deposits with banks and building societies and enhanced cash funds. Cash balances available for more than 3

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

- 11.3 In compiling the Council's estimates for 2019/20 a return on cash flow investments of 0.93% has been assumed.
- 11.4 **Core fund investments.** Historically the Council's core funds have been managed by an external fund manager. All core funds were returned to the Council for in-house management during 2014/15. The core fund balance is diminishing as a proportion is consumed each year (approximately £2m per annum) to support the Council's revenue budget and capital expenditure plans. The average core fund balance during 2019/20 is expected to be £14m.
- 11.5 The Council will avoid locking into longer term deals while investment rates continue their current low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and are within the risk parameters set by the Council.
- 11.6 In compiling the Council's estimates for 2019/20 a return on core fund investments of 1.23% has been assumed. Subject to the credit quality and exposure limits outlined in paragraph 10.2, liquidity and yield will be achieved by a mix of investments using predominantly fixed term deposits and certificates of deposit. Notice accounts and enhanced cash funds will also be used if these offer favourable returns relative to term deposits.

12 Medium and long term investment.

- 12.1 The strategy includes provision (paragraph 10.2 and detailed in Appendix 5) to undertake medium term investment in diversified income (cash, bonds, equity and property) through an externally managed collective investment scheme (fund). Investment in such schemes typically implies a 5 year commitment to recoup entry and exit fees and mitigate the impact of a fall in the value of assets under management.
- 12.2 A detailed evaluation of the funds asset quality, market risk, redemption constraints, management and governance arrangements will be undertaken in advance of any investment taking place. Any sums invested will be reported at regular intervals with income received and changes in capital value separately identified.
- 12.3 The strategy includes provision (paragraph 10.2 and detailed in Appendix 5) to undertake long term investment in property through an

externally managed collective investment scheme (fund). Investment in such schemes typically implies a 10 year commitment to recoup entry and exit fees. To mitigate the risk that capital values may fall due to changes in economic activity, investment duration cannot be determined with certainty at the time the investment commences. As a consequence any cash balances applied to such an investment must be available for the long term and there must be flexibility over the timing of redemption(s) in the future. Sums invested will be reported at regular intervals with income received and changes in capital value separately identified.

13 Year end investment report

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

14 Policy on the use of external service providers

- 14.1 The Council uses Link Asset Services as its external treasury management advisors.
- 14.2 The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.
- 14.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

January 2019

Appendices

1. Treasury management scheme of delegation
2. Prudential and treasury indicators
3. Interest rate forecasts
4. Economic background provided by Link Asset Services
5. Credit and counterparty risk management (TMP1)
6. Approved countries for investments

Appendix 1 Treasury management scheme of delegation

Full Council

- Budget approval.
- Approval of treasury management policy.
- Approval of the annual treasury management and investment strategy.
- Approval of amendments to the Council's adopted clauses, treasury management policy and annual treasury management and investment strategy.
- Approval of the treasury management outturn and mid-year reports.

Cabinet

- Budget consideration.
- Approval of the division of responsibilities.
- Approval of the selection of external service providers and agreeing terms of appointment.
- Acting on recommendations in connection with monitoring reports.

Audit Committee

- Reviewing the annual treasury management and investment strategy and making recommendations to Cabinet and Council.
- Receive reports on treasury activity at regular intervals during the year and making recommendations to Cabinet.
- Reviewing treasury management policy, practices and procedures and making recommendations to Cabinet and Council.

Finance, Innovation and Property Advisory Board

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

The S151 (responsible) officer

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Prepare and maintain effective treasury management practices (TMPs).
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.
- Preparation of a Capital Strategy and for ensuring the strategy is sustainable, affordable and prudent in the long term and that due diligence has been carried out on all investment and is in accordance with the risk appetite of the authority.

Appendix 2 Prudential and treasury indicators

The prudential indicators relating to capital expenditure cannot be set until the capital programme is finally determined and will as a consequence be reported as part of the Setting the Budget for 2019/20 report that is to be submitted to Cabinet on 14 February 2019.

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

TREASURY MANAGEMENT INDICATORS	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt :					
borrowing	Nil	5,000	5,000	5,000	5,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	5,000	5,000	5,000	5,000
Operational Boundary for external debt:-					
borrowing	Nil	2,000	2,000	2,000	2,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	2,000	2,000	2,000	2,000
Actual external debt	Nil	Nil	Nil	Nil	Nil
Upper limit for fixed interest rate exposure > 1 year at year end	Nil	It is anticipated that exposure will range between 0% to 60%			
Upper limit for variable rate exposure < 1 year at year end	13,434 (45.6%)	It is anticipated that exposure will range between 40% to 100%			
Upper limit for total principal sums invested for over 365 days at year end	3,000 (10.2%)	60% of funds			

Maturity structure of fixed rate borrowing during 2017/18 - 2021/22	upper limit	lower limit
under 12 months	100 %	0 %
Over 12 months	0 %	0 %

Appendix 3 Interest rate forecasts – December 2018

Page 68

Bank Rate											
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%
Capital Economics	0.75%	0.75%	0.75%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	-
5yr PWLB Rate											
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	1.76%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
Capital Economics	1.76%	1.95%	2.03%	2.15%	2.40%	2.65%	2.70%	2.75%	2.80%	2.85%	-
10yr PWLB Rate											
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.18%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%
Capital Economics	2.18%	2.30%	2.43%	2.55%	2.80%	3.05%	3.05%	3.05%	3.05%	3.05%	-
25yr PWLB Rate											
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.80%	2.83%	2.96%	3.08%	3.33%	3.58%	3.53%	3.48%	3.43%	3.38%	-
50yr PWLB Rate											
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.68%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%
Capital Economics	2.68%	2.65%	2.78%	2.90%	3.15%	3.40%	3.40%	3.40%	3.40%	3.40%	-

Link Asset Services Interest Rate View												
	Now	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Bank Rate	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%
3 Month LIBID	0.68%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%
6 Month LIBID	0.78%	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%
12 Month LIBID	0.95%	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%

Appendix 4 Economic background provided by Link Asset Services

GLOBAL OUTLOOK. World growth has been buoyant aided by strong growth in the US. However, US growth is likely to fall back in 2019 and, together with weakening economic activity in China, overall world growth is likely to weaken.

Inflation has been weak during 2018 but, at long last, unemployment falling to remarkably low levels in the US and UK has led to a marked acceleration of wage inflation which is likely to prompt central banks into a series of increases in central rates. The EU is expected to follow a similar progression.

KEY RISKS - central bank monetary policy measures

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

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation, is coming towards its close. A new period has already started in the US, and more recently in the UK, of reversing those measures i.e. by raising central rates and, (for the US), reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of a reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this also encouraged investors into a search for yield and into investing in riskier assets such as equities. Consequently, prices in both bond and equity markets rose to historically high valuation levels simultaneously. This now means that both asset categories are vulnerable to a sharp downward correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery, by taking too rapid and too strong action, nor, conversely, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

The world economy also needs to adjust to a sharp change in **liquidity creation** over the last five years where the US has moved from boosting liquidity by QE purchases, to reducing its holdings of debt. In addition, the European Central Bank has cut back its QE purchases substantially and is likely to end them completely by the end of 2018.

UK. The flow of positive economic statistics since the end of the first quarter 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2; quarter 3 is expected to be robust at around +0.6% but quarter 4 is expected to weaken from that level.

At their November meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor has held back some spare capacity to provide a further fiscal stimulus if needed.

It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring next year. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019. The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.4% in October. In the November Bank of England quarterly inflation report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate. This inflation forecast is likely to be amended upwards due to the Bank's inflation report being produced prior to the Chancellor's announcement of a significant fiscal stimulus in the Budget; this is likely to add 0.3% to GDP growth at a time when there is little spare capacity left in the economy, particularly of labour.

As for the **labour market** figures in September, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.2%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 0.8%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

In the **political arena**, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a, (temporary), boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2 and 3.5%, (3.0% y/y), in quarter 3, but also an upturn in inflationary pressures. In particular, wage rates were increasing at 3.1% y/y in October and heading higher due to unemployment falling to a 49 year low of 3.7%. With CPI inflation over the target rate of 2% and on a rising trend towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being the fourth increase in 2018. They also indicated that they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019. However, a combination of an expected four increases in rates of 0.25% by the end of 2019, together with a waning of the boost to economic growth from the fiscal stimulus in 2018, could combine to depress growth below its potential rate, i.e. monetary policy may prove to be too aggressive and lead to the Fed having to start on cutting rates. The Fed has also been unwinding its previous quantitative easing purchases of debt by gradually

increasing the amount of monthly maturing debt that it has not been reinvesting.

The tariff war between the US and China has been generating a lot of heat during 2018, but it is not expected that the current level of actual action would have much in the way of a significant effect on US or world growth. However, there is a risk of escalation. The results of the mid-term elections are not expected to have a material effect on the economy.

Eurozone. Growth was 0.4% in quarters 1 and 2 but fell back to 0.2% in quarter 3, though this is probably just a temporary dip. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of nearly 2% for 2018, the horizon is less clear than it seemed just a short while ago. Having halved its quantitative easing purchases of debt in October 2018 to €15bn per month, the European Central Bank has indicated it is likely to end all further purchases in December 2018. Inflationary pressures are starting to build gently so it is expected that the ECB will start to increase rates towards the end of 2019.

China. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress has been made in reducing the rate of credit creation, particularly from the shadow banking sector, which is feeding through into lower economic growth. There are concerns that official economic statistics are inflating the published rate of growth.

Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It is likely that loose monetary policy will endure for some years yet to try to stimulate growth and modest inflation.

Emerging countries. Argentina and Turkey are currently experiencing major headwinds and are facing challenges in external financing requirements well in excess of their reserves of foreign exchange. However, these countries are small in terms of the overall world economy, (around 1% each), so the fallout from the expected recessions in these countries will be minimal.

INTEREST RATE FORECASTS. The interest rate forecasts provided by Link Asset Services in paragraph 7.1 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event

of an orderly non-agreement exit, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for ten years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- If **Brexit** were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England monetary policy** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**.
- Weak capitalisation of some **European banks**.
- **Political developments** in EU countries.
- Further increases in interest rates in the US could spark a **sudden flight of investment funds** from more risky assets e.g. shares, into bonds yielding a much improved yield. In October 2018, we have seen a sharp fall in equity markets but this has been limited, as yet. Emerging countries which have borrowed heavily in dollar denominated debt, could be particularly exposed to this risk of an investor flight to safe havens e.g. UK gilts.

- There are concerns around the level of **US corporate debt** which has increased significantly during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to the lower end of investment grade. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected further rating downgrades will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates:

- **Brexit** – if both sides were to agree a compromise that removed all threats of economic and political disruption.
- **The Fed causing a sudden shock in financial markets** through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Link Asset Services
December 2018

Appendix 5 Credit and counterparty risk management (TMP1)

All specified and non-specified Investments will be:

Subject to the sovereign, counterparty and group exposure limits identified in the Annual Investment Strategy (Section 10).

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

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

Sterling denominated.

