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**TONBRIDGE & MALLING**  
**BOROUGH COUNCIL**

EXECUTIVE SERVICES

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**Chief Executive**

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

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

17 January 2014

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, 27th January, 2014 commencing at 8.00 pm

Yours faithfully

JULIE BEILBY

Chief Executive

**A G E N D A**

**PART 1 - PUBLIC**

1. Apologies for absence
2. Declarations of interest
3. Minutes

To confirm as a correct record the Minutes of the meeting of Audit Committee held on Monday, 7 October 2013

**Matters for Recommendation to the Cabinet**

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| 4. | Update of Anti Fraud Policies   | 5 - 54  |
| 5. | Treasury Management Strategy Statement and Annual Investment Strategy for 2014-15 | 55 - 94 |

**Decisions to be taken under Delegated Powers**

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| 6. | Protecting the Public Purse 2013                  | 95 - 114  |
| 7. | CIPFA Audit Committee Guidance                    | 115 - 120 |
| 8. | Proposed Work Programme and Scale of Fees 2014/15 | 121 - 134 |

**Matters submitted for Information**

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| 9.  | Internal Audit Update Report          | 135 - 152 |
| 10. | Annual Audit Letter 2012/13           | 153 - 170 |
| 11. | Tough Times and Tipping Point         | 171 - 174 |
| 12. | Grant Certification of Claims 2012/13 | 175 - 188 |
| 13. | Urgent Items                          |           |

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

- |     |                               |  |
|-----|-------------------------------|--|
| 14. | Exclusion of Press and Public |  |
|-----|-------------------------------|--|

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**

- |     |              |  |
|-----|--------------|--|
| 15. | Urgent Items |  |
|-----|--------------|--|

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

Cllr P J Homewood  
Cllr S M King

Cllr Mrs A S Oakley  
Cllr M Parry-Waller

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

27 January 2014

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

#### Part 1- Public

#### Matters for Recommendation to Council

#### 1 UPDATE OF ANTI-FRAUD POLICIES

##### Summary

**This report informs Members of the outcome of a review of the Anti-Fraud Policies of the Council. The review has identified that some changes are required and recommends that these changes are adopted.**

#### 1.1 Introduction

- 1.1.1 Members will be aware that the Anti-Fraud policies are designed to raise fraud awareness within the organisation and to provide a clear statement of intent when dealing with fraud.
- 1.1.2 These policies are reviewed annually and as part of the partnership agreement with Gravesham for Fraud Management the policies mirror each other where practical.
- 1.1.3 This review has been undertaken by the joint Fraud Manager shared with Gravesham Borough Council.

#### 1.2 Anti-Fraud & Corruption Policy

- 1.2.1 This policy was reviewed and approved by Council in February 2013. This was a comprehensive review and it is considered that there are some changes required to the policy. A copy of the revised draft policy is attached. **[Annex 1]**
- 1.2.2 Paragraph 5.3 of the policy has been expanded to include reference to Council Tax Reduction Scheme, other Council Tax related fraud and Housing Fraud to include all areas that the section is now investigating.
- 1.2.3 Paragraph 5.5 of the policy has been amended to permit matters of a serious nature directly to the Audit & Fraud Team but it also retains a reference to the Whistleblowing Charter and where it can be found. This is to give another less formal channel for raising concerns.

- 1.2.4 Paragraph 6.1 has been amended to include the Audit and Fraud Manager as a source for reporting information. This is to ensure that there is a contact available to cover flexible and partnership working.
- 1.2.5 Paragraph 6.2 has been amended and moved to become paragraph 6.10. The amendment is introduced to widen the remit of investigation areas of the Fraud Team in line with changes in areas of responsibility.
- 1.2.6 References to the Director of Finance have been changed to the Director of Finance and Transformation.
- 1.2.7 The last paragraph of the policy requires it to be reviewed annually and it will be approved by Council following consideration by the Audit Committee and the Policy Overview Committee. Where there are no material changes required it is considered that this process is not necessary. The following revision is suggested: -
- The Anti-Fraud and Corruption Policy will be reviewed at least annually by the Audit Committee with any significant changes being approved by Council following consideration by the Overview & Scrutiny Committee.
- 1.2.8 Members are asked to recommend approval of the revised policy to the Council via Cabinet.

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

- 1.3.1 Members will be aware that when Council Tax Benefit ceased in April 2013 the above policy was revised to include the Council Tax Reduction Scheme which was introduced to replace it.
- 1.3.2 Since that time there have been legislative changes to introduce new powers of investigation and penalties relating to the Council Tax Reduction Scheme. (CTRS). The Government message has been that CTRS is a discount and not a benefit which required separate legislation.
- 1.3.3 As part of this review it was determined that it was appropriate to treat the two schemes in separate policies and therefore Members are asked to consider separate policies.
- 1.3.4 The Housing and Council Tax Benefit Anti-Fraud Policy has no significant changes to the joint policy but does have changes to the prosecution policy. The decision whether an Administrative Penalty or Caution is appropriate will be determined by the Chief Internal Auditor with Prosecution cases being referred to Legal Services. This process is designed to minimise delays in determining outcomes.
- 1.3.5 The prosecution policy also includes reference to civil penalties which have been introduced and can be applied to cases where it is considered that a person has

been negligent in failing to give correct information and has not been charged with an offence or given a sanction.

1.3.6 Although Council Tax Benefit is no longer in payment there are still cases that are being investigated for payments prior to April 2013 and therefore there is a continued need for it to be included in the policy. A copy of the draft policy is attached. **[Annex 2]**

1.3.7 Members are asked to recommend that Council approve the policy via Cabinet.

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

1.4.1 As stated previously in paragraph 1.3.2 there have been a number of legislative changes specific to the CTRS scheme introducing offences and investigation powers.

1.4.2 It was considered appropriate to introduce a separate policy relating to CTRS as there are similar sanctions that have been introduced to those of Benefit Fraud but these are at different rates to benefits.

1.4.3 Significantly, these changes only apply to CTRS and not other Council Tax discounts such as exemptions etc which are still offences under the Fraud Act.

1.4.4 Therefore this new policy has included discounts and exemptions within it to highlight these differences and to ensure that stakeholders are aware of their responsibilities in relation to claiming discounts and exemptions. A copy of the draft policy is attached. **[Annex 3]**

1.4.5 Members are asked to recommend that Council approve the policy via Cabinet.

#### **1.5 Whistleblowing Charter (Confidential Reporting Policy)**

1.5.1 This charter was last updated by General Purposes Committee in June 2013 and is subject to an annual review.

1.5.2 The latest version was a rewrite of the policy in line with best practice and it is considered that there are no significant amendments. However, paragraphs 5.2 and 5.4 have been amended to include the Audit Manager and Fraud Manager as points of contact. A copy of the draft policy is attached. **[Annex 4]**

1.5.3 Members are asked to recommend to General Purposes Committee that the Charter is approved following a review by Audit Committee.

#### **1.6 Action following approval of policies**

1.6.1 As each of these policies is approved they will be circulated to all staff with computer access using NETconsent and will be updated on the Council website.

## 1.7 Legal Implications

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

## 1.8 Financial and Value for Money Considerations

1.8.1 Fraud prevention and detection is an area subject to central government focus with initiatives such as Protecting the Public Purse, National Fraud Initiative and Fighting Fraud Locally maintaining a high profile. The message coming from these initiatives is that effective fraud prevention and detection releases resources from fraud.

1.8.2 These policies comply with recognised best practice and reinforce the zero tolerance stance of the Council towards fraud. Effective fraud prevention minimises losses to the Council through fraud.

## 1.9 Risk Assessment

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

## 1.10 Equality Impact Assessment

1.10.1 There are no negative impacts identified as a result of the policies but they do give a process of how fraud will be treated in accordance with the public interest test ensuring equitable treatment in an investigation.

## 1.11 Recommendations

1.11.1 Members are asked to **RECOMMEND** that:

- 1) Following consideration by Cabinet, Council approve the following draft policies:
  - Anti-Fraud and Corruption Policy (Annex 1)
  - Housing and Council Tax Benefit Anti-Fraud Policy (Annex 2);
  - Council Tax Reduction, Discount and Exemption Anti-Fraud Policy (Annex 3)
- 2) General Purposes Committee approve the Whistleblowing Charter (Confidential Reporting Policy) set out at Annex 4.



Background papers:

contact: David Buckley

Nil

Sharon Shelton  
Director of Finance & Transformation

<b>Screening for equality impacts:</b>		
<b>Question</b>	<b>Answer</b>	<b>Explanation of impacts</b>
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	Policies are designed to be a statement of how the Council will treat fraud
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	Yes	Any investigations resulting from these policies will consider the public interest test and will take vulnerability into consideration.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		N/A

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*

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# **ANTI-FRAUD & CORRUPTION POLICY**

Draft January 2014

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

**1 INTRODUCTION**

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

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

- 2.1 Fraud is defined as:

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

- 2.2 This may involve:

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

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

2.4 Bribery is defined as:

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

2.5 Corruption is defined as:

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

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

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

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

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

#### **Recruitment and induction**

4.1 The council recognises that a key preventative measure in the fight against fraud, corruption and bribery is to take effective steps at the recruitment stage to verify the propriety and integrity of the previous records of potential employees of the organisation. The council has a Recruitment Guide in place which should be adhered to in recruiting both permanent and temporary/contract staff. This guidance requires a number of checks at the recruitment stage to establish and confirm the previous records of potential employees, including the take up of written references and Criminal Records Bureau checks for certain identified posts.

4.2 The council has developed a formal induction process for new employees

and a Staff Handbook which is issued to new employees as part of the induction process. These are intended to develop an awareness of the council's internal control arrangements, key policy documents and the Employee Code of Conduct.

- 4.3 As elected representatives of the local community, newly-elected Members are also required to complete an induction to assist them in understanding the council, its decision-making arrangements and the requirements of the Member Code of Conduct. These matters are also detailed in the handbook issued to all Members.

### **Training**

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

### **Internal Control Arrangements**

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

## **Organisational Culture and Conduct**

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

## **Internal Scrutiny Arrangements**

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



- 4.17 The Audit Committee also have a role in providing independent assurance to the council on the adequacy of the council's control environment. This role is discharged by the committee through the receipt of regular reports on the work and findings of internal and external audit, and the council's governance and risk arrangements.

### **External Scrutiny Arrangements**

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

### **Working with others**

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

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

## **5 DETECTION OF FRAUD, BRIBERY & CORRUPTION**

- 5.1 The council has put in place a range of internal control arrangements within its systems and processes to detect inappropriate or dishonest activity, including budget monitoring and reconciliations. These arrangements should be sufficient in themselves to detect fraud, corruption and bribery activity should this occur. The council recognises, however, that the detection of such activity is often as a result of the alertness of employees, Members, the general public and other stakeholders.
- 5.2 Members of the public and stakeholders are encouraged to come forward and report any concerns or suspicions they may have through:

- The council's Confidential Reporting Code, which is available at [www.tmbc.gov.uk/assets/audit/CRC.pdf](http://www.tmbc.gov.uk/assets/audit/CRC.pdf) , from council offices or by calling 01732 844522
  - The council's Internal Audit team (01732 876086)
  - The council's External Auditor, the Audit Commission
- 5.3 Concerns or suspicions directly relating to benefit fraud, Council Tax Reduction Scheme fraud, Council Tax fraud or housing fraud should be reported to the fraud investigation team through the council website or via the benefit fraud hotline. (01732 876337)
- 5.4 Elected Members are also encouraged to come forward and report any concerns or suspicions they may have of fraud, corruption or bribery to:
- the Chief Internal Auditor
  - the Director of Finance & Transformation
  - the Monitoring Officer
  - the Chief Executive
- 5.5 Employees are encouraged to report any concerns or suspicions in the first instance to their Line Manager or Service Manager where it is appropriate to do so. However, if the issues are of a serious or sensitive nature or involve management concerns they may be reported directly to the Audit & Fraud Team or may be raised use the Whistleblowing Charter which is available on the Council website.
- 5.6 The council's Financial Procedure Rules require Chief Officers to immediately notify the Director of Finance & Transformation of any financial irregularity or suspected financial irregularity.
- 5.7 The council recognises that on occasions, employees, Members and organisations working with the council may not want to express their concerns because they feel that speaking up would be disloyal to their colleagues or to the council. They may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice. In such instances, persons are urged to report concerns or suspicions through the channels set out in the council's Confidential Reporting Code.

## 6 INVESTIGATION

- 6.1 Any Manager with information about suspected fraud, bribery or corruption activity must report this immediately to the Chief Internal Auditor, Audit Manager or Fraud Manager. Managers are also responsible for:
- recording and securing all evidence received and collected;
  - ensuring that evidence is sound and adequately supported;

- implementing Council disciplinary procedures where appropriate.
- 6.2 The council has established a corporate approach to co-ordinate the investigation of allegations of fraud and corruption to ensure the effective use of the skills and resources within the organisation. This approach is intended to utilise officers from Internal Audit, Fraud Investigations and Personnel based on the nature of the allegation and the investigatory skills required.
  - 6.3 The council has a formal procedure for conducting such investigations which allows for investigations to be carried out impartially and with complete confidentiality. As well as looking to confirm or refute allegations of fraud and corruption activity reported, investigatory work will also look to identify any improvements in internal control, training needs or other suitable solutions to prevent or deter the reported activity from recurring.
  - 6.4 The council's disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by a council employee.
  - 6.5 Where financial impropriety is discovered or it appears that a criminal offence may have been committed, the council's presumption is that the issue will be pursued. The matter may be referred to the Police. Any such decision will not be seen to prohibit and should not unnecessarily delay action under the disciplinary procedure.
  - 6.6 When making decisions about prosecutions, the Council will have regard to the Code for Crown Prosecutors issued by the Director of Public Prosecutions
  - 6.7 The council will seek, where appropriate, to maximise the recovery of any loss to the council.
  - 6.8 The investigation process must not be misused. The council will treat any reporting of unfounded malicious allegations seriously. Where employees are concerned, any such finding from the investigation process may be treated as a disciplinary matter.
  - 6.9 Elected Members and employees will be given advice and support, where considered necessary, if they are the subject of any unfounded malicious allegation.
  - 6.10 The Fraud investigations team is responsible for all investigations relating to benefit fraud, Council Tax fraud including Single Person Discount, Council Tax reduction Scheme and exemptions. These investigations will be undertaken in accordance with the councils Housing & Council Tax Benefit Anti-Fraud Policy, Council Tax Reduction, Discount & Exemption Anti-Fraud Policy and their associated Prosecution Policies

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

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

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

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

## 10 REVIEW AND APPROVAL OF THIS POLICY

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

## The Seven Principles of Public Life

### **Selflessness**

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

### **Integrity**

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

### **Objectivity**

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

### **Accountability**

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

### **Openness**

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

### **Honesty**

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

### **Leadership**

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



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

December 2013

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

**1. INTRODUCTION**

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

## 2. DEFINITION OF BENEFIT FRAUD

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

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

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

## 3. CULTURE

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

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

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

## 4. PREVENTION

### Staff

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

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

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

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

### **Systems**

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

## **5. DETECTION AND INVESTIGATION**

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

penalty of £50 for negligently failing to report changes in circumstances.

DRAFT

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

**I. STATEMENT OF INTENT**

Tonbridge and Malling Borough Council has a duty to administer claims for Housing and Council Tax Benefit and a responsibility to prevent and detect benefit fraud. Tonbridge and Malling Borough Council is committed to protecting public funds and will consider taking prosecution action against any person suspected of committing benefit fraud.

Tonbridge and Malling Borough Council has decided that its Prosecution Policy should not be entirely related to the monetary value of the offence. This is because Tonbridge and Malling is an area where rents vary widely depending on the location and type of property in question. In these circumstances a purely monetary policy would not be appropriate. All cases will be looked at on their own merit and any mitigating circumstances taken into account.

The recommendation on whether a case is suitable for sanction action lies with the Investigations Manager. A sanction recommendation will be completed by the investigating officer and then reviewed by the investigations manager in accordance with the sanction policy to determine what course of action, if any, is appropriate. This review will take into account;

- The evidential test criteria,
- The Public interest test criteria,
- Value and length of the offence,
- Local prevalence,
- Social and health factors, and
- Any other mitigating factors

Sanction cases will be approved by the Chief Internal Auditor. Prosecution recommendations will be reviewed by Legal Services and the Chief Financial Services Officer for approval. Cases deemed suitable for prosecution may be passed to the Department for Work and Pensions Solicitor's Office under the existing Local Authority Prosecution arrangements or dealt with in-house by the Authority's legal team. These cases are generally prosecuted under the Social Security Administration Act 1992.

Cases that are progressed under the One File Concept (OFC) agreement with the Department for Work and Pensions will be subject to this policy and consideration given to the Department for Work and Pensions sanction policy (as shown in **Appendix C**) when considering offences committed against Tonbridge and Malling Borough Council.

Opinion will be gained from a legal professional either in house or private to ensure a robust case is presented at court.

## II. EVIDENTIAL CRITERIA

Tonbridge and Malling Borough Council may consider sanction action if the case is serious enough to warrant it.

In order for any Sanctions to be considered the case must meet the evidential criteria. In other words is there sufficient evidence for a realistic prospect of a conviction?

In making this decision, the following factors will be considered;

- How clear the evidence is
- If there has been any failure in the investigation
- If there has been any failure in benefit administration

## III. PUBLIC INTEREST CRITERIA

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

- Medical conditions
- Other social factors
- Financial implications compared with losses
- Council's Vulnerability Policy

If these still indicate that a sanction is appropriate then the other Public Interest Criteria as shown in The Code for Crown Prosecutors listed at **Appendix A**, will be considered in order to decide the appropriate sanction

## IV. NO SANCTION OR PROSECUTION

Tonbridge and Malling Borough Council may consider closing the case without any sanction or prosecution action if:

- To our knowledge the claimant has never previously offended
- The offence is minor
- The period over which the fraud has been committed is very short
- The overpayment 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 correct information will be included in the letter.

## V. CIVIL PENALTIES FOR INCORRECT STATEMENTS

Even if it is determined Tonbridge & Malling will not take any sanction or prosecution action in respect of offences committed, they may still consider issuing a civil penalty for failure to notify the appropriate authority of a relevant change in circumstances

The Authority may consider imposing a penalty of £50 on a person where;

- The Person negligently 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 Housing and/or Council Tax Benefit;
- Fails to take reasonable steps to correct the error
- The error results in an award of Housing and/or Council Tax Benefit which is greater than the amount to which the person was entitled; and
- The person has not been charged with an offence or cautioned, or been given an administration penalty.

## VI. SANCTIONS AS ALTERNATIVES TO PROSECUTION

Where the authority has reviewed a case and is satisfied that an offence has been committed, mitigating factors may suggest that an alternative form of sanction should be considered in the first instance as a more suitable means of disposal.