Specified Investments (maturities up to 1 year):

investment	Minimum Credit Criteria
UK Debt Management Agency Deposit Facility	UK Sovereign A-
Term deposits - UK local authorities	UK Sovereign A-
Term deposits - UK nationalised and part nationalised banks	UK Sovereign A- Counterparty BBB, F2 or Green excluding CDS
Term deposits – all other banks and building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1 or Green excluding CDS
Certificates of deposit - UK nationalised and part nationalised banks	UK Sovereign A- Counterparty BBB, F2 or Green excluding CDS
Certificates of deposit – all other banks and building societies	UK Sovereign A- / Non-UK Sovereign AA- Counterparty A-, F1, or Green excluding CDS
UK Treasury Bills	UK Sovereign A-
UK Government Gilts	UK Sovereign A-
Bonds issued by multi-lateral development banks	AAA
Sovereign bond issues (other than the UK govt)	AAA
Money Market Funds (CNAV, LVNAV or VNAV)	AAA
Enhanced Cash and Government Liquidity Funds	AAA

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

Investment	Minimum Credit Criteria	Max duration to maturity
Fixed term deposits with variable rate and variable maturities (structured deposits) - UK nationalised and part nationalised banks	UK Sovereign A-	2 years
Fixed term deposits with variable rate and variable maturities (structured deposits) - banks and building societies	UK sovereign A- / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Term deposits - local authorities	UK Sovereign A-	2 years
Term deposits - UK nationalised and part nationalised banks	UK Sovereign A-	2 years
Term deposits – banks, building societies	UK Sovereign A- / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Certificates of deposit - UK nationalised and part nationalised banks	UK Sovereign A-	2 years
Certificates of deposit – banks and building societies	UK Sovereign A- / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Commercial paper - UK nationalised and part nationalised banks	UK Sovereign A-	2 years
Commercial paper - banks and building societies	UK Sovereign A- / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Floating rate notes issued by multilateral development banks	AAA	5 years
Bonds issued by multilateral development banks	AAA	5 years
Sovereign bond issues (other than the UK Government)	AAA	5 years
UK Government Gilts	UK Sovereign A-	25% 5 years
Property Funds	N/A	N/A
Diversified Income Funds	N/A	N/A

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

Appendix 6 Approved countries for investments

Each financial institution must meet the minimum credit criteria specified in the Annual Investment Strategy (Section 10). For non-UK regulated institutions the institutions sovereign must be rated AA- or higher by each of the three rating agencies - Fitch, Moody's and Standard and Poor's.

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

As of 31 December 2018 sovereigns meeting the above requirement which also (except for Hong Kong, Norway and Luxembourg) have banks operating in sterling markets with credit ratings of green or above on the Link Asset Services' Credit Worthiness List were:

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

At 31st December 2018 the UK received a credit rating of AA from each of Fitch, Moody's and Standard and Poor's.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

21 January 2019

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 ANNUAL REVIEW OF ANTI-FRAUD POLICIES AND WHISTLEBLOWING POLICY

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

1.1 Introduction

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

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

1.2 Anti-Fraud Policies

1.2.1 The Anti-Fraud Policies were last reviewed by the Committee in January 2018. This latest review found that only minor changes were required and these are highlighted in the relevant appendices. However, it should be noted that the Fraud Team will be subject to an independent review this financial year and the outcomes of that review may mean some amendments are required. In addition, the Department for Work and Pensions (DWP) will be rolling joint working on investigations out across Kent early in 2019, the Policies will need to be updated once we have met with the DWP and have a clearer understanding of the impact of this. In normal circumstances these Policies are brought before the Committee for approval annually, but given changes are likely to be required in-year the Policies will be brought back to the Committee for approval once they are updated.

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

1.3 Whistleblowing Policy

1.3.1 The Whistleblowing Policy was last reviewed by the Committee in January 2018. This latest review found that no changes were required at this time. Please note that as stated at 1.2.1 above in-year changes may be required and, if so, this Policy will be brought back to the Committee once updated.

1.3.2 A copy of the Whistleblowing Policy is attached at **[Annex 4]**.

1.4 Action Following Approval of the Policies

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

1.5 Legal Implications

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

1.6 Financial and Value for Money Considerations

1.6.1 Fraud prevention and detection is an area subject to central government focus with initiatives such as 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.

1.6.2 These policies comply with recognised best practice and reinforce the zero tolerance stance of the Council towards fraud.

1.6.3 Providing clear guidelines to staff on how they may report concerns of inappropriate conduct or fraud strengthen the Council's zero tolerance approach to fraud, bribery and corruption.

1.7 Risk Assessment

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

1.7.2 While there is no statutory requirement to have an appropriate mechanism for dealing with whistleblowing, it is relevant to helping the Council comply with associated law. Failure to have an adequate whistleblowing mechanism carries significant reputational risk.

1.8 Equality Impact Assessment

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

1.9 Policy Considerations

1.9.1 Crime & Disorder Reduction

1.10 Recommendations

1.10.1 Members are asked to review and, subject to any required amendments, **approve** the Anti-Fraud Policies attached at **[Annex 1, 2 and 3]**.

1.10.2 Members are asked to review and, subject to any required amendments, **recommend** that the Whistleblowing Policy attached at **[Annex 4]** is approved by the next General Purposes Committee.

Background papers:

contact: Samantha Buckland

Nil

Sharon Shelton
Director of Finance and Transformation

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ANTI-FRAUD, BRIBERY & CORRUPTION POLICY



January 2019

Contents

Section		Page
1	Introduction	1
2	Definitions of Fraud, Bribery & Corruption	1
3	The Council's Commitment	2
4	Prevention of Fraud, Bribery & Corruption	2
5	Detection of Fraud, Bribery & Corruption	6
6	Investigation	6
7	Responses to Reported Concerns and Suspensions	8
8	Action to Deter Fraud, Bribery & Corruption	8
9	Measuring the Effectiveness of this Policy	9
10	Review and Approval of this Policy	9
11	Associated Council Policies	9
Annex One	The Seven Principles of Public Life	11

Tonbridge and Malling Borough Council Anti-Fraud, Bribery & Corruption Policy

1 INTRODUCTION

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

2 DEFINITIONS OF FRAUD, BRIBERY & CORRUPTION

- 2.1 Fraud is defined as:

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

- 2.2 This may involve:

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

- 2.3 Fraud can be any act of deception which acts to the financial detriment of the Council. Acts such as misappropriation or petty theft

will therefore also be considered by the Council as fraud and treated under the arrangements within this Policy.

2.4 Bribery and Corruption is defined as:

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

2.5 This may involve:

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

3 THE COUNCIL'S COMMITMENT

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

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

4 PREVENTION OF FRAUD, BRIBERY & CORRUPTION

Recruitment and induction

4.1 The Council recognises that a key preventative measure in the fight against fraud, bribery and corruption is to take effective steps at the recruitment stage to verify the propriety and integrity of the

previous records of potential employees of the organisation. The Council has a Recruitment and Selection Policy, Procedure and Guidance which should be adhered to in recruiting both permanent and temporary/contract staff. This guidance requires a number of checks at the recruitment stage to establish and confirm the previous records of potential employees, including the take up of written references and Disclosure and Barring Service checks for certain identified posts.

- 4.2 The Council has developed a formal induction process for new employees. This is intended to assist them in understanding the Council, its decision-making arrangements and the requirements of the Officers' Code of Conduct.
- 4.3 As elected representatives of the local community, newly-elected Members are also required to complete an induction to assist them in understanding the Council, its decision-making arrangements and the requirements of the Members' Code of Conduct.

Training

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

Internal Control Arrangements

- 4.6 The Council as a whole operates within a framework of policies and procedures intended to direct the activity of the Council and ensure transparency in decision making. The Constitution forms the main spine of these arrangements and includes the Council's financial procedure rules and contracts procedure rules.
- 4.7 Responsible officers are expected to ensure that effective internal control arrangements are incorporated into the design or development of systems and procedures. Such arrangements would include ensuring adequate segregation of duties,

authorisation and physical security controls to protect the Council from error, misappropriation or loss.

- 4.8 Members and officers are required to declare any financial and other interest in any outside bodies or organisations which could be considered or perceived as having an influence on their actions on behalf of the Council.
- 4.9 The Council has established a Standards Committee to deal with matters relating to the Members' Code of Conduct.

Organisational Culture and Conduct

- 4.10 The Council is determined that the culture and tone of the organisation will continue to be one of honesty and opposition to fraud, bribery and corruption. The Council operates a zero-tolerance approach towards fraud, bribery and corruption activity.
- 4.11 The Council supports the Seven Principles of Public Life identified by the Nolan Committee and recognises that these are fundamental to developing an effective working environment which does not allow or tolerate fraud, bribery and corruption activity. Further information on the Seven Principles of Public Life can be found at **[Annex 1]** to this document.
- 4.12 The Council expects that Members and officers at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices. In particular, Members and officers are expected to adhere to their relevant Code of Conduct and declare any interests they may have that could or could be perceived to influence them in any decision-making they may be involved in relating to Council business. Members (where the value is more than £100) and Officers are also required to declare any gifts or hospitality they are offered relating to their role or Council business, whether these are accepted or declined.
- 4.13 Managers should strive to create an environment in which their staff feel able to approach them with any concerns they may have about suspected irregularities. There is also a Whistleblowing Policy in place to enable staff to raise any concerns where staff feel unable to raise concerns with their manager.
- 4.14 The Council also expects that individuals and organisations, e.g. suppliers, contractors, partners and service providers that it comes into contact with will act with integrity in their dealings with the Council and without thought or actions involving fraud and corruption.

Internal Scrutiny Arrangements

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

External Scrutiny Arrangements

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

Working with Others

- 4.20 The Council is committed to working with other organisations to prevent and detect fraud, bribery and corruption through undertaking specific initiatives and ensuring that arrangements are in place to encourage the exchange of information between the Council and other agencies. Though not intended to be exhaustive, the Council currently works with the DWP, Kent Police, the Cabinet Office (National Fraud Initiative), other Kent Authorities and a number of

networking groups.

5 DETECTION OF FRAUD, BRIBERY & CORRUPTION

5.1 The Council has put in place a range of internal control arrangements within its systems and processes to detect inappropriate or dishonest activity, including budget monitoring and reconciliations. These arrangements are designed to detect fraud, corruption and bribery activity should this occur. The Council recognises, however, that the detection of such activity is often as a result of the alertness of Members, employees, the general public and other stakeholders.

5.2 Members, employees, the general public and other stakeholders are encouraged to come forward and report any concerns or suspicions they may have through one of the following:

- Line Manager or Service Manager
- The Council's Internal Audit and Fraud Team (01732 876101)
- The Council's Whistleblowing Policy
- Chief Executive / Monitoring Officer / Director of Finance & Transformation
- The Council's External Auditor, Grant Thornton LLP

5.3 The Council's Financial Procedure Rules require Chief Officers to immediately notify the Director of Finance and Transformation of any financial irregularity or suspected financial irregularity.

5.4 The Council recognises that on occasions, employees, Members and organisations working with the Council may not want to express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice. In such instances, persons are urged to report concerns or suspicions through the channels set out in the Council's Whistleblowing Policy.

6 INVESTIGATION

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

and Fraud Team and Personnel as appropriate to agree the approach to:

- recording and securing all evidence received and collected;
- ensuring that evidence is sound and adequately supported; and
- implementing Council disciplinary procedures where appropriate.