These alternative sanctions take the form of a caution or an administrative penalty.

### **A Caution;**

- Acts as a final written warning for the offence committed,
- Is for benefit administration purposes only
- Is not a criminal record and therefore, does not affect a persons employment prospects
- Is recorded centrally by the Department for Work and Pensions
- Remains on record for a period of 5 years,
- Would be cited at proceedings should any subsequent offences be committed within the 5 year period

The Authority may consider issuing a Caution if:

- To our knowledge the claimant has never previously offended, or
- The person has committed benefit fraud before but the offence was minor and the current offence is also minor,
- There was no planning involved in the process,
- There was no other person involved in the fraud,
- The offence is minor,
- The amount of overpayment is relatively low,



- q The person has fully admitted the offence during an IUC,
- q The persons subsequent attitude, e.g. whether they express genuine regret for what they have done,
- q Criminal proceedings are not the first option

### **An Administrative Penalty;**

- q Is a financial penalty calculated as a percentage of the fraudulent overpayment, which is set at;
  - o 30% of the total overpayment, or
  - o For offences committed wholly after 8<sup>th</sup> May 2012, 50% of the total overpayment, with a minimum of £350 and a maximum of £2,000,
- q Is for benefit administration purposes only,
- q Is not a criminal record and therefore, does not affect a persons employment prospects,
- q Is recorded centrally by the Department for Work and Pensions
- q Remains on record for a period of 5 years,
- q Would be cited at proceedings should any subsequent offences be committed within the 5 year period

The Authority may consider issuing an Administrative Penalty if:

- q To our knowledge the claimant has never previously offended, or
- q The person has committed benefit fraud before but the offence was minor and the current offence is also minor,
- q There was no planning involved in the process,
- q There was no other person involved in the fraud,
- q A Caution is not appropriate as there has been no admission to the offence,
- q The offence is minor,
- q Criminal proceedings are not the first option

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

Even if the above criteria for Cautions and Penalties was satisfied Tonbridge and Malling Borough Council may decide that a Caution or Administrative Penalty is not appropriate if the person:

- q Has been prosecuted for a benefit offence in the last 5 years.
- q Has been cautioned two or more times in the past five years.

This is because this would indicate that

- q Previous sanctions have not deterred them from re-offending,
- q Their lack of contrition for the offences committed,
- q Their disregard for the legislation,
- q A deliberate and repeated intent to commit benefit fraud,
- q Their apparent belief that these offences are not serious.

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

## **VII. PROSECUTION**

The final decision on whether to refer a case for prosecution lies with the Chief Internal Auditor. This decision will then be reviewed by Legal Services and the Chief Financial Services Officer for approval.

Once a decision to prosecute has been made, the case will be presented to the Council's Legal team, who will provide an opinion on the evidential and public interest test.

If the evidential and public interest tests have been satisfied, the case will be authorised by the legal team and passed for prosecution. If the Legal team consider the evidential and public interest test has not been met the case will be referred back to the Investigation Team with a recommendation.

In addition to the Evidential Criteria and Public Interest Criteria outlined above the following will also be taken into consideration;

- Whether the claim was false from inception, or
- The change in circumstances was intentionally withheld,
- Whether there was planning in the process,
- Whether the suspect was a ring leader or an organizer of the offence,
- Any previous incidence of fraud,
- Whether there has been any abuse of position or privilege,
- The amount of the overpayment,
- 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. RECOVERY OF OVERPAYMENTS**

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

## **IX Loss of Benefit provision**

The Social Security (Loss of Benefit) Provisions Amendment Regulations 2010 introduced a revised loss of provision option that includes those cases where there is only Housing or Council Tax benefit in payment for offences occurring after 1 April 2010.

These are only applied to the principle benefit in payment at the discretion of the Department for Work and Pensions. Where there is Housing and Council Tax Benefit in payment they will be applied to whichever benefit is the greater.

The “first strike” can be applied to all cases where there is a sanction (Caution, Administration Penalty or Prosecution) arising from a fraudulent overpayment of benefit. The loss of benefit is applied for a four week disqualifying period. The benefit can be withdrawn, or reduced by 20% or 40%.

The “two-strikes” loss of benefit provision can be applied to those cases where there has been two benefit related sanctions within a five-year period. In these cases the person can be disqualified from receiving benefit for a thirteen- week period.

The “three-strikes” can be applied to those cases where there are more than two benefit related sanctions within a five-year period. In these cases the person can be disqualified from receiving benefit for a six-month period.

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

**December 2013**

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

**1. INTRODUCTION**

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

## 2. DEFINITION OF COUNCIL TAX FRAUD

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

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

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

## 3. CULTURE

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

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

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

## 4. PREVENTION

### Staff

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

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

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

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



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

### **Systems**

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

## **5. DETECTION AND INVESTIGATION**

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

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

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

**I. STATEMENT OF INTENT**

Tonbridge and Malling Borough Council has a duty to ensure that all applications for Council Tax reduction, discounts and exemptions are correctly awarded and a responsibility to prevent and detect fraud. Tonbridge and Malling Borough Council is committed to protecting public funds and will consider taking prosecution action against any person suspected of committing fraud in order to reduce their council tax liability.

Tonbridge and Malling Borough Council has decided that its Prosecution Policy should not be entirely related to the monetary value of the offence. This is because Tonbridge and Malling is an area where liabilities vary widely depending on the location and type of property in question. In these circumstances a purely monetary policy would not be appropriate. All cases will be looked at on their own merit and any mitigating circumstances taken into account.

The recommendation on whether a case is suitable for sanction action lies with the Investigations Manager. A sanction recommendation will be completed by the investigating officer and then reviewed by the investigations manager in accordance with the sanction policy to determine what course of action, if any, is appropriate. This review will take into account;

- α The evidential test criteria,
- α The Public interest test criteria,
- α Value and length of the offence,
- α Local prevalence,
- α Social and health factors, and
- α Any other mitigating factors

Sanction cases will be approved by the Chief Internal Auditor. Prosecution recommendations will be reviewed by Legal Services and the Chief Financial Services Officer for approval. Cases deemed suitable for prosecution may be dealt with in-house by the Authority's legal team. These cases are generally prosecuted under the Fraud Act 2006 or the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013..

Opinion will be gained from a legal professional either in house or private to ensure a robust case is presented at court.

## II. EVIDENTIAL CRITERIA

Tonbridge and Malling Borough Council may consider sanction action if the case is serious enough to warrant it.

In order for any Sanctions to be considered the case must meet the evidential criteria. In other words is there sufficient evidence for a realistic prospect of a conviction?

In making this decision, the following factors will be considered;

- How clear the evidence is
- If there has been any failure in the investigation
- If there has been any failure in benefit administration

## III. PUBLIC INTEREST CRITERIA

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

- Medical conditions
- Other social factors
- Financial implications compared with losses
- Council's Vulnerability Policy

If these still indicate that a sanction is appropriate then the other Public Interest Criteria as shown in The Code for Crown Prosecutors listed at **Appendix A**, will be considered in order to decide the appropriate sanction

## IV. NO SANCTION OR PROSECUTION

Tonbridge and Malling Borough Council may consider closing the case without any sanction or prosecution action if:

- To our knowledge the person has never previously offended
- The offence is minor
- The period over which the fraud has been committed is very short
- The value involved is very low
- The case does not satisfy the Evidential and Public Interest Criteria

In cases where no further action is appropriate and an Interview Under Caution has taken place a letter will be issued stating that no further action will take place, however a strong reminder advising of the responsibility to notify changes and provide correct information will be included in the letter.

## V. CIVIL PENALTIES FOR INCORRECT STATEMENTS

Even if it is determined Tonbridge & Malling will not take any sanction or prosecution action in respect of offences committed, they may still consider issuing a civil penalty for making an incorrect statement or failing to notify a change of circumstances

The Authority may consider imposing a penalty of £70 on a person where;

- The Person makes an incorrect statement or representation, or negligently gives incorrect information or evidence in or in connection with an application or in connection with the award of a reduction under the council tax reduction scheme,
- Fails to take reasonable steps to correct the error,
- The error results in an award of a reduction council tax reduction which is greater than the amount to which the person was entitled,
- The person has not been charged with an offence or cautioned, or been given an administration penalty, or
- Without reasonable excuse, fails to give a prompt notification of a relevant change of circumstances to the authority,
- The failure results in an award of a reduction council tax reduction which is greater than the amount to which the person was entitled,
- The person has not been charged with an offence or cautioned, or been given an administration penalty.

## VI. SANCTIONS AS ALTERNATIVES TO PROSECUTION

Where the authority has reviewed a case and is satisfied that an offence has been committed, mitigating factors may suggest that an alternative form of sanction should be considered in the first instance as a more suitable means of disposal.

These alternative sanctions take the form of a caution or, in the case of Council Tax Reduction, an administrative penalty.

### **A Caution;**

- Acts as a final written warning for the offence committed,
- Is for council tax administration purposes only
- Is not a criminal record and therefore, does not affect a persons employment prospects
- Remains on record for a period of 5 years,
- Would be cited at proceedings should any subsequent offences be committed within the 5 year period

The Authority may consider issuing a Caution if:

- To our knowledge the person has never previously offended, or
- The person has committed council tax fraud or benefit fraud before but the offence was minor and the current offence is also minor,
- There was no planning involved in the process,
- There was no other person involved in the fraud,

- q The offence is minor,
- q The value of the offence is relatively low,
- q The person has fully admitted the offence during an IUC,
- q The persons subsequent attitude, e.g. whether they express genuine regret for what they have done,
- q Criminal proceedings are not the first option

### **An Administrative Penalty;**

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

The Authority may consider issuing an Administrative Penalty if:

- q To our knowledge the person has never previously offended, or
- q The person has committed council tax fraud or benefit fraud before but the offence was minor and the current offence is also minor,
- q There was no planning involved in the process,
- q There was no other person involved in the fraud,
- q A Caution is not appropriate as there has been no admission to the offence,
- q The offence is minor,
- q Criminal proceedings are not the first option

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

Even if the above criteria for Cautions and Penalties was satisfied Tonbridge and Malling Borough Council may decide that a Caution or Administrative Penalty is not appropriate if the person:

- q Has been prosecuted for a council tax or benefit fraud offence in the last 5 years.
- q Has been cautioned two or more times in the past five years.

This is because this would indicate that

- q Previous sanctions have not deterred them from re-offending,
- q Their lack of contrition for the offences committed,
- q Their disregard for the legislation,
- q A deliberate and repeated intent to commit fraud,
- q Their apparent belief that these offences are not serious.

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

## **VII. PROSECUTION**

The final decision on whether to refer a case for prosecution lies with the Chief Internal Auditor. This decision will then be reviewed by Legal Services and the Chief Financial Services Officer for approval.

Once a decision to prosecute has been made, the case will be presented to the Council's Legal team, who will provide an opinion on the evidential and public interest test.

If the evidential and public interest tests have been satisfied, the case will be authorised by the legal team and passed for prosecution. If the Legal team consider the evidential and public interest test has not been met the case will be referred back to the Investigation Team with a recommendation.

In addition to the Evidential Criteria and Public Interest Criteria outlined above the following will also be taken into consideration;

- Whether the application for reduction, a discount or exemption was false from inception, or
- The change in circumstances was intentionally withheld,
- Whether there was planning in the process,
- Whether the suspect was a ring leader or an organizer of the offence,
- Any previous incidence of fraud,
- Whether there has been any abuse of position or privilege,
- The amount of the excess reduction in liability,
- The duration of the alleged offence,
- Whether there are grounds for believing that the offence was likely to be continued or repeated, based on the person's previous history.
- Whether the offence is widespread in the area where it was committed and so prosecution may act as a deterrent,
- Whether the person has refused to accept a Caution or Administrative Penalty

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

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

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# WHISTLEBLOWING CHARTER



**TONBRIDGE & MALLING BOROUGH COUNCIL**  
**WHISTLEBLOWING CHARTER**  
**A confidential reporting policy for all Councillors, employees and contractors**

## **1 Introduction**

- 1.1 Tonbridge & Malling Borough Council is committed to developing a culture where it is safe and acceptable for all its employees, including employees of providers and partners, and stakeholders to raise their concerns about what is happening at work.
- 1.2 This covers unlawful conduct, financial malpractice, dangers to the public or environment or avoidable losses. Avoidable losses arise from fraud, error, mismanagement or dishonesty.
- 1.3 The Whistleblowing Charter gives you the opportunity to have your concerns heard and investigated in confidence and without fear of reprisal. Our charter has been developed in accordance with the Public Interest Disclosure Act 1999. The Act was introduced to ensure that concerns raised by employees are dealt with at an early stage and in an appropriate manner, including protection for the employee.
- 1.4 We recognise that employees are often the first to notice that something is seriously wrong within the council. We want all employees to feel confident about voicing and acting on concerns they may have about service provision, malpractice, conduct of officers, councillors or anyone acting on behalf of the council.

## **2 Aims of the Charter**

- 2.1 The charter 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
  - provide ways for you to take the matter further if you are dissatisfied with the council's response.

### **3 What does the Charter cover**

3.1 Malpractice, abuse and wrongdoing can cover a whole range of issues but we have listed examples here for your guidance:

- 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 (e.g. housing benefit fraud)
- 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. Tonbridge and Malling Staff 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.

3.2 Many of the above areas will represent inevitably an avoidable loss, which affects our service delivery.

3.3 The charter does NOT apply to raising grievances about an employee's personal situation and, thus, does not replace existing procedures for personal differences or conflicts. If you have concerns in this area you should consult with the council's Grievance Policy or your immediate manager.

### **4 Who can use the Charter?**

4.1 The charter applies to all council employees, contractors and suppliers including agency staff, and those who provide services under contract to the council such as refuse collection workers.

4.2 You are encouraged to raise your concerns provided that:

- you make the disclosure in good faith
- you believe that the information or any allegation is reasonably true.

4.3 The council will not tolerate false or malicious allegations or the victimisation of any employee who has raised a concern in good faith.

4.4 Raising a matter maliciously that you know to be untrue or the victimisation of any employee may result in disciplinary action.

4.5 The council will also seek to minimise the effect on employees who have had a false or malicious allegation made against them.

## **5 How can I raise my concern?**

5.1 The earlier you express your concern, the easier it is to take action. As a first step, you should raise any concern you have with your immediate manager or their superior, orally or in writing.

5.2 If you feel that you have an issue that you cannot raise with your manager then you should contact one of the following: -

- any assistant director or chief officer;
- a Personnel officer;
- the Chief Executive or head of service;
- the Chief Internal Auditor;
- the Audit Manager ;or
- the Fraud Manager

5.3 The Chief Internal Auditor is the main point of contact for staff wishing to report an incident using the whistleblowing procedure. In his absence the Audit Manager or Fraud Manager will be the point of contact. They will ensure that the matter is investigated.

5.4 You can call the Chief Internal Auditor on 01732 876086 or by email to [david.buckley@tmbc.gov.uk](mailto:david.buckley@tmbc.gov.uk). The Audit Manager is Katey Durkin who can be contacted on 01732 876085 or by email at [katey.durkin@tmbc.gov.uk](mailto:katey.durkin@tmbc.gov.uk) and the Fraud Manager is James Larkin who can be contacted on 01732 876337 or by email at [james.larkin@tmbc.gov.uk](mailto:james.larkin@tmbc.gov.uk) . All calls are treated in the strictest confidence.

## **6 How will the council respond?**

6.1 The council's response will depend on the nature of the concern that has been raised. In all instances the council will:

- record and acknowledge your concern and refer the matter for investigation within three days of receiving the report;
- respect your confidentiality – your identity will not be disclosed to anyone without your consent;
- assess your concerns to determine further action;
- let you know what enquiries have been made;
- tell you whether further investigations will be made and if not, why; and
- inform you of the final outcome of the inquiry.

6.2 Depending on the nature of the issue raised, the council may:

- request more information or evidence from you;
- investigate through an internal audit;
- undertake disciplinary action;

- launch an independent enquiry; or
- refer the matter to the police.

## **7 Can I take the matter further if I'm not satisfied?**

7.1 In the first instance, we encourage all employees to raise their concern within the council. If you are unhappy with the process or outcome of an investigation you can

7.2 contact one of the following organisations or any organisation that you feel will be able to deal with your concerns:

- the Audit Commission's Public Interest Disclosure Line: 020 7630 1019;
- the independent charity Public Concern at Work: 020 7404 6609;
- Unison whistleblowing hotline: 0800 597 9750; or
- Grant Thornton (external auditor) 01293 554 071

7.3 If taking a concern outside the council, employees should not disclose any confidential information unless they are doing so in accordance with the Whistleblowing Charter.

## **8 Responsible officer**

8.1 The Chief Internal Auditor is responsible for the supervision and co-ordination of all fraud matters, including the maintenance and operation of this policy. A record of concerns raised and the outcomes is maintained by him.

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

9.1 The Audit Committee will receive annual reports of all matters raised under the Charter. The Charter will be reviewed annually by the Audit Committee and recommended to the General Purposes Committee for approval.

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

27 January 2014

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

#### Part 1- Public

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

#### **1 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2014/15**

**The report provides details of investments undertaken and returns achieved in the first nine months of the current financial year. Members are invited to consider amending the current split of investment responsibilities for in-house and externally managed funds. The report concludes with a recommendation to adopt the Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15.**

#### **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 Statement for borrowing and to prepare an Annual Investment Strategy; setting out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

#### **1.2 Return on Investments**

1.2.1 In accordance with the CIPFA Treasury Management Code of Practice, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. We find ourselves in a very difficult investment market. Yields are very low, in line with the 0.5% Bank Rate and have been suppressed further in recent months by the Bank of England's 'Funding for Lending' scheme introduced to support economic recovery. As a consequence, investment returns are expected to remain low relative to pre 2008 financial crisis levels throughout the remainder of this financial year and the next (2014/15).

1.2.2 Cash flow funds are available on a temporary basis and their amount varies from month to month and during the course of each month dependent on the timing of receipts (collection of business rates, council tax, grants and other sources of income) and payments (to government, precepting authorities, housing benefit recipients, staff and suppliers). The authority holds £15.4m of core cash balances for investment purposes which are managed by our external fund manager. These funds which comprise our revenue and capital reserves are for the most part available to invest for more than one year.

1.2.3 At the end of December 2013 funds invested and interest earned is set out in the table below:

	<b>Funds invested at 31 Dec 2013 £m</b>	<b>Average duration to maturity Yrs</b>	<b>Weighted average rate of return %</b>	<b>Interest earned to 31 Dec 2013 £</b>	<b>Gross annualised return to 31 Dec 2013 %</b>	<b>7 day Libid benchmark %</b>
<b>In-house cash flow excluding Landsbanki</b>	8.0	0.12	0.77	55,600	0.68	0.41
<b>Externally managed core funds</b>	15.4	0.81	0.60	65,000	0.56	0.41
<b>Total</b>	23.4	0.57	0.66	120,600	0.61	0.41

1.2.4 Whilst the authority bettered the 7 day LIBID benchmark by 20 basis points interest earned of £120,600 is £58,600 lower than our 2013/14 original estimate for the same period. This underperformance against budget is mainly attributed to the lower than expected return delivered by our external fund manager and is explored in more detail below.