- 6.2 The Council has established a corporate approach to co-ordinate the investigation of allegations of fraud and corruption to ensure the effective use of the skills and resources within the organisation. This approach is intended to utilise officers from Internal Audit and Fraud and Personnel based on the nature of the allegation and the investigatory skills required.
- 6.3 The Council has a formal procedure for conducting such investigations which allows for investigations to be carried out impartially and with complete confidentiality. As well as looking to confirm or refute allegations of fraud and corruption activity reported, investigatory work will also look to identify any improvements in internal control, training needs or other suitable solutions to prevent or deter the reported activity from recurring.
- 6.4 The Council's disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by a Council employee.
- 6.5 Where financial impropriety is discovered or it appears that a criminal offence may have been committed, the Council's presumption is that the issue will be pursued. The matter may be referred to the Police. Any such decision will not be seen to prohibit and should not unnecessarily delay action under the disciplinary procedure.
- 6.6 When making decisions about prosecutions, the Council will have regard to the Code for Crown Prosecutors issued by the Director of Public Prosecutions.
- 6.7 The Council will seek, where appropriate, to maximise the recovery of any loss to the Council.
- 6.8 The investigation process must not be misused. The Council will treat any reporting of unfounded malicious allegations seriously. Where employees are concerned, any such finding from the investigation process may be treated as a disciplinary matter.

- 6.9 Members and employees will be given advice and support, where considered necessary, if they are the subject of any unfounded malicious allegation.
- 6.10 The Internal Audit and Fraud Team is responsible for all investigations relating (but not limited) to Business Rates, Housing, Housing Benefit claims not yet in payment and Council Tax fraud including Single Person Discount, Council Tax Reduction Scheme and discounts and exemptions. These investigations will be undertaken in accordance with relevant legislation, the Council's Investigation procedures and, for Council Tax, the Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy.

7 RESPONSES TO REPORTED CONCERNS AND SUSPICIONS

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

8 ACTION TO DETER FRAUD, BRIBERY & CORRUPTION

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

demonstrated through disciplinary action or prosecution.

8.3 The Council will take action to help ensure the maximum recoveries for the Council.

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

9 MEASURING THE EFFECTIVENESS OF THIS POLICY

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

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

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

10 REVIEW AND APPROVAL OF THIS POLICY

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

10.2 The Anti-Fraud, Bribery & Corruption Policy will be reviewed and endorsed at least annually by the Audit Committee at their January meeting. The most recent review was undertaken in January 2019 with the next review due January 2020.

11 ASSOCIATED COUNCIL POLICIES

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

- The Council's Constitution including Finance Procedure Rules
- The Code of Conduct for Staff and Members
- The Whistleblowing Policy
- The Anti-Money Laundering Policy
- Supplementary Anti-Fraud, Bribery and Corruption Policies, i.e. those in relation to Benefits and Council Tax
- Policies and procedures in relation to recruitment, personnel and finance processes.

The Seven Principles of Public Life

Selflessness

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

Integrity

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

Objectivity

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

Accountability

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

Openness

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

Honesty

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

Leadership

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

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HOUSING BENEFIT ANTI-FRAUD POLICY



January 2019

Contents

Section		Page
	Housing Benefit Anti-Fraud Policy	
1	Introduction	1
2	Definition of Benefit Fraud	1
3	Culture	2
4	Prevention	2
5	Detection	3
6	Review and Approval of this Policy	4

Tonbridge and Malling Borough Council Housing Benefit Anti-Fraud Policy

1. INTRODUCTION

- 1.1 The Council is opposed to all forms of fraud and corruption. It recognises that fraud and corruption undermine the standards of public service, which it promotes, and reduces the resources available for the good of the whole community. It is important to detect and prevent fraud and error in the first instance and as such the Council seeks to check and verify all original documents and personal circumstances before making payments or amending existing payments of benefit.
- 1.2 The Council has an Anti-Fraud, Bribery and Corruption Policy and a Whistleblowing Policy to encourage prevention, promote detection and support the investigation of allegations of fraud or corruption at a corporate level.
- 1.3 This Housing Benefit Anti-Fraud Policy is designed to reinforce the Anti-Fraud, Bribery & Corruption Policy specifically in relation to Housing Benefit Administration and is designed to:
- stop fraudulent claims from entering our systems
 - find any fraudulent claims already in the system
 - stop payments from going to people who are not entitled to it
 - recover fraudulent overpayments of benefit
 - deter people from trying to commit fraud

2. DEFINITION OF BENEFIT FRAUD

- 2.1 Benefit fraud is where a person, dishonestly, or not,
- a) Falsifies a statement or a document; or
 - b) Is involved in a failure to notify a relevant change of circumstance; or
 - c) Omits relevant information

For the purpose of obtaining or increasing entitlement to housing benefit for themselves or another.

3. CULTURE

- 3.1 The Council is determined that the culture and tone of the organisation will continue to be one of honesty and opposition to fraud and corruption and as such has established a dedicated Fraud Team.
- 3.2 The Council's staff and Members, at all levels, are an important element in its stance on fraud and corruption and should lead by example. They are encouraged to raise any concerns and can do this in the knowledge that these will be treated in confidence and properly investigated.
- 3.3 Instances of suspected/alleged Housing Benefit fraud must be referred to the DWP. Contact details can be found at paragraph 5.3.

4. PREVENTION

Staff

- 4.1 To reduce the risk of fraud and error it is vital that the qualifications and employment histories of potential employees are comprehensively checked. Benefits staff should also sign a declaration covering any interests that may conflict with their work. For example, receiving housing benefit, or acting as a landlord or agent.
- 4.2 Employees must declare any circumstances where their personal interests (financial and non-financial) may conflict with those of the Council, e.g. processing a Housing Benefit application form for a relative or friend.
- 4.3 Benefits staff will receive Fraud Awareness training as part of their induction. Thereafter they will receive **periodic** refresher training.

Systems

- 4.4 It is a management responsibility to maintain the internal control system. This includes the responsibility for the prevention of fraud and other illegal acts. By undertaking an agreed plan of work, internal audit will evaluate the adequacy and effectiveness of these controls as a means of assisting management to discharge its responsibilities.
- 4.5 All Benefits recording systems must be designed in consultation with and to the satisfaction of the Director of Finance and Transformation. Access to data must be controlled by use of passwords with an audit trail kept of transactions.
- 4.6 All staff with access to the confidential details of claimants will be responsible for ensuring the control of physical access to the data and

will be responsible for compliance with the Data Protection Act and the Freedom of Information Act. This responsibility requires managers to ensure that the physical access to equipment is restricted, as far as practical, to authorised users only. All individuals must protect their passwords and not keep them written down or 'lend them'.

4.7 All manual Housing Benefit records must be kept securely filed when not in use and access to these files must be restricted to designated officers only.

4.8 All valuables, including documentation, must be recorded and tracked through the housing benefit system until returned to the originator. Where these items are hand delivered a receipt will be given to the originator.

5. DETECTION

5.1 Surveys have identified that Housing Benefit Fraud is one of the largest area of detected fraud in local government.

5.2 Whilst encouraging genuine claimants to apply for benefit the Council has adopted a number of initiatives to detect and prevent fraudulent applications, such as:

- participation in the National Fraud Initiative data-matching exercise
- publicity of anti-fraud initiatives, and press releases.

5.3 When a potential housing benefit fraud is identified during routine administration the member of staff within the Benefits Section should refer suspected cases of fraud to the DWP Single Fraud Investigation Service in accordance with agreed procedures (the exception being cases where benefit has not yet gone into payment, such cases should be referred to the Audit and Fraud Team on 01732 876101). In all other instances the individual should use the existing DWP channels:

- Online – www.gov.uk/benefit-fraud
- By Telephone – National Benefit Fraud Hotline 0800 854 440
- By Post – NBFH, PO Box 224, Preston, PR1 1GP

5.4 The Council will take action, including legal recovery, in order to recover all overpayments of housing & council tax benefit that result from fraudulent activity or claimant failure to notify a change of circumstances. The Council's Disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by

an employee.

6. REVIEW AND APPROVAL OF THIS POLICY

- 6.1 This Policy is owned by the Director of Finance and Transformation and reviewed by the Chief Audit Executive on her behalf.
- 6.2 The Policy will be reviewed and endorsed at least annually by the Audit Committee at their January meeting. The most recent review was undertaken in January 2019 with the next review due January 2020.

COUNCIL TAX REDUCTION, DISCOUNTS & EXEMPTIONS ANTI-FRAUD POLICY



January 2019

Contents

Section		Page
Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy		
1	Introduction	1
2	Definition of Council Tax Fraud	2
3	Culture	2
4	Prevention	2
5	Detection and Investigation	3
6	Review and Approval of this Policy	4
Council Tax Reduction, Discounts & Exemptions Sanction and Prosecution Policy		
I	Statement of Intent	5
II	Evidential Criteria	6
III	Public Interest Criteria	6
IV	No Sanction or Prosecution	6
V	Civil Penalties for Incorrect Statements	7
VI	Sanctions as Alternatives to Prosecution	7
VII	Prosecution	9
VIII	Collection of Council Tax	10
Appendix A	Code of Conduct for Staff Investigating Fraud	11

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

1. INTRODUCTION

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

2. DEFINITION OF COUNCIL TAX FRAUD

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

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

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

3. CULTURE

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

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

3.3 Instances of suspected/alleged Council Tax fraud may be referred for investigation to the Internal Audit and Fraud Team who can be contacted on extension 6337/6101 or through the e-mail system. All staff conducting either investigations and / or interviews should be aware of the Council's procedures for dealing with unacceptable and aggressive behaviour.

4. PREVENTION

Staff

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

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

4.3 Employees must declare any circumstances where their personal interests (financial and non-financial) may conflict with those of the

Council, e.g. processing a Council Tax Reduction application form for a relative or friend.

- 4.4 Appropriate staff within the Council will receive Fraud Awareness training as part of their induction; thereafter they will receive periodic refresher training. All Fraud Officers will undertake training **as and when required** in order to ensure that they carry out their duties in accordance with recognised standards for Fraud Investigation.

Systems

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

5. DETECTION AND INVESTIGATION

- 5.1 Surveys by the Audit Commission identified that Council Tax Fraud causes significant loss to local government.
- 5.2 Whilst encouraging genuine people to apply for reductions, discounts

and exemptions, the Council has adopted a number of initiatives to detect and prevent fraudulent applications, such as:

- operation of a fraud 'hotline' 01732 876101
- participation in the National Fraud Initiative data-matching exercise **and other local proactive initiatives**
- carrying out joint fraud investigations with other bodies
- publicity of anti-fraud initiatives, the Fraud Hotline number and press releases.

- 5.3 All referrals passed to the Fraud Team will be sifted and vetted for strength of evidence. All cases where the evidence is considered sufficient to investigate will be logged and a case file opened.
- 5.4 The Council's Disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by an employee.
- 5.5 Members of staff within the Council Tax Section should refer suspected cases of fraud to the Internal Audit and Fraud Team. The Team will give feedback to staff regarding the quality of the fraud referral and the outcome of any resulting investigation as appropriate.
- 5.6 All claims where there is sufficient proof for the Council to believe that a reduction, discount or exemption has been claimed fraudulently will be dealt with under the associated Sanction and Prosecution Policy. The sanctions open to the Council include a Caution, an Administration Penalty (in respect of council tax reduction) or Prosecution.
- 5.7 The Council will take action, including legal recovery, in order to recover all council tax liability that results from fraudulent activity or a person's failure to notify a change of circumstances, regardless of whether sanction action takes place, and may consider imposing a civil penalty of £70 for incorrect statements or negligently failing to report changes in circumstances.

6. REVIEW AND APPROVAL OF THIS POLICY

- 6.1 This Policy is owned by the Director of Finance and Transformation and reviewed by the Chief Audit Executive on her behalf.
- 6.2 The Policy will be reviewed and endorsed at least annually by the Audit Committee at their January meeting. The most recent review was undertaken in January 2019 with the next review due January 2020.

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

I. STATEMENT OF INTENT

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

II. EVIDENTIAL CRITERIA

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

III. PUBLIC INTEREST CRITERIA

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

IV. NO SANCTION OR PROSECUTION

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

V. CIVIL PENALTIES FOR INCORRECT STATEMENTS

- Even if it is determined that the Council will not take any sanction or prosecution action in respect of offences committed, they may still consider issuing a civil penalty for making an incorrect statement or failing to notify a change of circumstances. The final decision on whether to apply a civil penalty lies with the Audit and Assurance Manager.
- The Council may consider imposing a penalty of £70 (for a first offence, this may increase for subsequent cases) on a person where:
 - ❑ The Person makes an incorrect statement or representation, or negligently gives incorrect information or evidence in or in connection with an application or in connection with the award of a reduction under the council tax reduction scheme
 - ❑ Fails to take reasonable steps to correct the error
 - ❑ The error results in an award of a discount or council tax reduction which is greater than the amount to which the person was entitled
 - ❑ Without reasonable excuse, fails to give a prompt notification of a relevant change of circumstances
 - ❑ The failure results in an award of a discount or council tax reduction which is greater than the amount to which the person was entitled
 - ❑ The person has not been charged with an offence, or cautioned, or been given an administration penalty

VI. SANCTIONS AS ALTERNATIVES TO PROSECUTION

- Where the Council has reviewed a case and is satisfied that an offence has been committed, mitigating factors may suggest that an alternative form of sanction should be considered in the first instance as a more suitable means of disposal.
- These alternative sanctions take the form of a caution or, in the case of Council Tax Reduction, an administrative penalty.
- **A Caution:**
 - ❑ Acts as a final written warning for the offence committed
 - ❑ Is for council tax administration purposes only
 - ❑ Is not a criminal record and, therefore, does not affect a person's employment prospects
 - ❑ Remains on record for a period of 5 years
 - ❑ Would be cited at proceedings should any subsequent offences be committed within the 5 year period

- The Council may consider issuing a Caution if:
 - ❑ To our knowledge the person has never previously offended
 - ❑ The person has committed fraud before but the offence was minor and the current offence is also minor
 - ❑ There was no planning involved in the process
 - ❑ There was no other person involved in the fraud
 - ❑ The offence is minor
 - ❑ The value of the offence is relatively low
 - ❑ The person has fully admitted the offence during an IUC
 - ❑ The persons subsequent attitude, e.g. whether they express genuine regret for what they have done
 - ❑ Criminal proceedings are not the first option

- **An Administrative Penalty:**
 - ❑ Is a financial penalty calculated as a percentage of the fraudulently obtained council tax reduction, which is set at:
 - 50% of the excess reduction, with a minimum of £100 and a maximum of £1,000
 - ❑ Is for council tax administration purposes only
 - ❑ Is not a criminal record and, therefore, does not affect a person's employment prospects
 - ❑ Remains on record for a period of 5 years
 - ❑ Would be cited at proceedings should any subsequent offences be committed within the 5 year period

- The Council may consider issuing an Administrative Penalty if:
 - ❑ To our knowledge the person has never previously offended
 - ❑ The person has committed fraud before but the offence was minor and the current offence is also minor
 - ❑ There was no planning involved in the process
 - ❑ There was no other person involved in the fraud
 - ❑ A Caution is not appropriate as there has been no admission to the offence
 - ❑ The offence is minor
 - ❑ Criminal proceedings are not the first option

- If a person refuses to accept a caution or administrative penalty, the case will be referred for prosecution.

- Even if the above criteria for Cautions and Penalties was satisfied the Council may decide that a Caution or Administrative Penalty is not appropriate if the person:
 - ❑ Has been prosecuted for a fraud offence in the last 5 years
 - ❑ Has been cautioned two or more times in the past five years

- This is because this would indicate that:
 - ❑ Previous sanctions have not deterred them from re-offending
 - ❑ Their lack of contrition for the offences committed
 - ❑ Their disregard for the legislation
 - ❑ A deliberate and repeated intent to commit fraud
 - ❑ Their apparent belief that these offences are not serious
- Instead the Council may consider referring the case for prosecution.

VII. PROSECUTION

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

VIII. COLLECTION OF COUNCIL TAX

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

CODE OF CONDUCT FOR STAFF INVESTIGATING FRAUD

Code of Conduct & Good Practice for Staff Investigating Fraud

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

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

The Audit and Assurance Manager will deal with a breach of The Code of Conduct and Good Practice.

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

General Conduct

Officers of the Council will not:

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

Legislation

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

Evidence (witness and suspects)

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

- Conceal or fabricate evidence or knowingly allow any evidence to be concealed or fabricated.
- Discriminate or exercise any bias on the grounds of race, sex, marital status, sexual orientation, or disability.
- Accept or offer any inducement, bribe or other advantage from or to any witness or suspect.
- Use any information gathered in the course of their duties for personal gain or coercion or otherwise misuse such information.
- Do or fail to do anything that may result in a miscarriage of justice.

Disclosure of Interests

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

Information

- Officers must treat all information gathered for evidential purposes during an investigation as confidential and, must not deliberately or negligently disclose such information to an unauthorised third party, or reveal the source of the information to an authorised third party.

Personal Injury and Damage to Property

- Officers, must exercise all reasonable care to prevent injury to the person, loss or damage to the public and private property, and must not forcibly enter public or private property except to save life or prevent serious injury or on the invitation of the occupier or other responsible person, deliberately or negligently destroy or damage any property, seize or retain any property without lawful authority, or use threatening physical violence towards a colleague or member of the public.

WHISTLEBLOWING POLICY



Contents

Section		Page
1	Introduction	1
2	Definition of Whistleblowing	1
3	Aims and Scope of this Policy	1
4	Who does this Policy Cover?	3
5	Supporting the Individual Raising a Concern	3
6	How to Raise a Concern	4
7	How the Council will Respond	5
8	How the Matter can be Taken Further	6
9	Review and Approval of this Policy	7
Appendix 1	Report A Concern	8

TONBRIDGE & MALLING BOROUGH COUNCIL WHISTLEBLOWING POLICY

A confidential reporting policy for all Members, employees and contractors

1. Introduction

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

2. Definition of Whistleblowing

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

3. Aims and Scope of this Policy

- 3.1 The Whistleblowing Policy aims to:

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

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

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

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

4. Who does this Policy Cover?

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

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

5. Supporting the Individual Raising a Concern

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

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

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

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

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

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

6. How to Raise a Concern

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

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

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

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

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

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

7. How the Council will Respond

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

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

8. How the Matter can be Taken Further

- 8.1 This policy is intended to provide individuals with an avenue to raise concerns within the Council. The Council hopes that those using this process will be satisfied with the way their concerns are treated and any investigations that may be carried out. However, if they are not satisfied, or feel it is right to take the matter outside the Council, the following are possible contact points:
- The Council's External Auditor, currently Grant Thornton UK LLP (Tel: 020 7728 2936, ciaran.t.mclaughlin@uk.gt.com)
 - Public Concern at Work (Tel: 020 7404 6609, www.pcaw.co.uk) who are a registered charity whose services are free and confidential
 - The local Citizens Advice Bureau
 - Relevant professional bodies, Trade Unions or regulatory organisations
 - Unison's whistleblower's hotline 0800 597 9750
 - The Police
 - A solicitor

- The Local Government Ombudsman.

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

9. Review and Approval of this Policy

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

9.2 The Whistleblowing Policy will be reviewed at least annually by the Audit Committee for recommendation to the General Purposes Committee for approval. The most recent review was undertaken in January 2019 with the next review due January 2020.

WHISTLEBLOWING POLICY - REPORT OF A CONCERN

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

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

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

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

Name.....

Contact details.....

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

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

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

21 January 2019

Report of the Chief Audit Executive

Part 1- Public

Delegated

1 INTERNAL AUDIT CHARTER

The purpose of the report is to inform Members of the outcome of the review of the Internal Audit Charter.

1.1 Introduction

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

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

1.2 Review of the Internal Audit Charter

1.2.1 The current Internal Audit Charter was approved by the Audit Committee in January 2018. A review of the Charter found that it continues to meet the requirements of the PSIAS and CIPFA's Local Government Application Note to the Standards, minor amendments have been made to enhance sections on independence and reflect the current structure of the Internal Audit Team, these are highlighted on the copy of the Charter attached at **[Annex 1]**.

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

1.3 Legal Implications

1.3.1 Section 151 of the Local Government Act 1972 requires the Council to "make arrangements for the proper administration of their financial affairs". Further to

this, the Accounts & Audit Regulations require a relevant body to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.”

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

1.4 Financial and Value for Money Considerations

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

1.5 Risk Assessment

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

1.6 Equality Impact Assessment

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

1.7 Recommendations

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

Background papers:

contact: Samantha Buckland

Nil

Samantha Buckland
Chief Audit Executive



INTERNAL AUDIT CHARTER

Purpose

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

Authority

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

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

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

Professionalism and Professional Standards

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

Organisational Relationships

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

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

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



INTERNAL AUDIT CHARTER

The CAE is responsible for the provision of the Internal Audit function, but may also be subject to Internal Audit for other services and functions under their responsibility. Where the CAE is the responsible manager for a service subject to Internal Audit, auditor and/or audit management responsibilities in relation to the assignment will be passed to an independent third party to ensure that Internal Auditors remain independent enabling them to carry out their work freely and objectively in accordance with the Standards.

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

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

Relationship with the Monitoring Officer

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

Relationship with the Chief Executive & Head of Paid Service

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

Relationship with Management Team

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

Relationship with the Audit Committee

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

Relationship with External Audit

The CAE will liaise with External Audit to:

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

In particular the CAE shall:

- discuss the annual Internal Audit plan with the External Auditor to facilitate external audit planning;
- make all Internal Audit working papers and reports available to the External Auditor;
- receive copies of relevant External Auditor communications.



INTERNAL AUDIT CHARTER

Independence and Objectivity

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

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

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

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

The CAE will confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit activity. This will include any arrangements to audit services that sit within the CAE's responsibility in line with the process described at Organisational Relationships above.

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

Responsibility

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

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

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

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to the Council's Management Team, including fraud risks, governance issues, and other matters needed or requested by the Audit



INTERNAL AUDIT CHARTER

Committee. The CAE is responsible for the Council's counter fraud activity including maintenance of the Anti-Fraud, Bribery & Corruption Policy which sets out arrangements for all suspected or detected fraud, corruption or impropriety to be reported to Internal Audit.

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

Partnership Working

The role of CAE is provided by way of a secondment agreement with Kent County Council under a partnership working arrangement. The objective of this partnership is to provide a high quality Internal Audit service with added resilience, share best practice and work to align working practices in order to provide a consistent high quality service across the two councils.

The Internal Audit team based at Tonbridge & Malling Borough Council consists of the CAE by way of a secondment agreement with Kent County Council, one part-time Senior Auditor and audit contractors as and when required to deliver the annual Plan. The partnership working arrangement with Kent County Council provides the opportunity for Internal Auditors at both councils to conduct audits at either council where it is practical and beneficial to do so. The Internal Auditor assigned to each audit review is selected by the CAE based on their knowledge, skills, experience and discipline to ensure that the audit is conducted properly.

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

- engaged agency staff;
- engaged consulting services.

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

Internal Audit Plan

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

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



INTERNAL AUDIT CHARTER

A written report will be prepared and issued following the conclusion of each Internal Audit engagement and will be distributed as appropriate. Internal Audit results will also be communicated to the Audit Committee.