1.2.5 **In-house managed cash flow.** Our daily cash flow balances for the year ahead are modelled at the start of the financial year. That cash flow model is then updated daily and reviewed on a regular basis. The majority of our cash flow surpluses are invested overnight in bank deposit accounts and money market funds to ensure sufficient short term liquidity to meet payment obligations. However, when cash surpluses permit, fixed term investments are made to take advantage of the higher yields available. Thus far in this financial year the following fixed term investments have been made:

<b>£m</b>	<b>Bank/Building Society</b>	<b>Duration</b>	<b>Rate</b>	<b>Period</b>
1.0	Bank of Scotland	12 Months	1.10%	12/4/13 – 11/4/14
1.0	Lloyds TSB	12 Months	1.10%	12/4/13 – 11/4/14
0.6	Lloyds TSB	11 Months	1.05%	12/4/13 – 11/3/14

1.2.6 In addition to term deposits the opportunity to generate additional yield is also achieved by utilising notice accounts. At 31 December 2013, £1.0m was deposited in a National Westminster 95 day notice account at a rate of 0.60% per



annum and £1.0m deposited in a 35 day notice account with Barclays at 0.54% per annum.

- 1.2.7 The Council achieved a return of 0.68% on its in-house managed cash flow investments for the period ended December 2013, compared to a 7-day LIBID benchmark of 0.41%. However, in cash terms investment income achieved fell short of budget by £7,600. Our revised estimates assume income for the year of £72,000 implying a shortfall against the original 2013/14 estimate of £9,800 for the year as a whole.
- 1.2.8 **Externally managed core funds.** In accordance with our 2013/14 Investment Strategy all of the Council's core funds are being managed by our external fund manager. The Council's fund manager achieved a gross return of 0.56% for the period ended December 2013, compared to a 7-day LIBID benchmark of 0.41%. Excluding unrealised losses on recent UK Gilt purchases of £71,000 investment income achieved for the period ended December 2013 is £65,000.
- 1.2.9 At the end of December 2013 the value of the fund stood at £15.4m. This was invested at an average rate of 0.60% and an average maturity of 0.81 years. The fund manager lowered their expected return for the year to 0.90% at our meeting with them in March. This return implies a shortfall against budget provision for externally managed funds of £20,000 for the year as a whole. However, given performance to date coupled with no real prospect of an improvement in yields for the remainder of this financial year a return of 0.60% is considered more realistic. Our revised estimates for this financial year have been prepared using this lower return and anticipate income for the year as a whole will be £92,400. This represents a shortfall against the original estimate of £61,850.
- 1.2.10 **Current investment position.** A full list of investments held on 31 December 2013 is provided at **[Annex 1]** of this report and a copy of our internal lending list of the same date is provided at **[Annex 2]**. The yields on the total sum invested of £23.4m exclusive of Landsbanki is 0.66% comprising internally managed investments of £8.0m at 0.77% and externally managed investments of £15.4m at 0.60%.

### 1.3 Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15

- 1.3.1 **Risk appetite.** Three years ago Members supported a rationalisation of our counterparty and non-UK sovereign exposure limits around a single figure of 25% and applied the result to both the in-house and externally managed portfolios. At that time Members also reviewed and made a modest amendment to the minimum credit criteria taking it to Fitch long term AA- (very high), short term F1+ (exceptionally strong). Two years ago, in response to an avalanche of downgrades to bank credit ratings, Members supported a lowering of our minimum counterparty credit criteria to Fitch A (high), F1 (strong) and provided some offset by reducing our counterparty and non-UK sovereign exposure limits

to 20%. Audit Committee in October 2012 recommended that the exposure limits for investment in the UK nationalised / part nationalised banks revert back to a maximum of 25% per bank / group and also lowered our minimum AAA (highest) sovereign requirement for the UK to Fitch AA- (very high) or equivalent. That AA- requirement was extended to all sovereigns in the current investment strategy.

- 1.3.2 Officers are content that the current criteria to invest in highly rated financial institutions regulated by similarly rated sovereigns is considered appropriate to safeguard the authority's interests and provides an appropriate balance between the security and diversity of our investments and the desire to generate an income stream. As a consequence, **no changes to the minimum sovereign / counterparty credit rating or exposure limits are proposed in the Annual Investment Strategy for the 2014/15 financial year.**
- 1.3.3 **Management of cash flow and core funds.** The Council splits the funds available for investment into two categories, core funds and cash flow funds. Core funds comprise the Council's revenue and capital reserves which are used to support the Council's spending plans over a number of years. Cash flow funds are monies consumed during the course of a financial year and arise from timing differences between the receipt of income and its subsequent expenditure to meet payment obligations.
- 1.3.4 The 2013/14 Investment Strategy requires that all core funds are managed by our external fund manager. Cash flow funds that are available for more than three months should also be passed to the external fund manager unless a better return can be achieved via in-house investment without undue added risk. In each of the last three years, in-house investment has been the preferred option for investing such surpluses. **The 2014/15 Annual Investment Strategy presumes all cash flow funds will be managed in-house with no requirement to transfer funds to the external fund manager.**
- 1.3.5 In 1991 the Council sold its stock of council houses. The sale proceeds enabled the Council to repay all borrowing and the balance (over £50m) has been used ever since to fund the Council's capital expenditure plans and provide an income stream from investments to support the revenue budget. Some £8m of sale proceeds remains today and forms part of the core funds managed by our external fund manager. The core fund balance, currently £15.4m, is expected to average £11.4m during 2014/15 and the Council's Treasury Management Team are of the view that the core fund is now of a size that its investment can be managed in-house.
- 1.3.6 External fund management has enabled the Council to maintain a well diversified portfolio with investments in numerous high quality financial institutions. The fund manager's longer term exposure to banks has generally been via certificates of deposit (CDs) which are preferred by some institutions. CDs can be traded on secondary markets and thus provide a source of liquidity should the need arise. In-house longer term investment in banks has in the past been via broker or

directly arranged fixed term deposits. Such deposits, as their name implies, are fixed for the duration. Early redemption of fixed term deposits may be possible in some cases but not without penalty. The Council has now secured a custody facility via King & Shaxon to enable CDs and other market tradable instruments (e.g. Gilts and Treasury Bills) to be acquired (and sold) direct. The addition of this facility will, subject to counterparty investment limits, ensure the Council continues to have access to a broad range of high quality institutions.

- 1.3.7 UK Gilts are seen as a safe haven in times of market stress. In the past our external fund manager has been able to take advantage of 'blips' in Gilt prices that the market stress (caused by an event) generates to make additional income by trading Gilts. In the first nine month of this financial year, whilst there have been opportunities to generate capital profits on Gilt trades (e.g. US budget / debt ceiling negotiations), they have not been taken. Going forward Gilt yields are expected to rise in anticipation of interest rate increases. Our external treasury advisor, Capita, are of the view that whilst there may be geo-political factors that result in Gilts being treated as a safe haven investment option by investors such opportunities are less likely in the medium term. Moreover, the current gilt holding (£2m maturing in 2018) that was acquired in May and June of this year is currently recording an unrealised loss of some £71,000. To avoid that loss materialising the investment will need to be maintained to maturity. The yield at purchase of 1.16% whilst attractive given current interest rates is likely to underwhelm in three and four years time.
- 1.3.8 In-house management of cash flow surpluses involves on average five investments per day (a mix of new investments, recalling existing investments and or repeating the previous day's investments). Management of the core fund is expected to involve only two / three investments each month which can be readily absorbed within the existing in-house staff resource. In addition, although the overriding motivation for in-house management of the core fund is its diminishing size, the transfer will generate a saving in external fund management fees. The fees payable on a portfolio of £11.4m will be circa £17,000 and provide a useful contribution to the Council's revenue savings targets.
- 1.3.9 Whilst a specific date for the transfer of responsibility has yet to be determined the expectation is that **by the end of the 2014 /15 financial year all core fund investments will be managed in-house.**
- 1.3.10 **External treasury advisor's recommended duration.** Our advisor's assessment of counterparty creditworthiness assigns financial institutions to a duration band. The bands for those institutions considered appropriate for local authority investment range from 100 days to five years. Institutions which are considered inappropriate for investment are assigned a nil duration. The assessment incorporates a market view of risk using credit default swap data. A credit default swap (CDS) can be likened to insurance taken out by investors to guard against the risk of default. The aggregate value of CDS trades reached a peak at the height of the Eurozone sovereign debt crisis in December 2011

prompting the Bank of England Financial Policy Committee to warn UK banks to prepare to withstand an 'extraordinarily serious and threatening' economic environment. Since then, the European Central Bank has introduced measures to ease bank liquidity, established a mechanism to contain sovereign bond yields and made progress on a European Banking Union. The aggregate value of CDS trades has been on a downward trajectory since December 2011 and is now broadly in line with levels pre the 2008 financial crisis.

- 1.3.11 The CDS data for individual banks has generally followed the same downward trajectory described above. However, in recent weeks and on a limited number of occasions, the fall in CDS data for Barclays Bank has failed to keep pace with the fall in the aggregate value of CDS trades. This has resulted in Barclays CDS data being elevated above the norm triggering a change in Capita's duration recommendation from 100 days, based on credit ratings alone, to nil days when CDS data is also taken into consideration. The 'nil duration' applied at the time of writing this report and explains why Barclays, which has featured on our lending list in previous reports to Audit Committee, is absent from our lending list of 31st December **[Annex 2]**. In recent months 'blips' in CDS data have affected other counterparties on our lending list in a similar fashion including the Nationwide Building Society and Santander UK.
- 1.3.12 Our current Investment strategy requires that at the time an investment is placed we use Capita's duration recommendation to 'determine' the duration of an investment. **The strategy for 2014/15 introduces a degree of flexibility and requires that Capita's recommended duration is used to 'inform' the duration of an investment.** This flexibility will be incorporated into our detailed Treasury Management Practices that support the Annual Investment Strategy. The flexibility will be limited to Capita's recommended duration plus three months and will only be applied to UK financial institutions.
- 1.3.13 **Updated strategies.** Whilst no changes are being made to the Council's risk appetite, the proposed changes in management arrangements and investment duration flexibility have been incorporated into the Treasury Management Strategy and Annual Investment Strategy for 2014/15. Both strategies are combined into a single document and are provided at **[Annex 3]**. Except where outlined above no other material changes to the strategies have been made. A recommendation to adopt **[Annex 3]** appears at paragraph 1.9.1(6).

## **1.4 Money Market Fund Regulatory Changes**

- 1.4.1 Both the Securities Commission in America and more importantly from our perspective, the European Commission are in the process of consulting on changes to the regulatory framework governing money market funds. Money market funds (MMFs) form a critical component in our daily cash flow management. They provide the same day access to cash as a traditional bank deposit account; allow surplus cash to be placed in a AAA credit rated product

and; ensure our peak monthly cash balances are disbursed across a range of counterparties.

- 1.4.2 The current yield on a typical fund used by the Council is 0.4% and falls roughly mid-way between the yield from our bank deposit accounts at 0.6% and that offered by the UK Debt Management Office at 0.25%. Most commentators believe that if all of the proposed regulatory changes came into being, MMFs would no longer be viable. Any regulatory change will involve a 'bedding-in period' to allow MMFs to adapt to the new requirements. So whilst change is inevitable it is unlikely to impact on our cash management operation during 2014/15. Members will be updated as regulations develop and our existing MMFs response to those regulatory changes emerges.

## **1.5 Legal Implications**

- 1.5.1 These are set out above and at **[Annex 3]** to this report. In addition, Capita are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

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

- 1.6.1 The Bank Rate is expected to remain at a historical low (0.5%) throughout the remainder of this financial year and the next (2014/15). The 'Funding for Lending' initiative introduced by the Bank of England in summer 2012 has had a significant downward impact on returns being offered by financial institutions. As a consequence budgeted returns for both cash flow and core funds have been revised downward for 2013/14. Similar low returns are anticipated in 2014/15 at 0.75% for cash flow and 0.85% for core funds.
- 1.6.2 The performance of our fund manager is monitored against all of the players in the public sector cash management market place using data provided by Capita. In addition, the performances of both externally and internally managed investments are monitored against relevant benchmarks. In-house returns are also monitored against other Kent authorities and the broader local authority pool via Capita's benchmarking service.
- 1.6.3 The Council invested £1m in a three month fixed term deposit with the Icelandic bank, Landsbanki. The bank went into administration a few days prior to the investments intended maturity in October 2008. The Council has participated in a joint action, co-ordinated by the Local Government Association, to recover the investment and associated interest. To date the Council has received £542,700 in partial payments from the Landsbanki Winding-up Board. Members are referred to the Part 2 report submitted to Audit Committee 7 October 2013 detailing current recovery action.

## 1.7 Risk Assessment

- 1.7.1 Capita are employed to advise on the content of the Treasury Management Strategy Statement and Annual Investment Strategy and this, coupled with a regular audit of treasury activities ensures that the requirements of the Strategy and the Treasury Policy Statement adopted by this Council are complied with.
- 1.7.2 Credit ratings remain a key tool in assessing risk. It is recognised that their use should be supplemented with sovereign ratings and market intelligence. Appropriate sovereign, group and counterparty limits need to be established to ensure an appropriate level of diversification.
- 1.7.3 In the light of these safeguards and stringent Treasury Management Procedures it is considered that any risks to the authority implicit in the 2014/15 Strategy have been minimised.

## 1.8 Equality Impact Assessment

- 1.8.1 See 'Screening for equality impacts' table at end of report.

## 1.9 Recommendations

- 1.9.1 Members are invited to **RECOMMEND** that Cabinet:
- 1) note the treasury management position as at 31 December 2013;
  - 2) retain the current minimum counterparty credit ratings and the current maximum sovereign / counterparty exposure limits.
  - 3) agrees all cash flow funds in 2014/15 be managed in-house with no requirement to transfer funds to the external fund manager;
  - 4) agrees to the transfer of responsibility for the Council's core fund investments from the external fund manager to in-house management during 2014/15;
  - 5) allows some flexibility over the duration of investments placed with UK financial institutions as outlined in paragraph 1.3.12;
  - 6) adopts the Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15 set out at **[Annex 3]**.

Background papers:

contact: Michael Withey

Templates and forecasts provided by Capita  
Fitch Rating Definitions.

Sharon Shelton  
Director of Finance and Transformation

<b>Screening for equality impacts:</b>		
<b>Question</b>	<b>Answer</b>	<b>Explanation of impacts</b>
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	N/A
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	N/A
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		N/A

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*

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## Investment Summary as at 31 December 2013

Counterparty	Sovereign	Fitch Credit rating				Investment type (Specified/Non- specified) [Statement date to Maturity]	Investment from	Maturity Date	Investment at purchase value £	Coupon Rate of return	% of total investments	Instrument type	Managed by:	Externally Managed Core Funds £	Internally Managed Cash Flow £	Non-specified Investments (NSI) £
		Long Term	Short Term	Viability	Support											
Bank of Nova Scotia	Canada	AA-	F1+	aa-	1	Specified	03/12/2013	03/03/2014	1,000,000	0.43%	4.18%	CDs	Externally Managed	1,000,000		
<b>Bank of Nova Scotia Total</b>									<b>1,000,000</b>							
Bank of Scotland	UK	A	F1	-	1	Specified	12/04/2013	11/04/2014	1,000,000	1.10%	4.18%	Fixed deposit	<b>Internally Managed</b>		1,000,000	
<b>Bank of Scotland Total</b>									<b>1,000,000</b>							
Barclays Bank 35 Day Notice	UK	A	F1	a	1	Specified	09/08/2013	17/03/2014	1,000,000	0.54%	4.18%	Call - Notice	<b>Internally Managed</b>		1,000,000	
<b>Barclays Bank Total</b>									<b>1,000,000</b>							
Commonwealth Bank of Australia	Australia	AA-	F1+	aa-	1	Specified	20/11/2013	20/03/2014	600,000	0.48%	2.51%	CDs	Externally Managed	600,000		
<b>Commonwealth Bank of Australia Total</b>									<b>600,000</b>							
Deutsche Bank	Germany	A+	F1+	a	1	Specified	14/11/2013	14/02/2014	2,500,000	0.48%	10.45%	CDs	Externally Managed	2,500,000		
<b>Deutsche Bank Total</b>									<b>2,500,000</b>							
Handelsbanken	Sweden	AA-	F1+	aa-	1	Specified	31/12/2013	02/01/2014	2,100,000	0.60%	17.56%	Call	<b>Internally Managed</b>		2,100,000	
Handelsbanken		AA-	F1+	aa-	1	Specified	29/11/2013	30/05/2014	2,100,000	0.52%			Externally Managed	2,100,000		
<b>Handelsbanken Bank Total</b>								<b>4,200,000</b>								
ING Bank	Netherlands	A+	F1+	a	1	Specified	08/10/2013	08/01/2014	2,000,000	0.50%	8.36%	CDs	Externally Managed	2,000,000		
<b>ING Bank Total</b>									<b>2,000,000</b>							
Investec Sterling MF	Luxembourg	AAA	-	-	-	Specified	31/12/2013	02/01/2014	108,000	0.37%	0.45%	Call - EMF	Externally Managed	108,000		
<b>Investec Sterling MF Total</b>									<b>108,000</b>							
Landsbanki	Iceland	-	-	-	-	Specified	30/07/2008	In default	457,000	5.86%	1.91%	Fixed deposit	<b>Internally Managed</b>		457,000	
<b>Landsbanki Bank Total</b>									<b>457,000</b>							
Lloyds TSB Bank	UK	A	F1	bbb+	1	Specified	12/04/2013	11/04/2014	1,000,000	1.10%	6.69%	Fixed deposit	<b>Internally Managed</b>		1,000,000	
Lloyds TSB Bank		A	F1	bbb+	1	Specified	12/04/2013	12/03/2014	600,000	1.05%			Fixed deposit	<b>Internally Managed</b>		600,000
<b>Lloyds TSB Bank Total</b>								<b>1,600,000</b>								
NatWest Bank Call Account	UK	A	F1	-	1	Specified	31/12/2013	02/01/2014	500,000	0.60%	6.27%	Call	<b>Internally Managed</b>		500,000	
NatWest Bank 95 Day Notice		A	F1	-	1	Specified	13/05/2013	17/03/2014	1,000,000	0.60%			Call - Notice	<b>Internally Managed</b>		1,000,000
<b>National Westminster Bank Total</b>								<b>1,500,000</b>								
Nordea Bank (Finland)	Finland	AA-	F1+	aa-	1	Specified	08/10/2013	08/01/2014	1,900,000	0.50%	7.94%	CDs	Externally Managed	1,900,000		
<b>Nordea Bank (Finland) Total</b>									<b>1,900,000</b>							
Rabobank	Netherlands	AA	F1+	aa	1	Specified	31/12/2013	02/01/2014	10,000	0.35%	0.04%	TD	Externally Managed	10,000		
<b>Rabobank Total</b>									<b>10,000</b>							
Santander UK Plc	UK	A	F1	a	1	Specified	31/12/2013	02/01/2014	850,000	0.80%	3.55%	Call	<b>Internally Managed</b>		850,000	
<b>Santander UK Plc Total</b>									<b>850,000</b>							
Standard Chartered Bank	UK	AA-	F1+	aa-	1	Specified	29/11/2013	28/02/2014	400,000	0.44%	1.67%	CDs	Externally Managed	400,000		
<b>Standard Chartered Bank Total</b>									<b>400,000</b>							
Toronto Dominion Bank	Canada	AA-	F1+	aa-	1	Specified	28/06/2013	31/12/2013	2,000,000	0.51%	8.36%	CDs	Externally Managed	2,000,000		
<b>Toronto Dominion Bank Total</b>									<b>2,000,000</b>							
UK Treasury Gilt [1]	UK	AA+	-	-	-	Non-specified	29/05/2013	22/07/2018	2,281,000	1.25%	11.62%	UK Gilt	Externally Managed	2,281,000		2,281,000
UK Treasury Bill		AA+	-	-	-	Specified	16/12/2013	16/06/2014	499,000	0.36%			UK Bill	Externally Managed	499,000	
<b>UK Treasury Total</b>								<b>2,780,000</b>								
Investec/Citibank uninvested balance		A	F1	-	1	Specified			10,000	0.25%	0.04%	F Mgr cash bal	Externally Managed	10,000		
<b>Investec/Citibank uninvested balance</b>									<b>10,000</b>							
<b>Total invested</b>									<b>23,915,000</b>		<b>100.00%</b>			<b>15,408,000</b>	<b>8,507,000</b>	<b>2,281,000</b>