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

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

Quality Assurance and Periodic Assessment

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

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

Signed by:

A handwritten signature in black ink, appearing to read 'B. Lead'.

Chief Audit Executive (CAE)

A handwritten signature in black ink, appearing to read 'Vivian Brown'.

Chair of the Audit Committee

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

21 January 2019

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 ANNUAL REVIEW OF ANTI-MONEY LAUNDERING POLICY

This report informs Members of the outcome of the annual review of the Council's Anti-Money Laundering Policy and supporting guidance notes.

1.1 Introduction

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

1.1.2 The Council's Anti-Money Laundering Policy and supporting guidance notes were last reviewed by the Committee in January 2018. This latest review found that no changes were required.

1.1.3 A copy of the Anti-Money Laundering Policy and supporting guidance notes is attached at **[Annex 1 and 2]** respectively.

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

1.2 Legal Implications

1.2.1 The Policy is not mandatory, but is considered good practice and refers to the relevant legislation where appropriate.

1.3 Financial and Value for Money Considerations

1.3.1 There are no additional resource implications.

1.4 Risk Assessment

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

1.5 Equality Impact Assessment

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

1.6 Policy Considerations

- 1.6.1 Crime & Disorder Reduction

1.7 Recommendations

- 1.7.1 Members are asked to review and, subject to any required amendments, **approve** the Anti-Money Laundering Policy and supporting guidance notes attached at **[Annex 1 and 2]** respectively.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

TONBRIDGE & MALLING BOROUGH COUNCIL ANTI-MONEY LAUNDERING POLICY

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

1. INTRODUCTION

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

2. SCOPE OF THE POLICY

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

3. WHAT IS MONEY LAUNDERING?

3.1 Money laundering is defined as meaning:

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

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

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

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

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

4. WHAT ARE THE OBLIGATIONS ON THE COUNCIL?

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

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

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

5. THE MONEY LAUNDERING REPORTING OFFICER

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

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

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

6. DISCLOSURE PROCEDURE

Reporting to the Money Laundering Reporting Officer

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

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

Consideration of the disclosure by the Money Laundering Reporting Officer

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

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

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

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

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

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

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

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

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

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

7. CLIENT IDENTIFICATION PROCEDURE

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

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

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

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

8. RECORD KEEPING PROCEDURES

8.1 Each section of the Council must maintain records of:

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

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

9. CONCLUSION

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

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

REVIEW AND APPROVAL OF THIS POLICY

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

The Anti Money Laundering Policy will be reviewed and endorsed at least annually by the Audit Committee at their January meeting. The most recent review was undertaken in January 2019 with the next review due January 2020.

January 2019

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

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

Name :	
Service / Post Title	
Email:	
Contact Telephone:	

Details of suspected offence

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

--

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

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

--

Transaction(s)

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

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

Nature of suspicion regarding such activity:

Please continue on a separate sheet if necessary.

--

Are you aware of any investigations undertaken to date:

If yes please give details otherwise please write NO.

--

Have you discussed your suspicions with anyone else?
If yes please give details otherwise please write NO.

Please give any other information that you feel is relevant.

Signed _____

Dated _____

THE REPORTER SHOULD NOT WRITE ANYTHING BELOW THIS LINE

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

Date report received _____

Date receipt of report acknowledged _____

Consideration of disclosure:

Action Plan:

Outcome of Consideration of disclosure:

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

Date report sent _____

Date receipt of report acknowledged _____

Notice Period From _____ to _____

Moratorium Period From _____ to _____

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

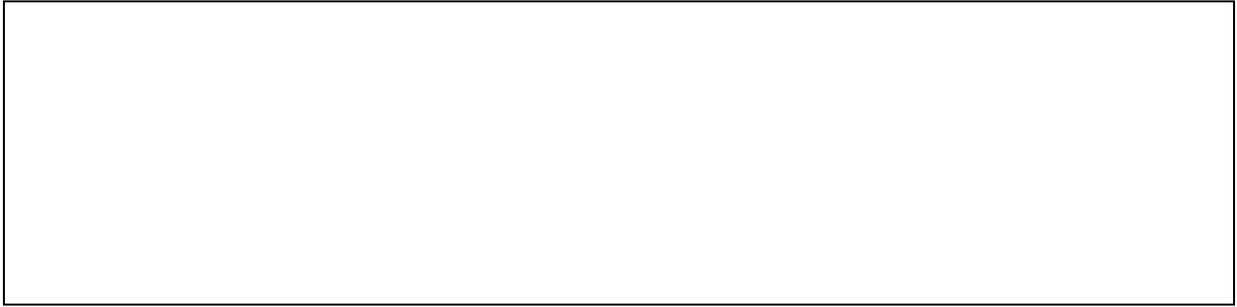
Date consent received from NCA _____

Date consent given by MLRO to employee _____

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

Date of consent given by MLRO to proceed with transaction

Any other relevant information:



Signed

Dated

THIS REPORT IS TO BE RETAINED FOR AT LEAST 5 YEARS

TONBRIDGE & MALLING BOROUGH COUNCIL

GUIDANCE NOTE - Anti-Money Laundering

1. INTRODUCTION

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

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

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

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

2. GENERAL

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

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

These are;

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

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

3. THE OFFENCES

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

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

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

Money Laundering Offences

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

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

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

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

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

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

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

Examples of money laundering activity

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

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

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

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

Possible signs of money laundering

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

Legal and financial

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

Property

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

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

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

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

Failure to report money laundering offences.

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

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

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

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

4. CONSIDERATION OF DISCLOSURE REPORT BY MLRO

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

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

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

5. RELEVANT GUIDANCE

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

6. INTERNAL PROCEDURES

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

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

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

7. CLIENT IDENTIFICATION PROCEDURE

Where the Council -

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

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

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

8. SATISFACTORY EVIDENCE OF IDENTITY

Satisfactory evidence is that which:

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

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

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

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

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

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

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

9. TRAINING

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

10. CONCLUSION

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

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

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

21 January 2019

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 ACCOUNTING POLICIES

This report presents the Accounting Policies proposed for the 2018/19 Financial Statements for consideration and endorsement.

1.1 Introduction

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

1.1.2 Our external auditor following the audit of the 2017/18 Financial Statements commented:

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.

1.1.3 In response the relevant policy has been reviewed and updated as detailed below.

Accruals & Revenue Recognition (Extract)

1.1.4 *Revenue from the sale or provision of goods and services is recognised when it is probable that the economic benefit will flow to the Council.*

1.1.5 Replaced by:

- *Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.*
- *Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.*

- 1.1.6 The policy has also been updated to recognise that the Council accrues for electricity, gas and similar periodical payments in respect of council offices.

Financial Instruments and Non-Current Assets (Property, Plant and Equipment)

- 1.1.7 The financial instruments and non-current assets (property, plant and equipment) policies have also been updated. The first to reflect the new technical requirements on the recognition of financial instruments including recognising all gains and losses on investments in the Comprehensive Income and Expenditure Statement, although some unrealised gains and losses will subsequently be transferred to the Balance Sheet under statute. The second to reflect a change in the policy on depreciation in respect of land and buildings following the recent purchase of property for temporary accommodation purposes.

1.2 Legal Implications

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

1.3 Financial and Value for Money Considerations

- 1.3.1 As set out in the Accounting Policies.

1.4 Risk Assessment

- 1.4.1 Failure to adequately follow Accounting Policies could result in misrepresentation and potential qualification of the Accounts.

1.5 Equality Impact Assessment

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

1.6 Recommendations

- 1.6.1 Members are asked to **consider** and, subject to any required amendments, **endorse** the Accounting Policies to be used in the preparation of the 2018/19 Financial Statements as set out at **[Annex 1]**.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

1. ACCOUNTING POLICIES

a) General

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year-end. The Accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2017/18*. The Code is based on levels of approved accounting standards:

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

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

b) Qualitative Characteristics of Financial Information

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

c) Accounting Concepts

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

d) Accruals and Revenue Recognition

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

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

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

Exceptions to these principles are electricity, gas and similar periodical payments (excluding council offices) which are charged at the date of meter reading rather than being apportioned between financial years; and penalty charge notices and licensing fees which are accounted for on the day of receipt. This policy is consistently applied each year and its effect on the Accounts is not considered to be material.

e) Assets Held for Sale

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

f) Cash and Cash Equivalents

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

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

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

Similarly, the Council acts as an agent for the Government, Kent County Council and Kent Fire and Rescue in respect of Business Rates and as such the Accounts show the amount owed by and to taxpayers in respect of our proportion of the Business Rates and the other bodies covered by the Business Rates Retention scheme as a net debtor or creditor. The Council is a member of the Kent Business Rates Pool as approved by the Secretary of State in December 2015 where payments to Kent County Council and Kent Fire and Rescue are made via the administering authority, Maidstone Borough Council. As a member of the Business Rates Pool where the business rates income exceeds our baseline funding level the levy payable to central government is less than it would otherwise be, and where a safety net payment is due this is to be met by the Pool rather than central government.

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

h) Contingent Assets and Liabilities

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

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

i) Debt Write-Off

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

j) Employee Benefits

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

Benefits Payable during Employment

This covers:

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

Termination Benefits

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

In the event of notice of termination being served on an employee the known liability is recognised at the earlier of when the authority can no longer withdraw the offer of these benefits or when the authority recognises the costs of a restructure will involve the payment of termination benefits, any enhanced retirement benefits paid by the employer are accounted for on a cash basis.

Post-Employment Benefits

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time employees earn their future entitlement. The Local Government Pension Scheme is administered locally by Kent County Council – this is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

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

Balance Sheet will show the net pension asset or liability and an equivalent pension reserve balance.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The most recent actuarial valuation to determine contributions was on 31 March 2016.

k) Events After the Balance Sheet Date

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

The authorised for issue date is:

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

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

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

l) Exceptional Items and Prior Period Adjustments

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

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

m) Financial Instruments

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

Although there are three classifications for the valuation of financial instruments, only two are relevant to the types of investments held by the Council, being either amortised cost or fair value through profit and loss (Comprehensive Income and Expenditure Statement).

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

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

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

Available-for-sale assets have a quoted active market price and do not have fixed or determinable payments. These are measured and carried on the Balance Sheet at fair value through profit and loss.

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

Gains and losses in relation to investments are recognised within the Comprehensive Income and Expenditure Statement under interest and investment income. Statute however requires unrealised gains and losses on investments classified as fair value through profit and loss to be subsequently transferred via the Movement in Reserves Statement to the Balance Sheet.

n) Foreign Currency Transactions

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

o) Government Grants and Other Contributions

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

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

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

p) Inventories

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

q) Leases

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

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

Finance Leases

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

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

Operating Leases

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

r) Non-Current Assets

The Council has set a de-minimis level of £10,000 for the purposes of capital expenditure. In the case where the individual value of an item, e.g. IT equipment is below the de-minimis level, but the aggregate value of similar items purchased in the year exceed the de-minimis level the expenditure may be treated as capital expenditure.

Property, Plant and Equipment

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

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

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

The policy for each type of asset is explained as follows.

Land and Buildings

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

Asset Category	Year of Valuation	
Leisure Premises	2012/13	Completed
Properties for Community Use	2013/14	Completed
Public Conveniences	2014/15	Completed
Council Offices	2015/16	Completed
Car Parks	2016/17	Completed
Leisure Premises	2017/18	Completed

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

major assets, i.e. council offices, leisure premises and car parks where appropriate. Where the interim valuation shows a movement of £100,000 or more the Balance Sheet values will be updated accordingly. The Council's external valuers will also advise annually on any further work required to identify material changes in asset valuations.