Number of investments	22	Average investment value £		1,087,000
Number of counter parties	18	Average investment per counter party £		1,329,000
<b>Group exposures (UK Nationalised) - max 25% for core funds or £2.6m cash flow.</b>				
		<b>Core £</b>	<b>Core %</b>	<b>Cash £</b>
<b>RBS + National Westminster excluding RBS managed Global Treasury Fund</b>		0	0.00%	1,500,000
<b>Bank of Scotland + Lloyds TSB</b>		0	0.00%	2,600,000

Management Split :	£	%	NSI limit = 60% of core funds
Externally Managed Core Funds	15,408,000	64.43%	14.80%
Internally Managed Cash Funds	8,507,000	35.57%	
Total	23,915,000	100.00%	

Notes: (Eq)=Equivalent. Investec data provided on an unaudited basis. [1]Represents date of initial purchase.

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## Tonbridge and Malling Borough Council Internal Lending List as at 31 December 2013

Checked against Sector Duration Matrix dated 27/12/13								
Minimum investment criteria is Sector Green (100 days) Duration Band (entry point broadly equates to Fitch A, F1, bbb-, 1 unless UK nationalised / semi-nationalised).								
Counterparty	Sovereign	Sovereign Rating [1]	Fitch Long Term	Fitch Short Term	Fitch Viability	Fitch Support	Exposure Limit	Sector Duration [2]
Svenska Handelsbanken AB	Sweden	AAA	AA-	F1+	aa-	1	£2.1m	12 months
HSBC Bank plc	UK	AA+	AA-	F1+	a+	1	£2.1m	12 months
Santander UK plc	UK	AA+	A	F1	a	1	£2.1m	100 days
Nationwide Building Society	UK	AA+	A	F1	a	1	£2.1m	100 days
Bank of Scotland plc [3] Group limit with BOS and Lloyds TSB of £2.6m	UK	AA+	A	F1	-	1	£2.6m	1 year
Lloyds TSB Bank plc [3] Group limit with BOS and Lloyds TSB of £2.6m	UK	AA+	A	F1	bbb+	1	£2.6m	1 year
National Westminster Bank plc [3] Group limit with Nat West and RBS of £2.6m	UK	AA+	A	F1	-	1	£2.6m	1 year
The Royal Bank of Scotland plc [3] Group limit with Nat West and RBS of £2.6m	UK	AA+	A	F1	bbb	1	£2.6m	1 year
Debt Management Office	UK	AA+	N/A	N/A	N/A	N/A	No limit	N/A
UK Local Authorities	UK	AA+	N/A	N/A	N/A	N/A	£2.1m	N/A

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

[2] All deposits overnight unless otherwise approved by the Director of Finance and Transformation AND Chief Financial Services Officer. If other than overnight duration must not exceed Sector's recommendation.

[3] UK nationalised / semi-nationalised.

Money Market Funds				
Minimum investment criteria one of AAA-mf, AAAmmf or AAAm.				
Fund Name	Moody	Fitch	S&P	Exposure Limit
Blackrock	AAA-mf	-	AAAam	£2.1m
BNP Paribas	-	-	AAAam	£2.1m
Global Treasury Fund	AAA-mf	AAAmmf	AAAam	£2.1m
Goldman Sachs	AAA-mf	AAAmmf	AAAam	£2.1m
Deutsche Fund	AAA-mf	-	AAAam	£2.1m
Insight	-	AAAmmf	AAAam	£2.1m
Ignis	-	AAAmmf	AAAam	£2.1m
Morgan Stanley	AAA-mf	AAAmmf	AAAam	£2.1m
Prime Rate	AAA-mf	AAAmmf	AAAam	£2.1m

Enhanced Cash Funds				
Minimum investment criteria AAA.				
Fund Name	Moody	Fitch	S&P	Exposure Limit
Insight Liquidity Plus	-	-	AAAF /S1	£1.05m

Approved by Director of Finance  
and Transformation  
31st December 2013

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## **Treasury Management Strategy Statement and Annual Investment Strategy for 2014/15**

### **1 Introduction**

#### **1.1 Background**

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

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

#### **1.2 Statutory requirements**

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

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

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

#### **1.3 CIPFA requirements**

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

1.3.2 The primary requirements of the Code are as follows:

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

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

#### **1.4 Treasury Management Strategy for 2014/15**

1.4.1 The suggested strategy for 2014/15 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with market forecasts provided by the Council's treasury advisor, Capita Asset Services (previously known as Sector).

1.4.2 The strategy covers:

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

- policy on use of external service providers

## **1.5 Balanced Budget Requirement**

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

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

## **2 Treasury Limits for 2014/15 to 2016/17**

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

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

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

## **3 Current Portfolio Position**

3.1 The Council is debt free and as such the overall treasury position at 31 December 2013 comprised only investments, which totaled £23.4m (excluding Landsbanki) generating an average return of 0.66%.

## **4 Borrowing Requirement**

- 4.1 Other than for cash flow purposes and then within the limits set out at **[Appendix 3]** borrowing will not be necessary. All capital expenditure in 2014/15 will be funded from the Revenue Reserve for Capital Schemes, grants, developer contributions and capital receipts arising from the sale of assts.

## **5 Prudential and Treasury Indicators for 2014/15 – 2016/17**

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

## **6 Prospects for Interest Rates**

- 6.1 The Council has appointed Capita Asset Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. **[Appendix 4]** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. Capita's expectation for the Bank Rate for the financial year ends (March) is:
- 2013/ 2014 0.50%
  - 2014/ 2015 0.50%
  - 2015/ 2016 0.50%
  - 2016/ 2017 1.25%
- 6.3 The recession that followed the global financial crisis of 2008 has been the deepest and recovery from it the slowest the UK has experienced in recent history. However, growth in the UK economy has rebounded during 2013 to surpass all expectations. Growth prospects remain strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. One downside is that wage inflation continues to remain significantly below inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this region are likely to continue to



dampen UK growth. There are, therefore, concerns that a UK recovery currently based mainly on consumer spending and the housing market, may not endure much beyond 2014. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

6.4 The current economic outlook and structure of market interest rates and government debt yields have two key treasury management implications:

- Although Eurozone concerns have subsided in 2013, Eurozone sovereign debt difficulties have not gone away and there are concerns over how these will be managed. Government debt to GDP ratios in some countries will continue to rise to levels that may result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated suggesting the use of higher quality counterparties for shorter time periods; and
- Investment returns are likely to remain relatively low during 2014/15 and beyond.

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

## **7 Annual Investment Strategy**

### **7.1 Investment Policy**

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

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

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

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

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

## 7.2 Creditworthiness Policy

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

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

7.2.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to **inform** (previously determine) the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in-house resources.

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

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

- 7.2.4 This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moody's tend to be more aggressive in giving low ratings than the other two agencies. This approach has the potential to leave the Council with few banks on its approved lending list. The Capita creditworthiness service does though, use ratings from all three agencies, but by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.
- 7.2.5 All credit ratings will be reviewed weekly and monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.
- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
  - in addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in a downgrade of an institution or removal from the Councils lending list.
- 7.2.6 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

### **7.3 Country, Group and Counterparty Limits**

- 7.3.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- as determined by all three rating agencies (Fitch, Moody's and Standard and Poor's). The list of countries that qualify using this credit criteria as at the date of this report are shown in **[Appendix 7]**. This list will be added to, or deducted from; by officers should ratings change in accordance with this policy.
- 7.3.2 Avoidance of a concentration of investments in too few counterparties or countries is a key to effective diversification and in this regard the limits set out below are thought to achieve a prudent balance between risk and practicality and are applicable to both cash flow and core fund investment.

### Annex 3

Country, Counterparty and Group exposure	Maximum Proportion of Cash Flow and Core Funds
UK Sovereign (subject to a minimum rating of AA- )	100%
Each non-UK Sovereign rated AA- or better	20%
Group limit excluding UK nationalised / part nationalised banks	20%
Each counterparty rated Fitch A, F1, bbb-, 1 (green using Capita's credit methodology) or better	20%
Each UK nationalised or part nationalised bank / group	25%
Each AAA multilateral / supranational bank	20%
Each AAA rated bond fund / gilt fund / enhanced cash fund / government liquidity fund / equity fund or property fund subject to maximum 20% exposure to all such funds	10%
Each money market fund rated Moody's AAAmf, Fitch AAmmf, Standard & Poor's AAAM	20%
Non-specified investments over 1 year duration	60%

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

## 7.4 Investment Strategy

### Available funds

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

revenue and capital reserves and are generally available to invest for durations in excess of one year.

### **Cash flow investments**

- 7.4.2 The average daily cash flow balance throughout 2014/15 is expected to be £9.3m. Of that figure some £4m is likely to be available for longer than three months. The Investment Strategy for 2013/14 required such funds (those available for longer than three months) to be passed to the Council's external fund manager unless a better rate of return could be achieved from managing those funds in-house without undue added risk. In each of the last three years, in-house management has been the preferred option and **for 2014/15 all cash flow fund investments will be managed in-house with no requirement to transfer funds to the external fund manager.**
- 7.4.3 Investments in respect of cash flow 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. Were duration can be tolerated, additional yield will be generated by utilising notice accounts, term deposits with banks and building societies and enhanced cash funds.
- 7.4.6 In compiling the Council's estimates for 2014/15 a return on cash flow investments of 0.75% has been assumed. This return is consistent with return being achieved in 2013/14 and reflects a continuation throughout 2014/15 of the current 0.5% Bank Rate.

### **Core fund investments**

- 7.4.7 During 2014/15 the Council's core funds will be part managed on a discretionary basis by the Council's external fund manager (Investec Asset Management Ltd). The fund manager is obliged to comply with the Annual Investment Strategy including the parameters established at paragraphs 7.3.1 and 7.3.2 and the schedule of specified and non-specified investments detailed at **[Appendix 6]**.
- 7.4.8 Historically all core funds have been managed by an external fund manager. However, the core fund balance is diminishing as a proportion is consumed each year (approximately £2.25m per annum) to support the Council's revenue budget and capital expenditure plans. The average core fund balance during 2014/15 is expected to be £11.4m and the Council's Treasury Management Team are of the view that the core fund is now of a size that its investment can be managed in-house. Whilst a specific date for the transfer of responsibility has yet

to be determined the expectation is that **by the end of the 2014 /15 financial year all core fund investments will managed in-house.**

7.4.10 Regardless of management responsibility (in-house or external) the Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and are within the risk parameters set by this Council.

7.4.11 In compiling the Council's estimates for 2014/15 a return on core fund investments of 0.85% has been assumed. This return anticipates a small uplift in yield will be generated over cash flow investment expectations (paragraph 7.4.6). Subject to the credit quality and exposure limits outlined in paragraph 7.3.2, liquidity and yield will be achieved by a mix of investments using predominantly fixed term deposits, certificates of deposit, notice accounts and enhanced cash funds. The existing UK Gilt position is likely to be retained to maturity but not added to (yield at purchase of 1.16%, maturing 2018).

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

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

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

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

7.6.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

7.6.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Appendices

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

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

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

**(ii) Cabinet**

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

**(iii) Audit Committee**

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

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

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



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

**The S151 (responsible) officer**

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

### Appendix 3 Prudential and Treasury Indicators

The prudential indicators relating to capital expenditure cannot be set until the capital programme is finally determined and will as a consequence be reported as part of the Setting the Budget for 2014/15 report that is to be submitted to Cabinet on 4 February 2014.

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

TREASURY MANAGEMENT INDICATORS	2012/13	2013/14	2014/15	2015/16	2016/17
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt :					
borrowing	Nil	5,000	5,000	5,000	5,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	5,000	5,000	5,000	5,000
Operational Boundary for external debt:-					
borrowing	Nil	2,000	2,000	2,000	2,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	2,000	2,000	2,000	2,000
Actual external debt	Nil	Nil	Nil	Nil	Nil
Upper limit for fixed interest rate exposure > 1 year at year end	Nil	It is anticipated that net exposure will range between 0% to 60%			
Upper limit for variable rate exposure < 1 year at year end	16,767 (80.5%)	It is anticipated that net exposure will range between 40% to 100%			
Upper limit for total principal sums invested for over 364 days at year end	Nil	60% of core funds			

Maturity structure of fixed rate borrowing during 2014/15	upper limit	lower limit
under 12 months	100 %	0 %
Over 12 months	0 %	0 %

## Appendix 4 Interest Rate Forecasts (November 2013)

<b>Capita Asset Services Interest Rate View</b>														
	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
<b>Bank Rate View</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
3 Month LIBID	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.70%	0.90%	1.30%
6 Month LIBID	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.70%	0.80%	1.00%	1.20%	1.40%
12 Month LIBID	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	1.00%	1.20%	1.40%	1.60%	1.80%	2.00%	2.30%
5yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
10yr PWLB Rate	3.60%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
25yr PWLB Rate	4.40%	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
50yr PWLB Rate	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
<b>Bank Rate</b>														
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.00%	1.25%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
<b>5yr PWLB Rate</b>														
Capita Asset Services	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.40%
UBS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.10%	2.30%	2.30%	2.30%	2.30%	2.30%	2.50%	2.90%	3.30%	-	-	-	-	-
<b>10yr PWLB Rate</b>														
Capita Asset Services	3.60%	3.60%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.30%	4.40%	4.50%
UBS	3.90%	4.00%	4.00%	4.10%	4.10%	-	-	-	-	-	-	-	-	-
Capital Economics	3.30%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.55%	3.80%	-	-	-	-	-
<b>25yr PWLB Rate</b>														
Capita Asset Services	4.40%	4.40%	4.50%	4.50%	4.60%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.10%
UBS	4.40%	4.50%	4.50%	4.60%	4.60%	-	-	-	-	-	-	-	-	-
Capital Economics	4.10%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.30%	-	-	-	-	-
<b>50yr PWLB Rate</b>														
Capita Asset Services	4.40%	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.20%	5.20%	5.20%
UBS	4.50%	4.50%	4.60%	4.60%	4.70%	-	-	-	-	-	-	-	-	-
Capital Economics	4.30%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.50%	-	-	-	-	-

**Appendix 5 Economic Background Provide by Capita Asset Services****1 THE GLOBAL ECONOMY**

**The Eurozone (EZ).** The sovereign debt crisis has eased during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. The EZ finally escaped from seven quarters of recession in quarter 2 of 2013 but growth is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out, has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2012 figures) of 176% Greece, Italy 131%, Portugal 124%, Ireland 123% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly vulnerable and continues to struggle to meet EZ targets for fiscal correction. Many commentators still view a Greek exit from the Euro as inevitable and there are concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks. It looks increasingly likely that Slovenia will be the next country to need a bailout.

Sentiment in financial markets has improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement an EZ imposed austerity programme and undertake overdue reforms to government and the economy.

**USA.** The economy has managed to return to reasonable growth in Q2 2013 of 2.5% y/y and 2.8% in Q3, in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. The Federal Reserve has continued to provide huge stimulus to the economy through its \$85bn per month asset purchases programme of quantitative

easing. However, it is expected that this level of support will start to be tapered down early in 2014. It has also pledged not to increase the central rate until unemployment falls to 6.5%; this is probably unlikely to happen until early 2015. Consumer, investor and business confidence levels have improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

**China.** Concerns that Chinese growth could be heading downwards have been allayed by recent stronger statistics. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

**Japan.** The initial euphoria generated by “Abenomics”, the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan has seen a return to reasonable growth and positive inflation during 2013 which augurs well for the hopes that Japan can escape from stagnation and deflation and so help to support world growth. The fiscal challenges though are huge; the gross debt to GDP ratio is about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and will fall from 128m to 100m by 2050.

## 2 THE UK ECONOMY

**Economic growth.** Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarter 1 (+0.3%), 2 (+0.7%) and 3 (+0.8%), to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England has, therefore, upgraded growth forecasts in the August and November quarterly

Inflation Reports for 2013 from 1.2% to 1.6% and for 2014 from 1.7% to 2.8%, (2015 unchanged at 2.3%). The November Report stated that:

*“In the United Kingdom, recovery has finally taken hold. The economy is growing robustly as lifting uncertainty and thawing credit conditions start to unlock pent-up demand. But significant headwinds — both at home and abroad — remain, and there is a long way to go before the aftermath of the financial crisis has cleared and economic conditions normalise. That underpins the MPC’s intention to maintain the exceptionally stimulative stance of monetary policy until there has been a substantial reduction in the degree of economic slack. The pace at which that slack is eroded, and the durability of the recovery, will depend on the extent to which productivity picks up alongside demand. Productivity growth has risen in recent quarters, although unemployment has fallen by slightly more than expected on the back of strong output growth”.*

So very encouraging - yes, but, still a long way to go! However, growth is expected to be strong for the immediate future. One downside is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone, the difficulties in this area are likely to continue to dampen UK growth.

**Forward guidance.** The Bank of England issued forward guidance in August which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August, but revised to possibly quarter 4 2014 in November. The UK unemployment rate currently stands at 2.5 million i.e. 7.6 % on the LFS / ILO measure. The Bank's guidance is subject to three provisos, mainly around inflation; breaching any of them would sever the link between interest rates and unemployment levels. This actually makes forecasting Bank Rate much more complex given the lack of available reliable forecasts by economists over a three year plus horizon. The recession since 2007 was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession and the August Inflation Report noted that productivity had sunk to 2005 levels. There has, therefore, been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major reduction in unemployment.

**Credit conditions.** While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013, the Funding for Lending Scheme (FLS), aimed at encouraging banks to expand lending to small and medium size enterprises, has been extended. The FLS certainly seems to be having a positive effect in terms of encouraging house purchases

(though levels are still far below the pre-crisis level), FLS is also due to be bolstered by the second phase of Help to Buy aimed at supporting the purchase of second hand properties, which is now due to start in earnest in January 2014. While there have been concerns that these schemes are creating a bubble in the housing market, the house price increases outside of London and the south-east have been minimal. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

**Inflation.** Inflation has fallen from a peak of 3.1% in June 2013 to 2.2% in October. It is expected to fall back to reach the 2% target level within the MPC's two year time horizon.

**AAA rating.** The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

### **3 Capita Asset Services forward view**

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets await the long expected start of tapering of asset purchases by the Fed. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields. Equally, at the time of writing, the political deadlock and infighting between Democrats and Republicans over the budget, and the raising of the debt limit, has only been kicked down the road, rather than resolved. Resolving these issues could have a significant effect on gilt yields during 2014.

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

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

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed resolution of the debt crisis

where EZ institutions and governments do what is necessary. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as consumer borrowing is already high and wage inflation is less than CPI inflation, so disposable income is being eroded.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Prolonged political disagreement over the US Federal Budget and raising of the debt ceiling
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- Italy has the third highest level of government debt in the world. Given the political situation difficulties may arise in implementing austerity measures and a programme of reform.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds



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

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

## Appendix 6 Specified and Non-specified Investments

All specified and non-specified Investments will be:

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

Subject to the duration limit recommended by Capita (**+3 months for UK Financial Institutions** or as assessed by the external fund manager) at the time each investment is placed.

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

Sterling denominated.

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

Investment	Minimum Credit Criteria	Use
UK Debt Management Agency Deposit Facility	UK Sovereign AA-	In-house
Term deposits - UK local authorities	UK Sovereign AA-	In-house
Term deposits - UK nationalised and part nationalised banks	UK Sovereign AA-	In-house and Fund Manager
Term deposits - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A, F1, bbb-, 1 or Green <b>excl. CDS</b> if in-house	In-house and Fund Manager
Certificates of deposit - UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK Sovereign AA-	In-house and Fund Manager
Certificates of deposit - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A, F1, bbb-, 1 or Green <b>excl. CDS</b> if in-house	In-house and Fund Manager
UK Treasury Bills	UK Sovereign AA-	In-house and Fund Manager
UK Government Gilts	UK Sovereign AA-	In-house and Fund Manager
Bonds issued by multi-lateral development banks	AAA	In-house and Fund Manager
Sovereign bond issues (other than the UK govt)	AAA	In-house and Fund Manager

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

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

<b>Investment</b>	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max duration to maturity</b>
Fixed term deposits with variable rate and variable maturities (structured deposits) - UK nationalised and part nationalised banks	UK Sovereign AA-	In-house	2 years
Fixed term deposits with variable rate and variable maturities (structured deposits) - banks and building societies	UK / Non-UK Sovereign AA- Counterparty A, F1, bbb-, 1 (Green)	In-house	2 years
Term deposits - local authorities	UK Sovereign AA-	In-house	2 years
Term deposits - UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK Sovereign AA-	In-house	2 years

Term deposits - banks and building societies	UK / Non-UK Sovereign AA- Counterparty A, F1, bbb-, 1 (Green)	In-house	2 years
Certificates of deposit - UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK Sovereign AA-	In-house and Fund Mgr	2 years
Certificates of deposit - banks and building societies	UK / Non-UK Sovereign AA- Counterparty A, F1, bbb-, 1 (Green)	In-house and Fund Mgr	2 years
Commercial paper - UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK Sovereign AA-	In-house and Fund Mgr	2 years
Commercial paper - banks and building societies	UK / Non-UK Sovereign AA- Counterparty A, F1, bbb-, 1 (Green)	In-house and Fund Mgr	2 years
Floating rate notes issued by multilateral development banks	AAA	<b>In-house and Fund Mgr</b>	5 years
Bonds issued by multilateral development banks	AAA	<b>In-house and Fund Mgr</b>	5 years
Sovereign bond issues (other than the UK Government)	AAA	<b>In-house and Fund Mgr</b>	5 years
UK Government Gilts	UK Sovereign AA-	In-house and Fund Mgr	Max of 25% 5 years
UK Government Gilts	UK Sovereign AA-	In-house and Fund Mgr	Max of 25% 10 years

### Accounting treatment of investments

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

**Appendix 7      Approved countries for investments**

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

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

As of 31 December 2013 sovereigns meeting the above requirement were:

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

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

27 January 2014

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

#### Part 1- Public

#### Delegated

### 1 PROTECTING THE PUBLIC PURSE 2013

#### Summary

**This report informs Members of the findings of the Audit Commission annual survey and report on “Protecting the Public Purse”**

#### 1.1 Introduction

- 1.1.1 The National Fraud Authority (NFA) estimates fraud committed against local government is in excess of £2 billion each year. It is the duty of each and every local authority to protect the public purse and to fight fraud in their area whilst assisting other authorities to do the same. Failure to do so results in the authority’s reputation being damaged and undermines trust in public services and the political process.
- 1.1.2 Fraud against local government is often perceived by members of the public as a victimless crime; however the consequences of fraud are very serious to the local economy. Every pound lost through fraud is money that cannot be spent on local services such as education, social care, social housing etc.
- 1.1.3 Fraudulently subletting council homes denies people on the housing waiting list the chance of a home; some of whom may be living in squalid overcrowded conditions and in desperate need.
- 1.1.4 The 2010 Spending Review announced a 28 per cent fall in grant income to local government up to 2014-15 plus a further 10 per cent decrease for 2015-16. Therefore, in times of austerity the prevention and detection of fraud is ever more important to limit the impact these cuts have on Council services and staff numbers.
- 1.1.5 The Audit Commission produces an annual report called “Protecting the Public Purse – Fighting Fraud against Local Government”. The 2013 report concludes that –

- local government as a whole detected 14 per cent fewer frauds in 2012-13, excluding tenancy frauds, than in the previous year, however the monetary value of these frauds is only one per cent lower than in 2011-12, which shows that the financial level of individual frauds increased by 15 per cent;
- London Boroughs detected 36 per cent more fraud in 2012-13, whilst other regions showed a decline of between 6 per cent and 46 per cent;
- Housing and Council Tax Benefits accounted for 44 per cent of all frauds detected but equated to two-thirds of the total loss value of £178M;
- 76 per cent of all detected non-benefit fraud were found by only 25 per cent of councils, 79 district councils reported no non-benefit fraud;
- local authorities recovered 2,600 homes from housing tenancy fraud; an increase of 51 per cent since 2011-12, of which 58 per cent were recovered by London authorities despite only accounting for one quarter of all council housing in England;
- councils outside London doubled the number of tenancy frauds detected demonstrating their commitment to and success in tackling this fraud;
- more councils in 2013 reduced their investigative capacity than increased it, London councils have done more than other regions to refocus their counter-fraud resources towards non-benefit fraud;
- all councils need to maintain their capacity to investigate non-benefit fraud in light of the introduction of the Single Fraud Investigation Service (SFIS) and follow the lead of London and consider how to prioritise resources and re-focus towards non-benefit frauds that directly affect their revenue; and
- Councillors should play a crucial role in supporting the right approach to deter and detect fraud.

1.1.6 The complete document is available on the Audit Commission website:-

<http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Protecting-the-public-purse-2013-Fighting-fraud-against-local-government.pdf>

1.1.7 Within the document is a fighting fraud governance checklist designed to identify the areas within the report that are being addressed. It is suggested that checklist should be completed by the Audit Committee. A copy of the checklist is attached. **[Annex 1]**

## **1.2 Non-Benefit Fraud**

1.2.1 Non-benefit frauds, such as council tax discounts and housing directly cause a financial loss to the Council, whilst benefit fraud represents a loss to the national Treasury. However, 15 per cent of annual fraud losses arise from housing benefit fraud but in 2012-13 it accounted for 67 per cent of the total value detected.



1.2.2 Although Tonbridge & Malling do not have housing stock there are losses involved with fraudulent housing applications and potential costs of providing bed and breakfast accommodation for those who remain homeless longer.

1.2.3 The report concludes that since councils bear the main loss from non-benefit fraud they should re-focus their attention towards this type of fraud.

### **1.3 Council Tax Discount & Exemption**

1.3.1 Fraudulently claimed discounts and exemptions directly reduce council tax income for the authority, thereby placing increased financial pressure on the council's services to the public.

1.3.2 The most common types of fraudulently obtained discounts and exemptions are –

- Single Persons Discount,
- Student exemption, and
- Empty Property exemption,

of which the most common fraudulently claimed is single persons discount fraud where a 25% discount is claimed for sole occupiers, which rises to 100% if the person is a full time student

1.3.3 In 2013-14 the Council took part in the National Fraud Initiative exercise which matched Single Person Discounts to Electoral Register data. This identified over £12,000 in incorrect single person discounts. This exercise is due to take place again in 2014.

1.3.4 As well as adjusting the council tax bill to remove the single person's discount the council may also apply a financial penalty of £70 to the bill.

1.3.5 This one-off exercise shows that by redirecting investigative resources to this area of fraud on an on-going basis there is significant additional sums of council tax to be collected.

1.3.6 The Audit Commission states that 4-6% of single person discount claims are fraudulent, which means there is the potential to recover between approx. £272,466 and £408,699 (this is based on the Tonbridge & Malling's average SPD of £450pa, and is also based on the total Council Tax charge – including Council Tax for the major preceptors) Although monies lost to this type of fraud is recovered via the council tax bill, the Audit Commission further recommend that such fraud is treated as a criminal offence to act as a deterrent.

1.3.7 This increased liability would mean additional income for Tonbridge & Malling between approximately £32,695 and 49,043.

## **1.4 Council Tax Reduction Scheme**

- 1.4.1 The replacement of council tax benefit, which was a social security benefit, with a council tax reduction means that this is now classified as “non-benefit” fraud.
- 1.4.2 The detection of council tax reduction fraud has the same affect as discounts and exemptions fraud in that the council tax bill is adjusted and a financial penalty may be applied to the bill.
- 1.4.3 The first year of council tax reduction is still incomplete and as yet no figures for council tax reduction fraud is available, however as instances of benefit fraud have always been significant in number there is no reason to assume it will be any less because it is administered as a local scheme.

## **1.5 Non-domestic Rates**

- 1.5.1 Non-domestic rates fraud includes –
- false claims for mandatory or discretionary rate relief or empty property exemptions,
  - failure to declare occupancy of a property
  - false claims of insolvency status to evade payments, and
  - failing to disclose relevant information to gain rate relief
- 1.5.2 Historically there has been little incentive for local councils to investigate instances of non-domestic rates fraud as all monies collected were passed directly to central government. However, since April 2013, councils have kept a percentage of the non-domestic rates collected under the Business Rates Retention Scheme. This provides a financial incentive for Tonbridge & Malling to be more proactive in this area of fraud risk.
- 1.5.3 The Audit Commission states that councils have reported significant increases in applications for rate relief and incentive schemes, such as charitable and empty property relief.
- 1.5.4 While the majority of businesses applying for rate relief are genuine, it is an area that could be exploited by fraudsters, presenting a potential for significant financial losses.
- 1.5.5 Non-domestic rates fraud detected in 2012-13 had a total value of £7.2 million from 149 cases nationally, 5 million of which was linked to one case, which demonstrates the potential financial impact.
- 1.5.6 Investigation of suspected fraudulent claims for exemptions and relief could generate significant increases in the level of rates to be collected and in turn raise the level of revenue collected for Tonbridge & Malling.

## 1.6 Tackling Fraud in Tonbridge & Malling 2014-15

1.6.1 Based on the Audit Commissions recommendations, the following actions are proposed for tackling fraud in Tonbridge & Malling in 2014-15 and beyond -

- building on Tonbridge & Malling's Anti-fraud and Corruption Strategy to develop a clear strategic plan for the prevention and detection of non-benefit fraud and continuing to ensure that working with Single Fraud Investigation Service (SFIS) to tackle benefit fraud,
- extend communication and partnership working with other local authorities, relevant departments within Tonbridge & Malling council, housing associations, the Charity Commission, local voluntary groups etc, this list is not exhaustive,
- prepare for the introduction of SFIS by –
  - re-focusing the priorities of the council's fraud resource to investigate areas of non benefit fraud, such as council tax, non-domestic rates and housing tenancy,
  - revise job descriptions and roles within the fraud team to increase the number of investigators and associated intelligence roles,
  - extend fraud awareness training to include non-benefit fraud matters and deliver to a wider staff audience to include members,
- as a means to improving use of data resources to measure performance, explore the potential for the acquisition of a secure web-based Fraud Management System to –
  - comply with the requirements of the Criminal Procedures and Investigation Act 1996,
  - target fraud more effectively,
  - control the investigation process, and
  - improve the likelihood of a successful prosecution

1.6.2 The Secretary of State for Communities and Local Government has announced that the Department for Communities and Local Government and the Department for Work and Pensions will be investing in local government's capacity to tackle non-benefit fraud, which will include extra funding in 2014-15 and 2015-16. A copy of the letter to council leaders can be found as **[Annex 2]**.

- 1.6.3 A follow-up report to members will be presented at the Committee meeting in September detailing progress made against the actions outlined in Section 1.6.1 above

## **1.7 Other Fraud Considerations**

- 1.7.1 CIPFA have recently published "Audit Committees – Practical Guidance for Local Authorities and Police 2013 Edition". This document is reported upon elsewhere within this agenda.
- 1.7.2 Within this document there has been an additional core function added in respect of Audit Committees which is for the Committee to ensure "Effectiveness of the control environment, including arrangements for value for money and countering fraud".
- 1.7.3 The Department for Work and Pensions have announced that despite the delays in the introduction of the Universal Credit they are to press ahead and start to introduce the Single Fraud Investigation Service from April 2014.
- 1.7.4 It is still not clear how this team will work with local authorities but it is clear that they will investigate all benefit related fraud. However, they have stated that Council Tax Reduction Scheme is a discount and not a benefit and therefore they will not include this or single person discount fraud in any investigation.
- 1.7.5 This means that local authorities will still require sufficient fraud resources to investigate these frauds as well as any other non-benefit related frauds. Consideration is taking place by Kent County Council on how support funding could be given to districts as the County is the main beneficiary of any Council Tax savings.
- 1.7.6 The Council will also still have a responsibility to ensure the quality of data being used to process new claims is accurate. A failure to do so could result in SFIS investigating at a later stage and imposing large overpayments on the Council for fraud cases resolved. In a majority of joint working cases the Housing Benefit exceeds the Job Centre Plus benefit.

## **1.8 Legal Implications**

- 1.8.1 There are no financial implications arising from this report.

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

- 1.9.1 The successful prevention and detection of fraud prevents losses to the Council and enables resources to be used elsewhere.

## **1.10 Risk Assessment**

- 1.10.1 The failure to adequately control fraud will lead to an escalation in lost resources to the Council.

## 1.11 Equality Impact Assessment

1.11.1 No issues identified.

## 1.12 Recommendations

1.12.1 It is **recommended** that Members of the Audit Committee complete the checklist contained within the report and report back the responses to the next Audit Committee meeting.

Background papers:

contact: David Buckley

Protecting the Public Purse Audit Commission  
Audit Committees – Guidance CIPFA

Sharon Shelton  
Director of Finance and Transformation.

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	Recommendation is to complete checklist which has no equality impact.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	Recommendation is to complete checklist which has no equality impact.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*

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# Fighting Fraud Checklist for Governance

Protecting the public purse 2013

November 2013

General	Yes	No
<p><b>1. Do we have a zero tolerance policy towards fraud?</b></p>	<input type="radio"/>	<input type="radio"/>
<p>Previous action - Anti-Fraud Policies updated regularly</p>		
<p>2013 - Update Anti-Fraud Policies updated to include CTRS and during 2013/14 there will be a separate CTRS Anti-Fraud Policy and Prosecution policy introduced.</p>		
<p><b>2. Do we have the right approach, and effective counter-fraud strategies, policies and plans? Have we aligned our strategy with <i>Fighting Fraud Locally</i>?</b></p>	<input type="radio"/>	<input type="radio"/>
<p>Previous action - Have concentrated effort on detection so only partial compliance</p>		
<p>2013 Update – Will concentrate more resources on prevention and early intervention. More resources have been diverted to non-benefit fraud</p>		
<p><b>3. Do we have dedicated counter-fraud staff?</b></p>	<input type="radio"/>	<input type="radio"/>
<p>Previous action – Make up of Corporate Fraud Team has moved towards compliance as well as detection</p>		
<p>2013 Update – Evaluate effect of SFIS on Fraud Team and liaise with other external bodies further</p>		
<p><b>4. Do counter-fraud staff review all the work of our organisation?</b></p>	<input type="radio"/>	<input type="radio"/>
<p>Previous action – Audit plan is based upon risk profiles and any concerns will be investigated</p>		
<p>2013 Update – Continued risk assessment and requirement for Audit Committee to oversee fraud prevention and detection</p>		
<p><b>5. Does a councillor have portfolio responsibility for fighting fraud across the council?</b></p>	<input type="radio"/>	<input type="radio"/>
<p>Previous action – Constitution states responsibility for Benefit Fraud Investigation</p>		
<p>2013 Update – Request change to Constitution to fighting fraud across Council</p>		
<p><b>6. Do we receive regular reports on how well we are tackling fraud risks, carrying out plans and delivering outcomes?</b></p>	<input type="radio"/>	<input type="radio"/>
<p>Previous action – Regular reporting to Audit Committee on risk strategy and emerging risks. All concerns raised under Confidential Reporting Code are reported to Audit Committee. Fraud reports given to Finance, Improvement and Property Advisory Board.</p>		
<p>2013 Update – Request changes to report fraud matters to Audit Committee in the Constitution.</p>		
<p><b>7. Have we assessed our management of counter-fraud work against good practice?</b></p>	<input type="radio"/>	<input type="radio"/>
<p>Previous action – Have carried out comparisons with checklists in CIPFA</p>		