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

All buildings are subject to straight line depreciation over their estimated useful lives which range between 15 and 125 years depending on the building. In accordance with the Code land is not depreciated.

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

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

Vehicles, Plant and Equipment

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

Infrastructure Assets

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

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

These assets are subject to straight line depreciation over a period of between 3 and 40 years.

Community Assets

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

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

Assets under Construction

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

Heritage Assets

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

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

Heritage assets are not subject to depreciation.

Investment Property

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

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

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

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

Properties are subject to revaluation on an annual basis in accordance with market conditions at the year-end. However, due to the nature and size of the portfolio held full valuation reviews are carried out once every five years or earlier where there is a material change in value is considered.

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

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

Investment properties are not subject to depreciation.

Intangible Assets

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

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

Impairment of Non-Current Assets

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

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

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

Gains or Losses on Disposal of Non-Current Assets

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

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

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

s) Overheads

The majority of management and administrative expenses, including buildings, are allocated to Services. Costs of Support Services are allocated on the basis of estimated time spent by officers on Services and costs of buildings are apportioned on a floor area basis.

t) Provisions

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

- the Council has a present obligation (legal or constructive) as a result of a past event;

- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

u) Reserves

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

v) Revenue Expenditure Funded from Capital Under Statute

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

w) Value Added Tax (VAT)

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

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

21 January 2019

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 PROPOSED SCALE OF AUDIT FEES 2019/20

The report informs Members of the proposed scale of audit fees for 2019/20.

1.1 Introduction

1.1.1 From 2018/19, Public Sector Audit Appointments Limited (PSAA) became an appointing person for principal local government authorities under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

1.1.2 PSAA's responsibilities include appointing auditors to opted-in bodies, setting fees, and monitoring the quality of auditors' work. The proposed scale of audit fees for 2019/20 can be found at the following link:

<https://www.psa.co.uk/audit-fees/2019-2020scaleoffees/>

1.1.3 The document sets out the proposed scale of audit fees for the work to be undertaken by appointed auditors in respect of the 2019/20 financial statements at authorities that have opted into PSAA national auditor appointment scheme and is the same as the fee set for 2018/19.

1.1.4 This is technically a consultation process and the return date for comments was 17 December 2018. It was concluded on this occasion a response was not required.

1.2 Legal Implications

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

1.3 Financial and Value for Money Considerations

1.3.1 The proposed scale of audit fees for 2019/20 is £35,248.

1.4 Risk Assessment

1.4.1 None.

1.5 Equality Impact Assessment

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

1.6 Recommendations

1.6.1 Members are asked to **note** the proposed scale of audit fees for 2019/20.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton

Director of Finance and Transformation

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

21 January 2019

Report of the Chief Audit Executive

Part 1- Public

Matters for Information

1 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

This report provides Members with an update on the work of both the Internal Audit function and the Counter Fraud function for the period April to December 2018.

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*.

2 INTERNAL AUDIT UPDATE

2.1 Progress against the 2018/19 Plan

2.1.1 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.

2.1.2 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 (one of which no longer required by the service) follow-up of recommendations due or allowances for the provision of control advice, etc.

- 2.1.3 Slower than usual progress in completion of the 2018/19 Plan has been due to the vacancy of the Senior Internal Auditor post within the Internal Audit team. The post was vacant for 3 months and has now been filled on a part-time basis. Audits have been allocated and pace has improved, however given the 2018/19 Plan assumed a full-time Auditor in post for the whole of the financial year we have identified the need to buy-in additional resource, funded by the vacancy saving. As a result a previous staff member will be returning to complete three audits in Q4. In addition two audits will be postponed to 2019/20. The first of these is the IT Strategy; as this was only agreed in May 2018 the audit will now be undertaken in Q1 of 2019/20 to allow a review of progress. The second is the Local Plan, this has been to consultation and will now be submitted to the Secretary of State for approval, as such there is limited value that audit can add. The Local Plan audit has been replaced by an audit of the Discretionary Disabled Facilities Grant (DFG).
- 2.1.4 The Discretionary element of the DFG was funded as an initiative to assist in the reduction of primary and secondary healthcare by taking preventative measures to enable people to remain independent in their own homes and is not means tested. The budget allocated for 2018/19 was £25,000. The audit is being undertaken at the request of the Director of Finance and Transformation in her statutory capacity as Section 151 officer following the identification of a significant budget overspend in the amount of £134,000. The audit is in progress and will seek to establish the root cause of the overspend and provide an opinion as to the adequacy, effectiveness and reliability of the controls in place to manage the Discretionary DFG budget through the allocation of discretionary funds and the monitoring of spend against the capital budget. Results will be reported to the April Committee.
- 2.1.5 The team have issued three final reports and three draft reports, with five audits currently underway and planning in progress for the remainder. Two pieces of consultancy work are in progress. 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 given at **[Annex 2]**.
- 2.1.6 In line with the PSIAS, Internal Audit has arrangements in place to follow up on all recommendations agreed with management and to report to the Audit Committee on a regular basis with the responses received. An escalation process would be instigated that would ultimately result in reporting to Management Team and this Committee should a key control weakness remain; this has not been required for 2018/19 to date.
- 2.1.7 61 high and medium recommendations were due for implementation in 2018/19 to end of November; of these 27 are being followed up through follow-up or re-audits during the year and will be reported to this Committee once those audits are complete. The remaining 34 recommendations have been followed-up with the following outcomes:

- 8 have been closed as implemented and 2 are partly implemented, i.e. in progress
- 9 have been reported to us as complete and we are currently verifying the related evidence
- 9 have revised implementation dates agreed
- 1 response is outstanding

2.1.8 The remaining five recommendations relate to development of a partnership policy and framework, it has been reported to us that this is not now being progressed as there are very few significant partnerships and all are reported to an appropriate Board or Committee prior to any agreement being entered into. As such senior management feel the risk is adequately managed.

2.1.9 Having assessed the risk of the above results including extension of deadlines there are no specific concerns to raise at this time, however we have noted a trend in delays on implementing some agreed actions.

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

2.2.1 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. In 2018/19 to date no instances of non-conformance have been identified.

2.2.2 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. A review of the existing performance measures has been undertaken and the proposed new KPIs for audit and fraud can be found at **[Annex3]**.

3 FRAUD UPDATE

3.1 Prevention and Detection of Fraud, Bribery and Corruption

3.1.1 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.

3.1.2 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 current

biennial exercise commenced in October 2018 and required data sets have been provided in line with set timescales; results are due end of January 2019.

- 3.1.3 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 December 2018. There were 814 matches received and to date 261 have been closed with no further action required. A further 17 have been opened to undertake further enquiries. Of the 536 to be reviewed 83 relate to rising 18s and therefore will be prioritised according to date of birth.
- 3.1.4 The Kent Intelligence Network (KIN), 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 Operations Manager was recruited in October 2018; significant progress has been made since his appointment including training on and implementation of a new data matching software solution. Next steps in terms of data sets to match are being progressed with a view to undertaking a match between Blue Badge data and SPD; an update report will be provided to Kent Finance Officers Group (KFOG) and this Committee in April.
- 3.1.5 In 2018 KFOG agreed to fund the procurement of a software solution that focuses on data matching businesses in receipt of Small Business Rates Relief (SBRR) nationally. Data matches received through this route have been reviewed and, to date, four cases have been closed by the Fraud Team, one with no further action and three that have successfully been taken to conclusion resulting in backdated relief to be recovered in the amount of £10,864.63. In addition the software provides information on companies that have gone into liquidation and to date the Revenues Team have successfully concluded one case where the company went into liquidation in November 2017, as a result empty rates totalling £8,044 were charged to the owner and this amount has already been paid in full. This overall saving to date of £18,908.63 has been achieved against a cost contribution from TMBC of £1,000. A number of SBRR matches remain subject to review and data matches are refreshed monthly resulting in potential for further savings. The software providers are now working with the KIN to establish what further work could be undertaken.
- 3.1.6 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 by the Revenues Team and this has identified a number of cases where they have removed the discount. For 2018/19 to date 53 discounts have been removed resulting in an amount of £40,453.95 to be recovered. Current

funding arrangements expire at 31 March 2019 and KCC have yet to confirm what if any element of funding will be continued.

- 3.1.7 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.
- 3.1.8 We continue to review areas of fraud risk and direct our work accordingly. In 2018/19 to date this has included:
- Working with the parking team on a number of investigations identified from Parking Permit applications. This will be explored further over the year with an exercise to undertake periodic matching of SPD to Residents Parking Permits. In addition a Blue Badge enforcement day has been discussed, with exact timing to be confirmed once this is formally agreed.
 - Discussions with two Housing Associations with regard to Joint Working which could result in recovery of properties with 100% nomination rights for TMBC and we are considering whether there is other work that would be of mutual benefit including data matching and a key amnesty.
 - The Fraud Team undertook a proactive review of Student Discounts currently in place which identified £1,335.44 of underpayments based on incorrect discounts.
- 3.1.9 Fraud awareness training continues to be provided to services, targeted at those where risk of fraud is greatest. In 2018/19 to date we have provided training to new staff in Revenues and Benefits and to Customer Service staff at Tonbridge Castle. In addition we have training planned for Housing and a briefing to provide to the Procurement OSG carried forward from last year. In addition, following recruitment of a Fraud/Audit Assistant, we will be looking at formalising a plan for additional proactive work and raising awareness of fraud more broadly. This work is likely to be undertaken in 2019/20.

3.2 Investigating Fraud

- 3.2.1 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. Investigation of Housing Benefit Fraud transferred to the Department of Work and Pensions (DWP) in February 2016 however the DWP are now requesting that local authorities work with them to jointly investigate cases where claimants are in receipt of both Housing Benefit and Council Tax Reduction; this is due to go live in February 2019 and will increase the number of investigations currently undertaken. The impact of this on the team will be closely monitored.

3.2.2 In 2018/19 to end of December, the Counter Fraud Team have closed 271 cases and received a total of 222 referrals; there are 24 ongoing investigations. The total amount of income due as a result of investigations closed to end of December is £53,025.08 (this includes the £10,864.63 referred to in paragraph 3.1.5 above) with increased annual liability of £49,085.77. **[Annex 4]** summarises the results of investigations concluded in 2018/19 to date.

3.3 Independent Review of Fraud

3.3.1 As part of the 2018/19 Internal Audit and Counter Fraud Plan it was agreed that an independent review of the Fraud function would be undertaken to provide assurance that fraud risk is appropriately recognised and addressed at an organisational level and that referrals, investigations and sanctions are dealt with appropriately in line with Council Policy and relevant legislation. We have agreed that this work will be undertaken in February and the results of the review will be reported to this Committee in April with any resultant action plan.

3.4 Legal Implications

3.4.1 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.

3.4.2 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.

3.4.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

3.5 Financial and Value for Money Considerations

3.5.1 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.

3.5.2 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.