**red book, Fighting Fraud Locally and Protecting the Public Purse  
annual surveys.**

**2013 Update**

General	Yes	No
<p><b>8. Do we raise awareness of fraud risks with:</b></p> <ul style="list-style-type: none"> <li>■ new staff (including agency staff);</li> <li>■ existing staff;</li> <li>■ elected members; and</li> <li>■ our contractors?</li> </ul>		
<p>Previous action Copies of Anti-Fraud Policies updated annually and circulated to staff. Copies of Anti-Fraud policies given to contractors.</p>		
<p>2013 Update – In addition to above there was online training on fraud awareness available to all staff in 2013</p>		
<p><b>9. Do we work well with national, regional and local networks and partnerships to ensure we know about current fraud risks and issues?</b></p>		
<p>Previous action Members of Kent Investigating Officers Group and LAIOG</p>		
<p>2013 Update – Continued membership of above</p>		
<p><b>10. Do we work well with other organisations to ensure we effectively share knowledge and data about fraud and fraudsters?</b></p>		
<p>Previous action - Investigate on behalf of DWP</p>		
<p>2013 Update – Have made approach to Housing Association re joint working</p>		
<p><b>11. Do we identify areas where our internal controls may not be performing as well as intended? How quickly do we then take action?</b></p>		
<p>Previous action - Regular audits of high risk areas take place</p>		
<p>2013 - Update Audit plan is based upon risk assessment</p>		
<p><b>12. Do we maximise the benefit of our participation in the Audit Commission National Fraud Initiative and receive reports on our outcomes?</b></p>		
<p>Previous action - NFI referrals are examined and action taken on appropriate cases with reports given to Members</p>		
<p>2013 - Update Continued participation in NFI and reporting to Members on outcomes</p>		
<p><b>13. Do we have arrangements in place that encourage our staff to raise their concerns about money laundering?</b></p>		
<p>Previous action - Anti-Money laundering policy and guidance in place</p>		
<p>2013 Update - As above</p>		

General	Yes	No
<b>14. Do we have effective arrangements for:</b>		
■ reporting fraud?; and	<input type="radio"/>	<input type="radio"/>
■ recording fraud?	<input type="radio"/>	<input type="radio"/>
Previous action - Outcomes of investigation section reported to Members and press releases issued for prosecutions. Northgate system records benefit related fraud but other frauds have to be recorded manually.		
2013 Update - New Fraud Manager is considering more effective methods of recording fraud outcomes		
<b>15. Do we have effective whistle-blowing arrangements? In particular are staff:</b>		
■ aware of our whistle-blowing arrangements?	<input type="radio"/>	<input type="radio"/>
■ have confidence in the confidentiality of those arrangements?	<input type="radio"/>	<input type="radio"/>
■ confident that any concerns raised will be addressed?	<input type="radio"/>	<input type="radio"/>
Previous action - Confidential reporting code updated and circulated annually		
2013 Update – Annual review will take place and any concerns raised will be investigated and outcomes reported to Members		
<b>16. Do we have effective fidelity insurance arrangements?</b>	<input type="radio"/>	<input type="radio"/>
Previous action – Fidelity insurance in place and regularly reviewed		
2013 Update – As above		
<b>Fighting fraud with reduced resources</b>		
<b>17. Have we reassessed our fraud risks since the change in the financial climate?</b>	<input type="radio"/>	<input type="radio"/>
Previous action – All managers are required to consider fraud risk when carrying out the 6 monthly review of risk registers		
2013 Update – As above		
<b>18. Have we amended our counter-fraud action plan as a result?</b>	<input type="radio"/>	<input type="radio"/>
Previous action – Audit plan is a risk based plan		
2013 Update – As above		
<b>19. Have we reallocated staff as a result?</b>	<input type="radio"/>	<input type="radio"/>
Previous action – Audit resources are targeted at risk areas		
2013 Update – Audit resources continue to be targeted to areas of risk		

Current risks and issues	Yes	No
<b>Housing tenancy</b>		
<b>20. Do we take proper action to ensure that we only allocate social housing to those who are eligible?</b>	<input type="radio"/>	<input type="radio"/>
Previous action – Work closely with Housing to review cases identified as potentially fraudulent		
2013 Update – Continue working closely with Housing and raise fraud awareness with Housing staff		
<b>21. Do we take proper action to ensure that social housing is occupied by those to whom it is allocated?</b>	<input type="radio"/>	<input type="radio"/>
Previous action – Not a housing authority		
2013 Update – Have contacted main social housing provider to consider how we can joint work		
<b>Procurement</b>		
<b>22. Are we satisfied our procurement controls are working as intended?</b>	<input type="radio"/>	<input type="radio"/>
Previous action Audit review of process		
2013 Update – Audit reviews of procurement take place regularly and participation in NFI		
<b>23. Have we reviewed our contract letting procedures since the investigations by the Office of Fair Trading into cartels, and compared them with best practice?</b>	<input type="radio"/>	<input type="radio"/>
Previous action – Procurement OSG continually reviews procedures for contract letting		
2013 Update – Procurement OSG continues		
<b>Recruitment</b>		
<b>24. Are we satisfied our recruitment procedures:</b>		
■ prevent us employing people working under false identities;	<input type="radio"/>	<input type="radio"/>
■ confirm employment references effectively;	<input type="radio"/>	<input type="radio"/>
■ ensure applicants are eligible to work in the UK; and	<input type="radio"/>	<input type="radio"/>
■ require agencies supplying us with staff to undertake the checks that we require?	<input type="radio"/>	<input type="radio"/>
Previous action – Recruitment checks in place		
2013 Update – Audit undertaken in 2013 of recruitment has made several recommendations to ensure consistent and robust recruitment procedures		

Current risks and issues	Yes	No
<b>Personal budgets</b>		
<b>25. Where we are expanding the use of personal budgets for adult social care, in particular direct payments, have we introduced proper safeguarding proportionate to risk and in line with recommended good practice?</b>	<input type="radio"/>	<input type="radio"/>
Previous action		
2013 Update – N/A		
<b>26. Have we updated our whistle-blowing arrangements, for both staff and citizens, so that they may raise concerns about the financial abuse of personal budgets?</b>	<input type="radio"/>	<input type="radio"/>
Previous action		
2013 Update – N/A		
<b>Council tax discount</b>		
<b>27. Do we take proper action to ensure that we only award discounts and allowances to those who are eligible?</b>	<input type="radio"/>	<input type="radio"/>
Previous action – Participation in NFI		
2013 Update – Continued participation in NFI and introduction of CTRS in Anti-Fraud Policy and Prosecution Policy. Introduction of penalties for erroneous applications.		
<b>Housing benefit</b>		
<b>28. When we tackle housing benefit fraud do we make full use of:</b>		
<ul style="list-style-type: none"> <li>■ National Fraud Initiative;</li> </ul>	<input type="radio"/>	<input type="radio"/>
<ul style="list-style-type: none"> <li>■ Department for Work and Pensions Housing Benefit matching service;</li> </ul>	<input type="radio"/>	<input type="radio"/>
<ul style="list-style-type: none"> <li>■ internal data matching; and</li> </ul>	<input type="radio"/>	<input type="radio"/>
<ul style="list-style-type: none"> <li>■ private sector data matching?</li> </ul>	<input type="radio"/>	<input type="radio"/>
Previous action Participation in all of the above. Private sector data matching where cost effective to do so.		
2013 Update – Continued participation i above		

Emerging fraud risks	Yes	No
<b>29. Do we have appropriate and proportionate defences against emerging fraud risks:</b>		
■ business rates;	●	●
■ Right to Buy;	●	●
■ Social Fund and Local Welfare Assistance;	●	●
■ council tax reduction;	●	●
■ schools; and	●	●
■ grants?	●	●
<b>Previous action – Audit reviews of above areas that are applicable</b>		
<b>2013 Update – New CTRS Anti-Fraud Policy has been included in current anti-fraud policy</b>		

Source: Audit Commission (2013)





Local authority leaders

**The Rt Hon Eric Pickles MP**  
*Secretary of State for Communities and Local  
Government*

**Department for Communities and Local  
Government**

Eland House  
Bressenden Place  
London SW1E 5DU

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[www.gov.uk/dclg](http://www.gov.uk/dclg)

5 December 2013

*Dear colleague*

## **AUTUMN STATEMENT**

Today the Chancellor announced the details of the Coalition Government's Autumn Statement. I just wanted to take the opportunity to highlight some of the announcements which relate to local government funding and finance.

### **Local government funding**

While the Chancellor has announced new, further departmental savings for departments, local government has been protected. The Chancellor has said this is to encourage councils to take up the Council Tax freeze offer which is again available to local authorities in the coming financial year.

We have also listened and carefully considered the responses to the recent consultation on allocating an element of the New Homes Bonus to Local Enterprise Partnerships. In light of the powerful arguments made by colleagues in local government, we will not be making changes to the New Homes Bonus for councils outside London (in London, there is a stronger case for pooling given the Greater London Authority's role in planning). The £2 billion Local Growth Fund will be made up from other decentralised budgets.

Following a consultation, we have today confirmed there will be a new a national Council Tax discount of 50% for family annexes from April 2014. This will support extended families living together, for example with children saving for a new home or elderly parents (who would not otherwise qualify for the existing exemptions). It will be fully funded by central government.

### **Cutting business rates and helping local shops**

To continue to prioritise local growth we have announced a £1.1 billion package to reduce the burden of business rates on businesses. This includes:

- The 3.2% RPI increase for 2014-15 will be reduced to 2%.

- There will be a £1,000 discount for all retail, pubs, cafes (excluding banks and betting offices) with rateable values below £50,000 for 2 years.
- The doubling of Small Business Rate Relief will continue for a further year.
- Ratepayers will continue to keep their Small Business Rate Relief entitlement for a year where they take on a second property
- New occupiers of former retail premises which have been unoccupied for a year will receive a 50% discount for 18 months.
- There will be a consultation on reforms to the business rates appeals process and a commitment to clear 95% of the September 2013 backlog of appeals before July 2015.

Local authorities will be fully refunded for the loss in revenue resulting from these changes. This is part of a wider package of practical measures to help local high streets which will be published tomorrow (Friday 6 December).

### **Increasing funding for housing**

We have announced a number of new measures to support house building. This includes a £1 billion, 6-year investment programme to fund infrastructure to unlock new locally-led, large housing sites. This will support the delivery of around 250,000 houses. We are doing more to support Right to Buy: introducing agents to help buyers complete their purchase, and a £100 million fund to improve applicants' access to mortgage finance. We also intend to consult on a Right to Move for social tenants wanting to take up work or training in another area.

Reforming the Housing Revenue Account was a key Coalition Agreement pledge. We have already decentralised housing finance, but we appreciate there is further scope for greater flexibility.

We have announced a review into the role of local authorities in supporting overall housing supply. Accompanying this, the government has announced a limited increase in Housing Revenue Account borrowing.

The additional £300 million will be allocated via a competitive bidding process with support given to councils who can produce good business cases, agreed by their local enterprise partnership, that bring in local authority owned land and other forms of cross-subsidy such as sales of high value vacant property, raising funds to provide more overall homes.

### **Delivering savings from cutting fraud**

Alongside the roll out of the Single Fraud Investigation Service, DCLG and DWP are investing in local government's capacity to tackle non-welfare fraud. This package of support will include extra funding over 2014-15 and 2015-16 which will be able to support new fraud investigator posts in councils focussed on tackling corporate fraud.

### **Transforming local services**

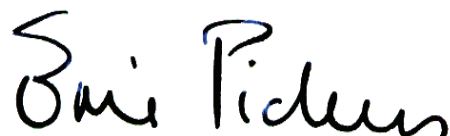


To incentivise asset sales and support investment in transforming local services, the government will allow local authorities new flexibility to use £200 million of receipts from asset sales over 2015-16 and 2016-17 to pay for the one-off costs of service reforms. We will publish a prospectus inviting bids to access a share of this flexibility in the New Year.

### **Support for health and social care**

At the Spending Round, we took a major step forward in bringing together health and social care services around vulnerable people, with the new pooled Better Care fund of £3.8 billion. You are already working with your colleagues in health to develop your plans. In response to your concerns about the fund being for only one year, the Statement spells out the government's intention to make sure pooled funding is an enduring part of the health and social care system beyond 2015-16. We will also work to give local public services the same long-term indicative budgets as departments, to allow more up-front investment and local deals.

I hope these proposals will provide stability for local government, help drive further service improvement and support hard-working people and local firms in your locality.

A handwritten signature in black ink that reads "Eric Pickles". The signature is written in a cursive, slightly slanted style.

**THE RT HON ERIC PICKLES MP**

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

27 January 2014

#### Report of the Chief Internal Auditor

#### Part 1- Public

#### Delegated

### 1 CIPFA AUDIT COMMITTEE GUIDANCE

#### Summary

This report informs Members of the recent publication by the Chartered Institute of Public Finance & Accountancy (CIPFA) of “Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)”.

#### 1.1 Introduction

1.1.1 This publication sets out the guidance from CIPFA on the function and operation of Audit Committees in local authorities and represents CIPFA’s view of best practice for Audit Committees.

1.1.2 The document includes an updated position statement to reinforce the role of the Audit Committee to reflect changes since the original guidance issued in 2005. This position statement is reproduced with permission from CIPFA as **[Annex 1]**

#### 1.2 Guidance

1.2.1 The guidance is copyrighted by CIPFA but an electronic version is available to all Members upon request to the Chief Internal Auditor. All Members of the Audit Committee have already received a copy.

1.2.2 There are a number of areas within the guidance that require consideration by Members and some of these relating to the terms of reference will require changes to the Constitution if they were adopted.

1.2.3 There are also two appendixes to the guidance that will also require consideration by the Audit Committee. One is a self assessment of good practice and the other is an evaluation of the effectiveness of the Audit Committee.

1.2.4 It is suggested that members of the Audit Committee have sufficient time to read the guidance before these documents are considered. These could be completed in liaison with the Chief Internal Auditor and the Audit Manager at a separate meeting with Members of the Audit Committee with the outcome to be reported to the next Audit Committee.

### 1.3 Financial and Value for Money Considerations

- 1.3.1 This guidance is the CIPFA definition of best practice and it does consider how Audit Committees can contribute to value for money issues. No financial implications have been identified from this guidance.

### 1.4 Risk Assessment

- 1.4.1 The guidance identifies the role that the Audit Committee should be undertaking in order to ensure that an effective risk management framework exists within the organisation but all reinforces that risk management is a responsibility of all stakeholders.

### 1.5 Equality Impact Assessment

- 1.5.1 No issues were identified.

### 1.6 RECOMMENDATION

- 1.6.1 It is **recommended** that Members of the Audit Committee consider completing the self assessment of good practice and evaluating the effectiveness of the Audit Committee following consideration of the Guidance.

Background papers:

contact: David Buckley

CIPFA – Audit Committees – Practical Guidance for Local Authorities and Police 2013 Edition (December 2013)

David Buckley  
Chief Internal Auditor

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	N/A

<b>Screening for equality impacts:</b>		
<b>Question</b>	<b>Answer</b>	<b>Explanation of impacts</b>
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	Yes	The guidance is aimed at ensuring a strong corporate governance framework exists.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		N/A

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*

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# CIPFA's Position Statement: Audit Committees in Local Authorities and Police<sup>1</sup>

**1 Audit committees are a key component of an authority's governance framework.** Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

**2 The purpose of an audit committee is to provide to those charged with governance<sup>2</sup> independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.** By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

**3 The core functions of an audit committee are to:**

- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
- In relation to the authority's internal audit functions:
  - oversee its independence, objectivity, performance and professionalism
  - support the effectiveness of the internal audit process
  - promote the effective use of internal audit within the assurance framework.
- Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
- Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.
- Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- **4 Audit committees can also support their authorities by undertaking a wider role in other areas including:**
- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.<sup>3</sup>
- Providing oversight of other public reports, such as the annual report.

**5 Although no single model of audit committee is prescribed, all should:**

- Act as the principal non-executive, advisory function supporting those charged with governance.<sup>4</sup>
- In local authorities, be independent of both the executive and the scrutiny functions; in police bodies, be independent of the executive or operational responsibilities of the police and crime commissioner or chief constable.
- Have clear rights of access to other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Be properly accountable to the authority's board or equivalent bodies
- Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Be able to meet privately and separately with the external auditor and with the head of internal audit.

- Include, as regular attendees, the chief financial officer(s) or appropriate senior and qualified substitute, the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required.<sup>5</sup>
- Report regularly on their work, and at least annually report an assessment of their performance.

## **6 Good audit committees are characterised by:**

- A membership that is balanced,<sup>6</sup> objective, independent of mind, knowledgeable and properly trained to fulfil their role.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest.<sup>7</sup>
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

1 The scope of this statement includes all local authorities in the UK and the audit committees for police and crime commissioners and chief constables.

2 In police bodies, *'those charged with governance'* are the police and crime commissioner and the chief constable.

3 *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)*, CIPFA, 2011.

4 In police bodies, *'those charged with governance'* are the police and crime commissioner and the chief constable.

5 While recognising the independence of the chief constable in relation to operational policing matters.

6 The political balance of a formal committee of an authority will reflect the political balance of the council. However, it is important to achieve the right mix of apolitical expertise.

7 There are many personal qualities needed to be an effective chair, but key to these are promoting apolitical open discussion, managing meetings to cover all business and encouraging a candid approach from all participants. An interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime are also essential. A specialism in one of these areas would be an advantage.

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

27 January 2014

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

#### Part 1- Public

#### Delegated

#### **1 AUDIT COMMISSION – PROPOSED WORK PROGRAMME AND SCALES OF FEES 2014/15**

**This report informs Members of the Audit Commission's Proposed Work Programme and Scales of Fees for 2014/15.**

#### **1.1 Introduction**

1.1.1 Attached for information at **[Annex 1]** is the Audit Commission's 2014/15 Proposed Work Programme and Scales of Fees. Members should note that this is technically a consultation process and the return date for comments is 10 January 2014.

1.1.2 As Members will be aware, the Commission announced significant reductions in audit fees from 2012/13 onwards, following an exercise to outsource the work of its in-house audit practice. These fee reductions were achieved as a combined result of the Commission's bulk purchasing power and internal efficiency savings. When the Commission announced the reductions, it said it expected these lower audit fees to apply for five years, from 2012/13 to 2016/17, subject to annual review.

1.1.3 To that end the Commission do not plan to make any changes to the work programme for 2014/15 and propose that scale audit fees are set at the same level as the fees applicable for 2013/14. On this occasion, therefore, I suggest there are no particular comments that need to be made in response to the consultation.

1.1.4 The Audit Commission plan to publish the confirmed work programme and scales of fees for 2014/15 in March 2014.

#### **1.2 Legal Implications**

1.2.1 Legally, we have no choice but to accept the final version of the 2014/15 Work Programme and Scales of Fees and will continue to cooperate with our external auditors who serve us.