3.6 Risk Assessment

- 3.6.1 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.
- 3.6.2 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	Planning		
Safeguarding	3	In progress		
Procurement	2	Draft Report		
Information Governance – General Data Protection Regulations	4	Consultancy – Ongoing Assurance – Planned for March		We continue to provide ongoing advice in a consultancy capacity with regard to GDPR compliance and this includes attendance at the Information Governance Officer Group, an assurance based audit is planned for March.
Business Continuity Plan including Emergency Planning	4	Planning		
Public Safety	2	In progress		
Corporate Governance – Democratic Process and Decision Making	2	To commence February 2019		
Starters and Leavers Payroll and Personnel processes	3	Draft Report		
IT Disaster Recovery Plan	4	Planning		
Council Tax Administration	3	In progress		
Benefits – Change of circumstances	3	Planning		
Counter Fraud Function	3	Planned for February		

Creditors, including VAT	1	Complete	Creditors – Adequate VAT - High	<p>A number of areas for development were identified for Creditors with recommendations made accordingly. In particular Financial Procedure Rules require Purchase Orders to be raised in advance of goods or services being received from the supplier. Although there are legitimate exceptions, testing identified numerous instances where expenditure incurred on goods and services had no purchase order raised or where the order had been raised after the invoice was received.</p> <p>Review/rationalisation of authorising officers and suppliers on the system is required; we identified instances where staff have authorisation limits in excess of need and a number of officers with ability to authorise had not done so. A large number of suppliers have duplicate accounts and a significant number of suppliers are inactive, for example 413 suppliers have never been used while 6070 have not been paid since 2011/12. In addition the ability to create or amend new supplier accounts is not limited to staff from Exchequer meaning that a large number of staff from across the authority are able to make changes to supplier bank details.</p> <p>Review of the payment process identified that, mainly due to the size of the exchequer team, there is no separation of duties in the process, and no independent checks are undertaken on payment reports before being sent to the bank for processing. All approvals for BACS payment are obtained after the payment has been sent. We did note that there are a number of retrospective compensating controls that would ensure identification of errors after the payment file had been sent and there is the opportunity to recall the file provided it is checked timely.</p> <p>Three duplicate payments were made during the year. One payment has been repaid by the supplier but the other two are outstanding; the amounts are not material. It was established that in all 3 cases, staff outside of Exchequer had used different invoice numbers thereby circumventing inbuilt system controls which allowed the duplicate invoices to be processed.</p> <p>In relation to VAT our review found sound procedures for processing VAT invoices from suppliers and for the recovery of input VAT. Review of procedures for the raising of invoices established that VAT is being correctly applied. Some minor technical issues were identified where staff are on occasion raising invoices as exempt or zero rated when in fact they should be raised as being outside the scope of VAT. No errors were identified with the most recent VAT partial exemption calculation.</p>
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Treasury Management	2	Complete	High	<p>The audit established a number of key strengths. The Treasury Management Strategy is subject to regular review and approval by full Council. All investment decisions were undertaken in accordance with the Strategy, were recorded on a suitably detailed cashflow which forms the basis for all investment decisions and were approved by Senior Management prior to being made. Staff responsible for undertaking the treasury management function are well trained, and fully understand the priorities for the Council as being firstly security and liquidity of funds, and then return on investment. Financial Services staff responsible for treasury management receive regular updates from Treasury Management advisors, and only make investment decisions after having considered the most recent information provided by those advisors.</p> <p>It was noted that the Audit Committee are responsible for the review of treasury management activities; only 3 members of the current Committee have been provided with Treasury Management training and that training was received in 2014. However, in light of the May 2019 elections, it would make sense to provide training after any new Committee Members have been appointed. In addition The Council re-appointed its existing Treasury Management advisors in April 2016 for a further term of 5 years, the total cost of the contract being around £40,000. Officers undertook informal market testing and subsequently obtained 3 quotes however further market testing in compliance with Contract Procedure Rules as part of the process for appointing new treasury management advisors is advised when the current contract is near expiry.</p>
IT – New Strategy	TBC	Deferred	N/a	The new IT Strategy was agreed in May 2018, as such we believe there would be limited value in undertaking an audit at this stage, the audit will now be undertaken in Q1 of 2019/20 to allow progress in implementation.
Local Plan	4	Cancelled	N/a	The Plan has now been to consultation and will be submitted to the Secretary of State for approval, as such there is limited value that audit can add. The Local Plan audit has been replaced by an audit of the Discretionary Disabled Facilities Grant.
Development Management	3	In progress		
Prevention of Homelessness Act	4	Planning		

Contaminated Land	3	Draft Report		
Contract Management including grounds maintenance and Leisure Trust	4	Planning		
Waste Contract Re-let	Ongoing	Consultancy – Ongoing Assurance – TBC		The requirement for an assurance element relating to the contract re-let in 2018/19 is to be confirmed, we are provided ongoing advice in a consultancy capacity and it may be that an assurance based audit is better placed in 2019/20. The Committee will be updated at the April meeting.
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
Discretionary Disabled Facilities Grant	N/a	In progress	TBC	The audit is being undertaken at the request of the Director of Finance and Transformation in her statutory capacity as Section 151 officer following the identification of a significant budget overspend in the amount of £134,000. The audit will seek to establish the root cause of the overspend and provide an opinion as to the adequacy, effectiveness and reliability of the controls in place to manage the Discretionary DFG budget through the allocation of discretionary funds and the monitoring of spend against the capital budget.

Definitions of Audit Opinions

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

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Proposed Internal Audit and Fraud Key Performance Indicators from 1st April 2019
Annex 3

KPI	Indicative Target*
Financial	
Fraud savings/cost avoidance – amount in £	N/a
VfM opportunities identified – amount in £	N/a
Customer	
Client satisfaction surveys (Fraud) - % positive responses	90%
Client satisfaction surveys (Audit) - % positive responses	90%
Internal Process and Quality	
Outcome of annual self-assessment/EQA - Compliance with Public Sector Internal Audit Standards	95%
Outcome of periodic independent review of Fraud – Compliance with Legislation and CIPFA Good Practice Framework	Y/N or 95%?
Audit and Fraud Plan completion - % completion by financial year-end	90%
NFI Progress - % processed against target	90%
Time from end of fieldwork to Draft Report – % within 10 working days	85%
Time from referral to conclusion of investigation - % completed within 12 weeks	85%
Learning and innovation	
Days training received – no of days per staff member	5
Days training provided – no of days delivered against planned days	75%
Implementation of improvement actions from Quality Assessments - % completed in line with agreed implementation date	90%
Organisational	
% Recommendations implemented by original date	80%
% Recommendations implemented by agreed revised date	100%
% of open recommendations overdue	10%
Time from issue of Draft Report to completion of Action Plan – % within 10 working days	85%

*Targets will be reviewed/confirmed once all systems of measurement are in place with any changes reported to Committee

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Fraud Type	Cases Closed	No Evidence of Fraud	Customer Error or Incorrect benefit/Discount	Fraud Proven /Prevented*	Total Overpayments	Increase In liability	No of Penalty Charges	Total £ Penalty charge
NNDR	4	1	3	0	£10,864.63	£4,079.92		
SPD	242	152	89	1	£35,440.54	£41,063.73	74	£5,180.00
CTR	12	7	4	1	£6,719.91	£3,942.12	0	£0.00
New HB Claim	5	4	0	1				
Housing	3	3	0	0				
Parking	5	3	0	2				
Planning	0	0	0	0				
Licencing	0	0	0	0				
Other*	0	0	0	0				
	271	170	96	5	£53,025.08	£49,085.77	74	£5,180.00

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

21 January 2019

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT CERTIFICATION LETTER

This report summarises the outcomes from certification work carried out by our external auditor, Grant Thornton, for 2017/18.

1.1 Introduction

1.1.1 Certain claims and returns submitted by local authorities require external audit certification. For 2017/18 the only claim requiring external audit certification was the Council's claim for housing benefit subsidy of £34.8m on benefit granted of £35.5m.

1.1.2 External auditors are required to report the outcomes of certification work to those charged with governance which for this purpose is the Audit Committee.

1.1.3 I am pleased to inform Members no amendments to the claim were required following the audit.

1.1.4 A copy of the Certification Letter 2017/18 is attached at **[Annex 1]**.

1.2 Legal Implications

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

1.3 Financial and Value for Money Considerations

1.3.1 The fee can be met from within existing budgets.

1.4 Risk Assessment

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

Background papers:

contact: Andrew Rosevear

Nil

Sharon Shelton
Director of Finance and Transformation

Sharon Shelton
Director of Finance and Transformation
Gibson Building,
Gibson Drive,
Kings Hill,
West Malling
ME19 4LZ

12 December 2018

Dear Sharon

Certification work for Tonbridge and Malling Borough Council for the year ended 31 March 2018

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

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

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to subsidy claimed of £34.8 million. Further details are set out in Appendix A.

Our approach requires that we review issues identified in the prior year and undertake further testing where appropriate, to determine the extent that they continued into the 2017/18 period. One issue was identified in the prior year which affected the claim and required further testing in the current year. This issue related to an error identified in calculating a claimant's weekly self-employed income that was used in their benefit calculation. No equivalent issue has been identified for the current year from extended testing carried out.

No errors were identified from our testing in the current year and we have certified the claim with no amendments.

The indicative fee for 2017/18 for the Council was based on the actual 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £18,084. This is set out in more detail in Appendix B.

Yours sincerely



Grant Thornton UK LLP

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

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£34,750,730	No	N/A	No	None.

Appendix B: Fees for 2017/18 certification work

Claim or return	2015/16 fee (£)	2017/18 indicative fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£18,084	£18,084	£18,084	£Nil	N/A
Total	£18,084	£18,084	£18,084	£Nil	N/A

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

21 January 2019

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT THORNTON 2018/19 AUDIT PLAN AND AUDIT PROGRESS REPORT AND SECTOR UPDATE

This report introduces two papers from our external auditor. The two papers are the 2018/19 Audit Plan and Audit Progress Report and Sector Update.

1.1 2018/19 Audit Plan

1.1.1 Our external auditor is required to prepare an Audit Plan setting out the proposed approach to the audit of the Council's financial statements. The paper identifies a number of risks which the external auditor will consider as part of the audit, none of which are specific to this Council, but applicable to local authorities more generally; and no issues have arisen from their interim work to date which I need to draw to your attention. On the VFM conclusion work, the area of focus will be the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people. The paper can be found at **[Annex 1]**.

1.2 Audit Progress Report and Sector Update

1.2.1 This paper provides the Audit Committee with a report on progress in delivering their responsibilities as the Council's external auditor. The paper also includes a summary of emerging national issues and developments that may be relevant to the local authority. The paper can be found at **[Annex 2]**.