### 1.3 Financial and Value for Money Considerations

1.3.1 As set out above.

### 1.4 Risk Assessment

1.4.1 None.

### 1.5 Equality Impact Assessment

1.5.1 See 'Screening for equality impacts' table at end of report

### 1.6 Recommendations

1.6.1 Members are **RECOMMENDED** to note and endorse the Audit Commission's proposed 2014/15 Work Programme and Scales of Fees.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton

Director of Finance and Transformation

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	Consultation paper.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	Consultation paper.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		N / A

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*

# Proposed work programme and scales of fees 2014/15

Local government and police bodies

October 2013

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

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

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

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

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# Introduction

**1** This consultation document sets out the work the Audit Commission plans to undertake at local government and police audited bodies during 2014/15, with the associated scales of audit fees and indicative certification fees. A separate consultation document covers the Commission's [work programme and scales of fees at NHS bodies](#).

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

**3** We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2014/15 work programme and scale fees, as well as supporting audited bodies' financial planning.

## Background

**4** In March 2012, the Commission announced significant reductions of up to 40 per cent in audit and certification fees from 2012/13 onwards. These fee reductions were achieved as a combined result of the Commission's bulk purchasing power and internal efficiency savings.

**5** When we announced the reductions, we said that we expect these lower fees to apply for five years, from 2012/13 to 2016/17, subject to annual review.

**6** We plan to publish the confirmed work programme and scales of fees for 2014/15 in March 2014. We have a statutory duty to consult stakeholders before prescribing a scale of fees. We consult audited bodies themselves, where possible, as well as their representative associations, relevant government departments and the accountancy profession.

## 2014/15 fees

**7** We do not plan to make any changes to the work programme for local government and police audited bodies for 2014/15. We therefore propose that scale audit fees are set at the same level as the fees applicable for 2013/14.

**8** Fees for police bodies reflect the increase from 2012/13 in audit work arising from the changes introduced by the Police Reform and Social Responsibility Act 2011, requiring auditors to undertake audits of two statutory bodies in a police area rather than one. We will continue to keep the scales of fees for the new police bodies under review, to ensure they are consistent with auditors' local assessment of audit risks.

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

## Fees beyond 2014/15

**10** The Commission is expected to close in March 2015. The Local Audit and Accountability Bill 2013 (the Bill) provides for the closure of the Commission and the introduction of a new framework for local public audit. The Bill completed its passage in the House of Lords in July 2013, with the Commons stage due to take place in the autumn, and is likely to receive Royal Assent early in 2014.

**11** The Commission's current contracts with audit suppliers run until 2016/17, with a possibility of extension for up to three years. The responsibility for overseeing these contracts is expected to pass to a transitional body from April 2015.

**12** Our understanding is that the Commission will set fees for 2015/16, which will be the first year of audit following our closure. We will continue to work with officials at the Department for Communities and Local Government (DCLG) on this basis. We would expect to consult on the 2015/16 work programme and scales of fees in late 2014, and publish the confirmed scale fees in 2015 before the Commission closes.

**13** The Commission is currently undertaking another audit procurement exercise, covering the contracts with audit firms that it let in 2006 and 2007. These contracts cover 30 per cent of principal bodies in the Commission's regime. Any savings achieved as a result of this procurement will be reflected in further fee reductions from 2015/16 for all principal audited bodies. An announcement on the outcome of the procurement is expected in April 2014.

## Responding to this consultation

**14** We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to [workandfeesconsultation@audit-commission.gsi.gov.uk](mailto:workandfeesconsultation@audit-commission.gsi.gov.uk) or to Jon Hayes, Associate Controller of Audit (Compliance), at the following address by **Friday 10 January 2014**:

Audit Commission  
3rd Floor, Fry Building  
2 Marsham Street  
London, SW1P 4DF

# Proposed work programme for 2014/15

## Audit

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

**16** Under the *Code of Audit Practice* (the Code), the Commission may specify additional audit work which supplements the local risk-based approach to planning the audit. For 2014/15, the Commission will specify work on Whole of Government Accounts (WGA).

**17** The Chartered Institute for Public Finance and Accountancy (CIPFA) is consulting on proposals for changes to the 2015/16 *Code of Practice on Local Authority Accounting in the United Kingdom*. The proposals include changes to the measurement requirements for transport infrastructure assets. Because these changes may have significant practical implications, CIPFA is proposing phased implementation, with a dry run of the approach in 2014/15. Subject to confirmation following the consultation, auditors may need to undertake additional audit work on transport infrastructure assets at some audited bodies. Where the additional work cannot be accommodated within the scale fee, the auditor will need to agree a fee variation with the audited body and seek approval from the Commission.

## National reports

**18** In previous years, we have published our annual [Auditing the Accounts](#) and [Protecting the Public Purse](#) reports. These reports summarise, respectively, the results of auditors' work on audited bodies' financial statements and arrangements to secure value for money, and the results of our annual survey of fraud in local government. The Commission is expected to close in March 2015 and will not therefore be publishing an Auditing the Accounts report on the results of auditors' work on 2014/15 audits or a Protecting the Public Purse report.

**19** Arrangements will be needed following the closure of the Commission to summarise and publish the results of audits. Central government departments are accountable to Parliament for the billions of pounds of taxpayers' money paid by them to local bodies. Departmental accountability system statements refer to the assurance that departments obtain from local external audit, and Accounting Officers will need to continue to have access to the results of audits and analysis of the outcomes, as currently published by the Commission, to enable this.



## Auditors' local value for money work

**20** Under the Audit Commission Act 1998, auditors must satisfy themselves about an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

**21** Auditors of single-tier, county and district councils, fire and rescue authorities and police bodies will apply a risk-based approach to their local value for money (VFM) work, giving a conclusion on the arrangements in place. The approach is based on criteria specified by the Commission relating to financial resilience and prioritising resources.

**22** Auditors of larger national parks authorities, waste disposal authorities, integrated transport authorities, passenger transport executives, joint committees, and other miscellaneous local government bodies will continue to apply a more tailored approach to their local VFM work. The approach is based primarily on review of the annual governance statement, and any other specific work the auditor considers necessary.

**23** A VFM conclusion is not required for audited bodies with annual income or expenditure of less than £6.5 million, which are subject to limited assurance audit. This is in line with the threshold set in the Accounts and Audit (England) Regulations 2011 defining smaller relevant bodies.

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

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

## Certification work

**26** As well as their work under the Code, appointed auditors, as agents of the Commission, certify certain claims and returns.

**27** For 2014/15, we will not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors will undertake only limited tests will remain at £500,000. Above this threshold, certification work takes account of the authority's control environment for preparing the claim or return.

**28** DCLG and HM Treasury are working with grant-paying bodies to develop assurance arrangements for certifying claims and returns following the closure of the Commission. Subject to confirmation, we expect these new arrangements to apply to 2014/15 claims and returns and therefore the following schemes to fall outside the Commission's arrangements:

- CFB06 Pooling of housing capital receipts;
- PEN05 Teachers' pensions return;
- RG 31 Single Programme (Greater London Authority);
- TRA04 Metropolitan railway passenger services grants; and

- TRA11 Local transport plan major projects.

**29** We expect that auditors will continue to certify local authority claims for housing benefit subsidy from the Department for Work and Pensions (DWP) under the arrangements developed by the Commission. The DWP has asked the Commission to prepare the auditor guidance for 2014/15. Arrangements for 2015/16 onwards are to be confirmed, but DWP envisages that auditor certification will be needed until 2016/17, when Universal Credit is expected to replace housing benefit.

### **Assessment and inspection work**

**30** Following the end of Comprehensive Area Assessment in May 2010, there is no longer any programme of mandatory inspection work. We do not envisage carrying out any inspections in 2014/15, unless specifically directed to do so.

# Proposed scales of fees for 2014/15

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

**31** We have reflected the cost of the work programme in the proposed scales of fees for 2014/15. The fees are based on the scale fees applicable for 2013/14.

**32** The [proposed 2014/15 scale fee for each local government body](#) and [proposed 2014/15 scale of fee for each police body](#) are available on our website.

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

**34** As the 2014/15 scale fees are based on the scale fee for 2013/14, they continue to reflect the auditor's assessment of audit risk and complexity. We would only expect variations from the scale fee to occur in 2014/15 where these factors are significantly different from those identified and reflected in the 2013/14 fee.

**35** The Commission obtains updated fee information from appointed auditors, and explanations for any proposed variations from the scale fee, on a regular basis. The Commission will consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee.

**36** We will keep the scale of fees for police bodies under review to ensure they are consistent with auditors' local assessment of audit risks.

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

## Pension fund audits

**38** The proposed scale fees for 2014/15 pension fund audits are the scale fees applicable for 2013/14. The [proposed pension fund audit scale fee for each relevant audited body for 2014/15](#) is available on our website.

## Certification work

**39** The Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work.

**40** We publish an indicative certification fee each year for each relevant audited body, using the latest final certification fees available. Indicative fees for 2014/15 certification work will be based on final 2012/13 certification fees, adjusted for schemes no longer requiring auditor certification in 2014/15.

**41** The Commission will receive this fee information from appointed auditors in January 2014. We will therefore publish the 2014/15 indicative certification fee for each individual audited body on our website in March 2014.

**42** For the purposes of this consultation, we have produced an [estimated indicative fee for each body](#) as a guideline, because we do not have the final fee information for 2012/13 yet. The estimated fees use the 2013/14 indicative certification fees, adjusted for those schemes for which we do not expect to make certification arrangements in 2014/15.

**43** As indicative certification fees are based on the latest final certification fees available, they reflect the auditors' assessment of the work required. Therefore, we expect variations from the indicative fee for an audited body to occur only where issues arise that are significantly different from those identified and reflected in the previous year's fee.

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

## Inspection fees for local government bodies

**45** We do not plan to undertake any inspections in 2014/15. Any risk-based inspections we are specifically directed to undertake will be charged on the basis of the fees set for 2010/11. This was the last year in which we undertook a planned programme of inspections. The [2010/11 fees](#) are available on the archived version of our website.

## Value added tax

**46** All the 2014/15 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

## Next steps

**47** Under section 7 of the Audit Commission Act, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing scales of fees, the Commission is required to consult relevant representative organisations.

**48** We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to [workandfeesconsultation@audit-commission.gsi.gov.uk](mailto:workandfeesconsultation@audit-commission.gsi.gov.uk) or to Jon Hayes, Associate Controller of Audit (Compliance), at the following address by **Friday 10 January 2014**:

Audit Commission  
3rd Floor, Fry Building  
2 Marsham Street  
London, SW1P 4DF

**49** Following responses to this consultation, the Commission's Board will approve the final 2014/15 work programme and scales of fees for publication in late March 2014.

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

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

27 January 2014

#### Report of the Chief Internal Auditor

#### Part 1- Public

#### Matters for Information

#### **1 UPDATE ON THE WORK OF INTERNAL AUDIT DURING 2013-14**

**This report provides Members with an update on the progress of the Internal Audit Team against the agreed 2013-14 Annual Internal Audit Plan.**

#### **1.1 Progress against the 2013-14 Internal Audit Plan**

1.1.1 The Annual Internal Audit Plan for 2013-14 was approved by this Committee on the 8 April 2013 and contained 41 items. **[Annex 1]**. The Public Sector Internal Audit Standards (PSIAS) require Internal Audit to *report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan*. The purpose of this report therefore, is to provide Members with an update on the progress of the Internal Audit team in 2013-14 against the Internal Audit Plan.

1.1.2 The plan reflects all work undertaken by the team during the financial year, containing both assurance work and consultancy work. Of the 41 items on the original plan, 27 were audit reviews that would result in an assurance opinion; the remainder being consultancy items or allowances for follow up, provision of control advice etc.

1.1.3 Of the 27 assurance opinion reviews, the team have issued final reports and agreed management action plans in respect of 11 audits; of these three have been given opinions of Red, five Amber and three Green. (See **Annex 2** for definitions of audit opinions) In addition the team have issued draft reports to client management for consideration in respect of seven audits and three audits are currently underway. Work has not yet commenced on the remaining six audits. A summary of the current status of all audits on the 2013-14 plan including a summary of findings where finalised is attached to this report. **[Annex 3]**.

1.1.4 The Senior Internal Auditor post is a job-share; one of the post-holders will be leaving the Council's employment at the end of January 2014. The team have reviewed the work plan for the remainder of the financial year and it is anticipated that we will be able to complete the remainder of the assurance reviews on the plan within the available resources by the end of the 2013-14 financial year.

## **1.2 Legal Implications**

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

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

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

## **1.4 Risk Assessment**

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

Background papers:

Held within Internal Audit

David Buckley  
Chief Internal Auditor

contact: Katey Durkin  
Audit Manager



No	Area of Audit Focus	Allocation of Audit Days	Proposed Scope
<b>ASSURANCE WORK</b>			
<b><u>Key Financial Systems</u></b>			
1	Creditors	7	Review of the council's creditor payment process including arrangements to mitigate the risk of mandate fraud.
2	Debtors	7	Review of the administration and recovery of the council's sundry debtors.
3	Bank Reconciliation	5	Review of the council's bank reconciliation arrangements.
4	Payroll	10	Review of the council's arrangements to pay staff salaries.
5	Council Tax Administration & Recovery	12	Review of the council's arrangements to administer and recover Council Tax liabilities including discounts / exemptions and arrangements to mitigate fraud risk.
6	Local Support for Council Tax	10	Review of the administration of the new Local Support for Council Tax Scheme.
7	NNDR Administration & Recovery	10	Review of the council's arrangements to administer and recovery NNDR liabilities in the borough.
8	Leisure Services Business Unit Income Collection	7	Review of arrangements to collect income across the sites of the Leisure Services Business Unit focussing on the key financial controls.
9	Car Parking Income	12	Review of the arrangements to collect income from the council's car parks and on-street parking spaces.
10	Housing Benefits - Assessment, Interventions & Reviews.	10	Review of arrangements to process claims for Housing Benefit, including arrangements for interventions and reviews.
11	Housing Benefits - Overpayments Management	12	Review of the council's arrangements to recovery overpaid Housing Benefit
		<b>102</b>	
<b><u>Other Financial Systems</u></b>			
12	Benefit Investigations	7	Review of the council's arrangements to investigate Benefit Fraud.
13	Grant Claims	10	Review of arrangements to pay grants to other organisations including Parishes.
14	Parking Enforcement - Penalty Charge Notice Recovery	10	Review of arrangements to recover Penalty Charge Notices.
15	Car Parking Permits	7	Review of arrangements to administer parking permits.
16	Discretionary Housing Payments	10	Review of arrangements to administer Discretionary Housing Payments.
17	Concessions	10	Review of arrangements to manage income in respect of the council's concessions including those in the Country Parks and Poulton Wood.
		<b>54</b>	
<b><u>Control Environment Reviews</u></b>			
18	Commercial Food Safety Regulation	5	Review of arrangements to conduct food safety inspections and deal with non-compliance with regulations in the borough's food establishments.
19	Refuse Collection, Recycling, Street Cleansing and Grounds Maintenance	15	Review of arrangements to manage the council's refuse, recycling, street cleansing and grounds maintenance contracts.
20	Data Protection	12	Review of the council's arrangements to ensure the security of data including a review of Data Protection statements/declarations on council application forms.
21	Planning Applications	12	Review of arrangements to process planning applications.
22	IT Asset Management	10	Review of arrangements to manage IT Assets including maintenance of the IT Asset Register.
23	Mobile Telephones	10	Review of arrangements in place for the provision of mobile phones and reimbursement of costs relating to business use, including repayment of private usage. In addition to the control assurance work, the review will also provide consultancy services to consider opportunities to enable smarter working through provision of mobile technology.
24	Asset Management	10	Review of arrangements to manage the council's assets including maintenance of the Asset Register.
25	Youth & Play Development - Income Collection	7	Review of arrangements to collect and bank income in respect of the Youth & Play Development Schemes.
26	Personal & Premises Licensing	10	Review of arrangements in place to administer Personal and Premises Licenses.
27	Events Management	7	Review of Events Management arrangements based on the Tonbridge Taster Event. In addition to control assurance, Internal Audit will provide advice and support to the project group in advance of the event, and will conduct a Post Implementation Review following the project.
		<b>98</b>	
28	<b>Audit Follow Up Work</b>	<b>15</b>	Allowance for conducting follow-up of high priority recommendations and reviews where an opinion of Minimal is given.
<b>CONSULTANCY WORK</b>			
29	<b><u>Corporate Consultancy Work</u></b>	<b>90</b>	Allowance for conducting VfM / Efficiencies work as directed by Management Team (day allocation includes Audit Management days)
<b><u>Other Known Project Work</u></b>			
30	Electoral Registration - Introduction of Individual Elector Registration	12	Allowance for the provision of support to the council's working group on the introduction of Individual Elector Registration.
31	Welfare Reform	5	Allowance for the provision of support to the council's working group on Welfare Reform.
32	Future Delivery of Leisure Facilities	10	Allowance for the provision of support for the council's working group to arrange the future delivery of Leisure facilities in the borough.
33	Town Centre Regeneration	15	Allowance for the provision of support to the council's working group on Town Centre Regeneration.
34	Kent Waste Partnership Refuse & Recycling Review	5	Allowance for the provision of support to the council's working group reviewing the Recycling & Waste Management options for provision after the current contract term.
		<b>47</b>	
<b><u>Anti-Fraud Activity</u></b>			
35	Investigation Work	20	Allowance for conducting special investigation work.
36	Recruitment Vetting Procedures	12	Proactive review of the council's arrangements to ensure staff recruited are subject to appropriate verification checks to reduce the risk of employment fraud.
37	National Fraud Initiative 2012-13	5	Co-ordination of the council's response to the 2012-13 full NFI exercise.
38	National Fraud Initiative 2013-14	2	Preparation and submission of data for the 2013-14 Single Person Discount Fraud exercise.
		<b>39</b>	
39	<b>Consultancy Services</b>	<b>7</b>	Allowance for the provision of consultancy services unknown at the time of planning.
40	<b>Responsive Work</b>	<b>7</b>	Allowance for the provision of responsive support to the council during the financial year.
41	<b>Advice and Information</b>	<b>7</b>	Allowance for the provision of control advice and information to the council during the year.
		<b>466</b>	



## Definitions of Audit Opinions

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

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

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

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

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

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

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

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## 2013-14 Audit Plan Assurance Work Current Status