1.3 Legal Implications

1.3.1 As set out in the documents.

1.4 Financial and Value for Money Considerations

1.4.1 As set out in the documents.

1.5 Risk Assessment

1.5.1 As set out in the documents.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton

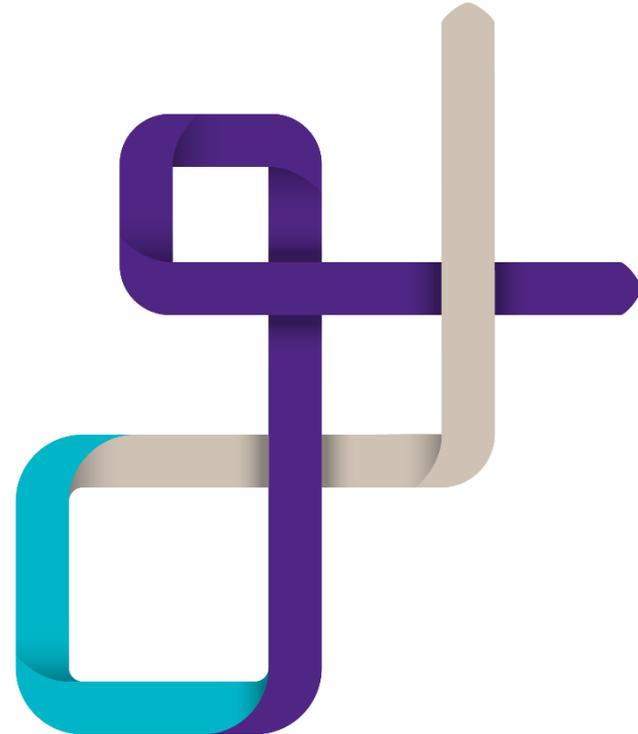
Director of Finance and Transformation

External Audit Plan

Year ending 31 March 2019

Tonbridge and Malling Borough Council
January 2018

Page 199



Contents



Your key Grant Thornton
team members are:

Page 200

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Section

	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	4
3. Significant risks identified	5
4. Other matters	7
5. Materiality	8
6. Value for Money arrangements	9
7. Audit logistics, team & fees	10
8. Independence & non-audit services	11

Appendices

A. Audit Approach

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Tonbridge and Malling Borough Council ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Tonbridge and Malling Borough Council. We draw your attention to both of these documents on the [PSAA website](#)

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of control
- Valuation of Land and Buildings
- Valuation of the pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.218m (PY £1.212m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.061m (PY £0.061m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- The arrangements the Council has put in place the operational and financial impact of Brexit

Audit logistics

Our interim visit will take place in and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £35,248 (PY: £45,776) for the Authority, subject to the Authority meeting our requirements set out on page [\[13\]](#).

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Tonbridge and Malling Borough Council, you have set a £433k surplus budget for the 2018/19 financial period. You have increased share of council tax by 2.99% as part of your Medium Term Financial Strategy. At September 2018, you were showing an adverse variance to budget of £104k.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Kent & Medway Business Rates Retention Pilot 2018/19

Kent & Medway were successful in become and pilot area for retaining 100% of business rates growth in 2018/19. At January 2018, Tonbridge and Malling Borough Council were projected to be allocated £810k directly as Financial Sustainability Funding and a share of the £1,531k West Kent Housing and Commercial Growth Fund to support a two-year business support programme to start autumn 2018 and town centre improvement plans.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- we will review the Council's arrangements for Brexit preparation including financial and operational impact assessments

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- We will consider the impact of the Kent & Medway Business Rates Retention Pilot 2018/19 on your financial resources as part of our work in reaching our Value for Money conclusion.

- You will see changes in the terminology we use in our reports that will align more closely with the ISAs.
- We will ensure that our resources and testing are best directed to address your risks in an effective way.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • 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, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Tonbridge and Malling Borough Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£66.3m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test revaluations made during the year to see if they had been input correctly into the authority's asset register; and • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. • Consider the implications of Brexit on the valuation of the Council's asset portfolio
Valuation of the pension fund net liability	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£61.8 million in the Authority's balance sheet at 31st March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Kent Superannuation Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Page 20

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

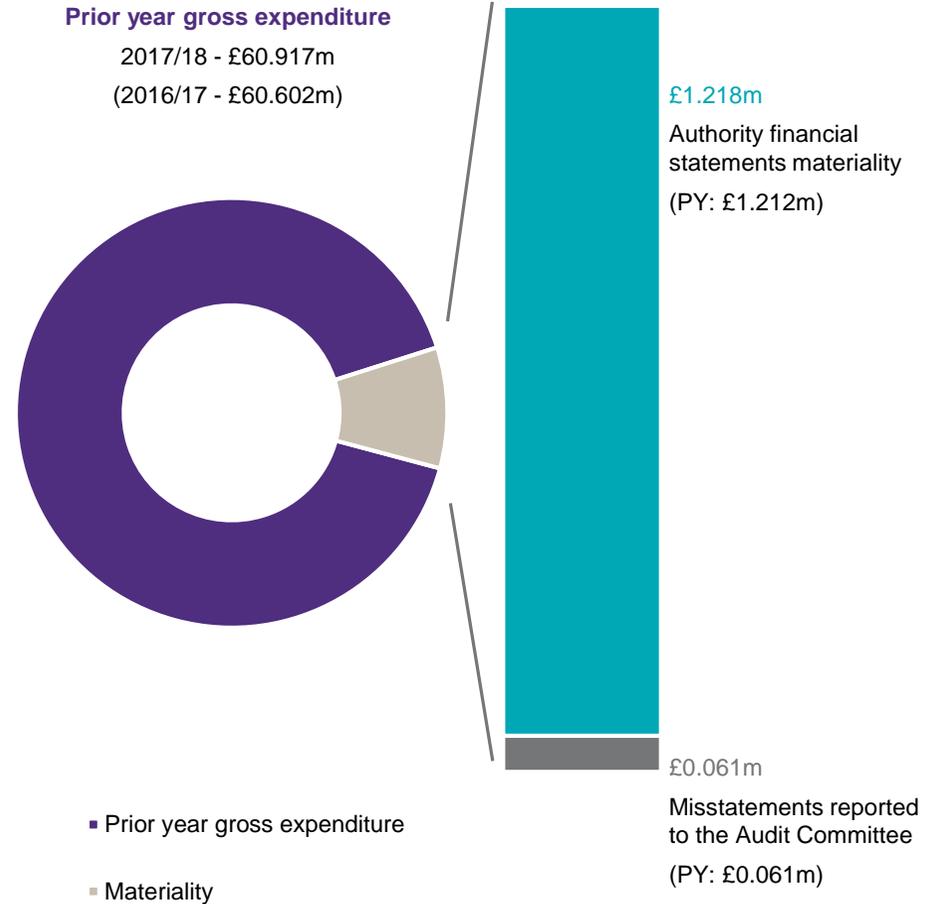
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.218m (PY £1.212m) for the Authority, which equates to 2% of your prior year gross expenditure for the year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.061m (PY £0.061m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

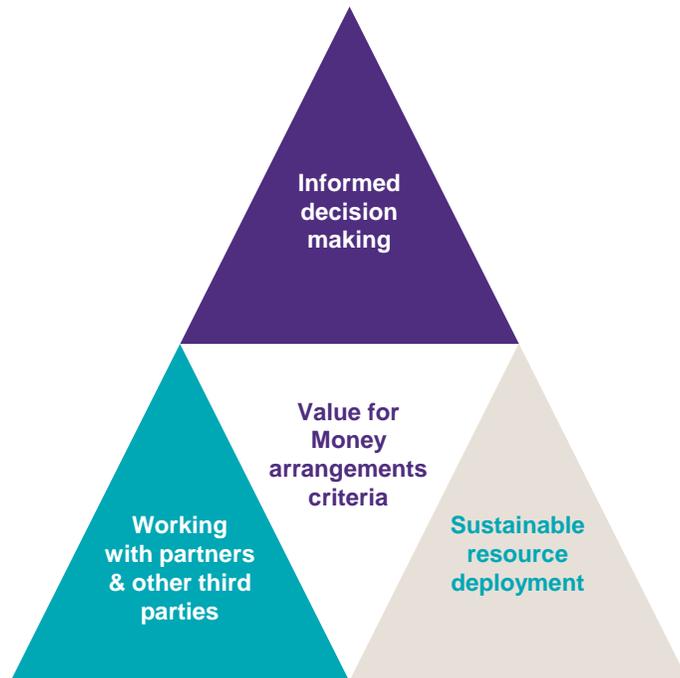
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Page 207

Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Brexit

With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you, which you will need to plan for.

In response to this risk we will:

- Review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments.

Audit logistics, team & fees



Paul Dossett, Engagement Lead

Paul will be the main point of contact for the Chief Executive, statutory officers and Members. Paul will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Senior Management and the Audit Committee. Paul will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work focussing his time on the key risk areas to your audit.



Andy Ayre, Audit Manager

Andy will work with the senior members of the finance and executive teams, ensuring early delivery of testing and agreement of accounting issues on a timely basis. Andy will attend Audit Panel meetings, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Paul will work with Internal Audit to secure efficiencies and avoid duplication, providing assurance for your Annual Governance Statement. He will oversee the implementation of Grant Thornton's new audit methodology and perform reviews of the team's work.

Audit fees

The planned audit fees are £35,348 (PY: £45,776) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

For the Audit of the 2017/18 financial statements, the council and audit team worked well together to deliver the audit in good time for us to issue the opinion ahead of the 31st July 2018 deadline. We look forward to continuing to work with the council in 2018/19 and beyond.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Page 209

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefits claim	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in 2017/18 was £18,084 in comparison to the total fee for the audit of £35,348 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Appendices

Page 210
A. Audit Approach



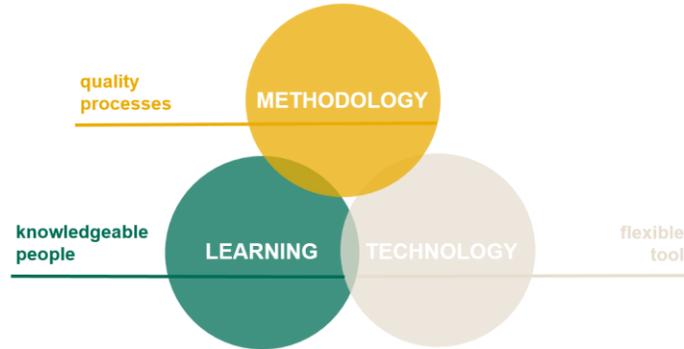
Audit approach

Use of audit, data interrogation and analytics software

LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- cloud-based industry-leading audit tool developed partnership with Microsoft



Appian

Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on



Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Audit Progress Report and Sector Update

Tonbridge and Malling Borough Council
Year ending 31 March 2019
January 2019
Page 213



Contents

Section	Page
Introduction	3
Progress at 21 January 2019	4
Audit Deliverables	5
Sector Update	6
Links	10

Introduction



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Engagement Lead

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

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

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

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

Page 215



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Progress at 21 January 2019

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.

2018/19 Audit

We have appointed a new Engagement Lead to lead the 2018/19 audit. Ciaran McLaughlin has been succeeded by Paul Dossett. Paul is a Partner and Grant Thornton's national lead for Local Government. He brings with him almost 30 years of public sector audit experience.

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

We completed our first planning visit in December 2018 and documented key processes and controls. Further detailed work and audit visits are planned for early 2019 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 have recently finalised our work on the Council's Housing Benefit Claim. The claim was not subject to qualification with no errors identified in either our initial testing or the 40+ testing of prior year qualification issues.

The detailed results of the certification work has been reported to you in our certification letter which we have presented to this Audit Committee.

Meetings

A meeting with Finance Officers is planned for January 2019 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.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. We have invited your finance team to our Chief Accountant workshops which will cover the key accounting developments impacting on the Council's 2018-19 financial statements.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	January 2019	Complete
Annual Audit Letter This letter communicates the key issues arising from our work.	September 2018	Complete
2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Complete – Separate agenda item at January 2019 Audit Committee
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.	January 2020	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

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

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

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

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

We are doing this by:

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

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

Scoping Sprint

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

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

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

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

Find out more and get involved

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

Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



In good company: Latest trends in local authority trading companies

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

Outsourcing versus local authority trading companies

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

Advantages of local authority trading companies

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

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

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

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

Getting it right through effective governance

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

LATC's need to adapt for the future

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

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



[Download the report here](#)

Links

Grant Thornton website links

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

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

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

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

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

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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Agenda Item 14

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

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Agenda Item 15

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

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

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Agenda Item 16

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

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