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings (where finalised)
<i>Car Parking Income</i>	1	<i>Final report issued</i>	<i>Amber</i>	<p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Adequate arrangements exist to ensure the regular collection of money from the council's parking meters. The audit found that the Council's contractor is making cash collections in line with the contract. Opinion: Green</i></p> <p><i>RMO2 – There are adequate arrangements in place to manage the council's parking meters. The audit found the Council has a contract in place with the supplier to maintain the parking meters, however opportunities were identified to enhance the recording and monitoring of repairs requested to ensure faults with meters are rectified within the timescale specified in the contract. Opinion: Amber</i></p> <p><i>RMO3 – Income received through the Council's parking meters, season tickets and pay by mobile is verified, recorded and banked effectively. The audit found that arrangements are in place for income to be banked and recorded on the Council's ledger, however it was recommended that a reconciliation process be implemented to confirm the Council receives the correct amount from Park Mobile in respect of usage of the Pay By Mobile service. Opinion: Amber.</i></p>
<i>IT Asset Management</i>	1	<i>Final report issued</i>	<i>Amber</i>	<p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Adequate policies and procedure notes exist to support the procurement of IT Assets. The Council has set out appropriate policies and procedure notes to support the procurement of IT Assets, however the Council does not have a contract in place with an IT equipment supplier; while work is underway to procure a new contract equipment is procured through a framework agreement. Opinion: Amber.</i></p> <p><i>RMO2 – The process for acquiring and recording IT Assets is appropriate. The audit found that arrangements are in place for all IT assets to be recorded on a register though opportunities to enhance records relating to equipment used by staff working from home were</i></p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings (where finalised)
				<p><i>identified. Opinion: Amber.</i></p> <p><i>RMO3 – The accounting of IT Assets in respect of renewals, disposals and depreciation is adequate. The audit found that arrangements are in place for the renewal of IT assets and for the secure disposal of equipment that has reached the end of its useful life and for this to be accurately accounted for though opportunities to improve records relating to disposals were identified. Opinion: Amber.</i></p>
<i>Mobile Telephones</i>	<i>1</i>	<i>Final report issued</i>	<i>Red</i>	<p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Provision of mobile phones is adequately documented and administered. The audit found that the Council does not have a formal policy in place to support the provision of mobile phones to staff and weaknesses were identified in the arrangements to maintain an inventory. Opinion: Red.</i></p> <p><i>RMO2 – Costs are adequately administered. The audit found that arrangements to pay and recharge services for mobile phones are effective however arrangements to monitor usage are weak. Opinion: Red.</i></p> <p><i>RMO3 – Allowances given towards use of private mobile phones are appropriately administered. While there is no formal policy in place in respect of allowances for business use of private mobile phones, the audit found arrangements to pay the allowance were adequate. Opinion: Amber.</i></p> <p><i>It should be noted that the audit testing conducted did not identify any instances of misuse/ abuse of mobile phones provided. The weaknesses identified are not considered to represent a significant governance issue as the financial risk is relatively small (representing a total expenditure less than 10% of the Council's triviality threshold for the Statement of Accounts) and the function is not key to the achievement of any of the council's objectives.</i></p> <p><i>Action was taken by management to address the weaknesses identified in the audit immediately after the issue of the report; the report was considered by Management Team, a review of all mobile contracts has been carried out and a draft policy prepared. Internal Audit will continue to</i></p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings (where finalised)
				<i>monitor progress against the recommendations agreed.</i>
<i>Recruitment Vetting Procedures – Counter Fraud Review</i>	<i>1</i>	<i>Final report issued</i>	<i>Red</i>	<p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Adequate recruitment vetting procedures exist to reduce the risk of employment fraud both internally and externally. The audit found that evidence of identification, right to work and qualifications is not routinely saved. This does not mean that checks were not carried out, however assurance could not be provided that these checks are taking place in practice. As such it was recommended that evidence should be retained on personnel files of successful applicants. In addition arrangements to verify the identity, right to work and qualifications of staff procured through Recruitment Agencies were found to be weak with records maintained by individual services not Personnel. Opinion: Red.</i></p> <p><i>It should be noted that the review did not identify any instances of fraud, false employment records and all staff required to hold professional qualifications were confirmed as current members of the appropriate bodies.</i></p> <p><i>Action was taken by management to address the weaknesses identified in the audit immediately after the issue of the report; the report was considered by Management Team and responsibilities of Personnel and recruiting managers have been clarified in instructions to staff. Internal Audit will continue to monitor progress against the recommendations agreed.</i></p>
<i>Grant Claims</i>	<i>3</i>	<i>Final report issued</i>	<i>Green</i>	<p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Adequate policies and procedure notes exist to support the payment of grant claims and Parish Precepts. Audit testing confirmed appropriate policies and procedures are in place. Opinion: Green.</i></p> <p><i>RMO2 – Adequate records are maintained of all grants, Parish Precepts and financial arrangements with Parish Councils that have been approved and are to be paid. Audit testing confirmed that</i></p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings (where finalised)
				<i>appropriate records including Member approvals exist to support payments to Parish Councils. Opinion: Green.</i>
Asset Management	1	Final report issued	Amber	<p>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Adequate records are maintained of all the Council's land and property holdings in respect of fixed assets. The audit found that the council has an asset register in place and arrangements in place for this to be maintained, and for income in respect of rents and leases of council properties to be recovered through the council's Debtors system. The audit recommended that these arrangements be supported by the production of an Asset Management Plan and for records of rental/lease income due maintained within Finance to be streamlined and digitised. Opinion: Amber.</p> <p>RMO2 – Reviews are carried out of property holdings in light of changing operational needs and market opportunities. The audit found arrangements in place for assets to be reviewed and re-valued on a rolling programme in line with professional guidance. The reviews have resulted in the rationalisation of assets held including the lease of office space to Kent Police; audit testing however identified delays in the invoicing arrangements. Opinion: Amber.</p> <p>RMO3 – Valuations, acquisitions, sales and leases are appropriately dealt with obtaining the best terms for the Council. Audit testing identified weaknesses in the process for administering Periodical Income Accounts (the functionality within the Debtors system that allows for automated billing in line with lease/rental agreements), variances between rental/lease agreement details held in Finance and Estates Management, and the accurate and timely application of RPI increases. Opinion: Red.</p> <p>RMO4 – There is an effective estates management service. The review found that the Council's Estates Team are appropriately qualified and experienced, with arrangements in place to ensure the team are kept up to date on best practice; the review recommended that procedure notes be prepared to support officers in the more</p>



Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings (where finalised)
				complex and less frequently applied processes. Opinion: Amber.
Leisure Services Business Unit (LSBU) Income Collection	1	Final report issued	Green	<p>The audit considered the Council's arrangements in respect of the following risk management objective (RMO):</p> <p>RMO1 – Cashing up and banking procedures are adequately controlled across all LSBU sites and cash is adequately collected and verified. This audit examined income records from the LSBU during the period 1 April – 31 October 2013 prior to the Leisure Trust as these figures will feed the Council's Financial Statements for the 2013-14 financial year. The review found that key controls were in place and working effectively with income receipted, banked and recorded on the general ledger accurately and on a timely basis. Opinion: Green.</p>
Parking Enforcement - Penalty Charge Notice Recovery	2	Final report issued	Amber	<p>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Adequate policies and procedure notes exist in relation to recovery of Penalty Charge Notices (PCNs). Audit testing found that the Council works to a Parking Recovery Policy within the Corporate Debt Recovery Policy with arrangements to ensure Civil Enforcement Officers are adequately trained. The review recommended that comprehensive procedure notes be prepared to support the administration of the service. Opinion: Amber.</p> <p>RMO2 – Appropriate procedures are in place to calculate, agree, issue and recover PCN charges. The audit found that there are arrangements in place for Penalty Charge Notices to be accurately calculated and appropriately issued, with recovery a combination of automated system actions and where this is not successful, manual officer intervention. Audit testing of cases subject to recovery action found that all cases are progressed through the stages set out in the policy however some delays in the later stages of recovery were identified. Opinion: Amber</p>
Council Tax Reduction Scheme	2	Final Report Issued	Green	<p>The audit considered the Council's arrangements in respect of the following risk management objective (RMO):</p> <p>RMO1 – An appropriate scheme and effective process has been</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings (where finalised)
				<p>adopted following the introduction of the Council Tax Reduction Scheme (CTRS). The review found that the Council Tax Reduction Scheme implemented at Tonbridge &amp; Malling Borough Council had been developed, publicised and implemented in line with the Government guidance. Audit testing also confirmed that the system parameters had been appropriately set to ensure the reduction is accurately calculated and applied to accounts, with recovery parameters adjusted to ensure outstanding liabilities are recovered. Opinion: Green</p>
Discretionary Housing Payments	2	Final report issued	Red	<p>The audit considered the Council's arrangements in respect of the following risk management objective (RMO):</p> <p>RMO1 – There are appropriate arrangements in place for administering Discretionary Housing Payments (DHPs). The review found that the council has a policy in place in respect of DHPs which sets out arrangements applications to be considered and awarded on the Northgate Benefits System. Audit testing found weaknesses in the process that had resulted in two cases that had been paid a DHP though they were not eligible in line with the Council's policy (though not in defiance of the guidance from the Department for Work &amp; Pensions which is less specific); in addition one of these cases had been paid in duplicate. Audit testing also identified opportunities to strengthen controls and improve the accuracy and consistency of record-keeping, authorisation of determinations made on applications for DHPs and clarification of the appeals process. Opinion: Red.</p> <p>It should be noted that management have responded positively to the review and were taking steps to improve controls during the audit review process.</p>
Concessions	3	Final Report Issued	Amber	<p>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Adequate records are maintained of all concessions with the Council. Audit testing found that there are arrangements in place to maintain records of all concessions held though opportunities to</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings (where finalised)
				<p>enhance and update these were identified. Opinion: Green.</p> <p>RMO2 – Leases/agreements are appropriately dealt with obtaining the best terms for the Council. The audit found that appropriate processes have been followed in the selection of contractors for concessions with details of decisions reported to Members. Audit testing identified delays in the invoicing of concession holders and errors in the application of VAT codes with recommendations agreed to address these. Opinion: Amber.</p> <p>RMO3 – All concession lease/agreements are being monitored. There are arrangements in place for relevant officers across the council to meet regularly to monitor the operation of the concessions and that while some concessions have been subject to a Council inspection, there are no formal arrangements for ongoing inspections though a schedule was being prepared during the course of the audit. Opinion: Amber.</p> <p>RMO4 – Potential for other future concessions has been considered. Audit testing found that opportunities to introduce additional concessions have been explored; there has been no interest from potential operators however this is kept under review. Opinion: Green.</p>
Youth & Play Development - Income Collection	2	Fieldwork completed, report with client for consideration	---	<p>The audit will consider the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – There are adequate processes to ensure that all income streams for the Activate, Y2 Crew and Playscheme for Summer 2013 are secure.</p> <p>RMO2 – There are adequate processes to ensure that the schemes are strictly controlled in line with Ofsted guidance.</p> <p>RMO3 – Adequate procedures are in place to ensure that staff are aware of the risks associated with the management of the schemes.</p> <p>RMO4 – There is sufficient public liability and employer's liability insurance in place.</p> <p>RMO5 – The schemes are not being monitored to ensure that any</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings (where finalised)
				savings could be achieved.
Planning Applications	2	Fieldwork completed, report drafted	---	<p>The audit will consider the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Adequate procedures have been adopted for the administration of planning applications.</p> <p>RMO2 – Adequate processes exist in relation to handling and banking of development control payments.</p>
Debtors	3	Fieldwork completed, report drafted	---	<p>The audit will consider the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Effective key controls are in place to manage the council's Debtors system.</p>
Commercial Food Safety Regulation	3	Fieldwork completed, report drafted	---	<p>The audit will consider the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RM01 – There are plans, policies and procedures in place as required by the food safety legislation and guidance.</p> <p>RM02 – There are arrangements in place to carry out effective food safety inspections and enforcement activity in the Borough.</p>
Personal & Premises Licensing	3	Fieldwork completed, report drafted	---	<p>The audit will consider the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Effective policies and procedure notes exist to support the personal and premises licence function.</p> <p>RMO2 – Appropriate arrangements are in place for the proper administration of personal and premises licences.</p> <p>RMO3 – Appropriate enforcement arrangements exist for personal and premises licences.</p>
Benefit Investigations	2	Fieldwork completed, report drafted	---	<p>The audit will consider the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – The Investigations Team work to policies and procedure notes that are in line with guidance and legislation.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings (where finalised)
				<p>RMO2 – Arrangements are in place to investigate benefit fraud referrals.</p> <p>RMO3 – Arrangements are in place to conduct compliance work to help ensure benefit changes of circumstances result in updating benefit cases.</p> <p>RMO4 – Arrangements are in place to proactively prevent and detect fraud.</p>
NNDR Administration & Recovery	4	Fieldwork completed, report drafted	---	<p>The audit will consider the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Arrangements are in place to identify, record and reconcile chargeable properties within the borough.</p> <p>RMO2 – Charges placed upon properties are in line with the relevant legislation.</p> <p>RMO3 – Arrangements are in place to identify and recover unpaid NNDR liabilities.</p>
Refuse Collection, Recycling, Street Cleansing and Grounds Maintenance	3	Fieldwork underway	---	<p>The audit will consider the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Appropriate controls exist to ensure that the Refuse Collection and Recycling contracts are monitored and managed effectively to ensure that the council's obligations are delivered.</p> <p>RMO2 – Appropriate controls exist to ensure that the Grounds Maintenance contracts are monitored and managed effectively to ensure that the council's obligations are delivered</p> <p>RMO3 – Appropriate controls exist to ensure that the Street Cleansing contracts are monitored and managed effectively to ensure that the council's obligations are delivered.</p>
Housing Benefit Overpayments Management	4	Fieldwork underway	---	<p>The audit will consider the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Appropriate and timely action is taken to recover all Housing Benefit Overpayments.</p>

<b>Audit Review Title</b>	<b>Planned Quarter</b>	<b>Current Status</b>	<b>Audit Opinion</b>	<b>Scope of Audit and Findings (where finalised)</b>
				RMO2 – There are effective performance monitoring arrangements in place in respect of overpayments.
Bank Reconciliation	2	Fieldwork underway	---	The audit will consider the Council's arrangements in respect of the following risk management objective (RMO): RMO1 – There are key controls in place which ensure that all areas of the bank reconciliation are carried out in an accurate and prompt manner.
Housing Benefits - Assessment, Interventions & Reviews.	3	Not yet started	---	
Creditors	4	Not yet started	---	
Car Parking Permits	4	Not yet started	---	
Data Protection	4	Not yet started	---	
Council Tax Administration & Recovery	4	Not yet started	---	
Payroll	4	Not yet started	---	
Corporate Consultancy Work	1-4	Underway	---	Work has commenced on corporate consultancy reviews as directed by the Council's Management Team.
Events Management	3	Fieldwork completed, report with client for consideration	---	The review seeks to identify opportunities to further enhance the management of future events by analysing the management and experiences of the Taste of Tonbridge day.



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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

27 January 2014

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

#### Part 1- Public

#### Matters for Information

#### 1 ANNUAL AUDIT LETTER

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

#### 1.1 Introduction

- 1.1.1 As in previous years the Annual Audit Letter summarises the main outcomes from the work carried out by our external auditors for the year ended 31 March 2013. As such it repeats the headline messages reported in the Audit Findings Report to this Committee in October.
- 1.1.2 The Letter is the prime means through which the results of audit and performance assessment work are communicated to Members, the public and other stakeholders. A copy of the Annual Audit Letter for the year 2012/13 is attached at **[Annex 1]**.
- 1.1.3 The Director of Finance and Transformation arranged for the Letter to be circulated to all Members by e-mail and for it to be made available on the Council's website in October 2013.
- 1.1.4 The key messages drawn from the letter are set out below:
- 1) The financial statements were produced to a high standard and supported by comprehensive working paper trails. Only a small number of audit amendments were required.
  - 2) The Council continues to have a strong focus on effective financial management, including a robust medium term financial planning framework. Although the Council faces significant financial pressures in future years it has an effective framework of arrangements to address these pressures.

## **1.2 Legal Implications**

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

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

1.3.1 None.

## **1.4 Risk Assessment**

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

Background papers:

contact: Sharon Shelton

Nil

Sharon Shelton

Director of Finance and Transformation



# The Annual Audit Letter for Tonbridge & Malling Borough Council

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**Year ended 31 March 2013**

October 2013

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## Section 1: Executive summary

- 01. Executive summary
- 02. Audit of the accounts
- 03. Value for Money
- 04. Certification of grant claims and returns

# Executive summary

## Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Tonbridge & Malling Borough Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 2 September 2013.

## Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

## Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We also

- completed a "short form" assurance statement on the council's Whole of Government Accounts submission, confirming the relevant entries were consistent with the audited statutory accounts
- certified the Council's NDR3 return which was signed off without amendment or qualification. Our work on the housing benefit and council tax benefit subsidy claim, which has a deadline of 30 November, is still in progress.

### **Key areas for Council attention**

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The financial statements were produced to a high standard and supported by comprehensive working paper trails. Only a small number of audit amendments were required.

The Council continues to have a strong focus on effective financial management, including a robust medium term planning framework.. Although the Council faces significant financial pressures in future years it has an effective framework of arrangements to address these pressures.

### **Acknowledgements**

This Letter has been agreed with the Director of Finance and Transformation and will be presented to the Audit Committee in January 2014.

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

**Grant Thornton UK LLP**  
**October 2013**

## Section 2: Audit of the accounts

01. Executive summary
<b>02. Audit of the accounts</b>
03. Value for Money
04. Certification of grant claims and returns



# Audit of the accounts

## **Audit of the accounts**

The key findings of our audit of the accounts are summarised below.

### **Preparation of the accounts**

The Council presented us with draft accounts on 17 June 2013. Comprehensive working papers were made available from the start of the audit fieldwork..

As in previous years the Council's accounts were prepared to a high standard. We identified no adjustments requiring amendment of the primary financial statements, although a small number of changes were required to disclosure notes. All of the amendments we requested were agreed by management.

## **Conclusion**

Prior to giving our opinion on the accounts we are required to report significant matters arising from the audit to 'those charged with governance' (for the Council defined as the General Purposes Committee). We presented our report to the General Purposes Committee on 2 September and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded for the year.

## Section 3: Value for Money

- 
- 01. Executive summary
  - 02. Audit of the accounts
  - 03. Value for Money**
  - 04. Certification of grant claims and returns

# Value for Money

## Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

**The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

We concluded that the Council has effective arrangements in each of these areas. Financial governance responsibilities are clearly defined and there are well-established processes for monitoring budgets with appropriate oversight by members. There is a robust medium term financial planning framework covering the next 10 years. The Council's modelling indicates that the funding gap over this period has increased slightly in 2012/13 compared to the previous year, to £2.8m. However, the Council continues to have a robust framework for addressing this funding gap and delivering its medium term financial strategy. The Council underspent on its original revenue budget for 2012/13 by £201,000. It continues to have an effective framework of internal control and risk management.

Further details are provided in our Financial Resilience report issued in September 2013.

### Challenging economy, efficiency and effectiveness

We considered if the Council has prioritised its resources within tighter budgets following national reductions in central government funding.

We concluded that the Council reviews and challenge its priorities and the cost-effectiveness of its activities. The Council has a strong record of achieving efficiency savings and in 2012/13 delivered its planned savings target of

## Value for Money

£635,000. Decision-making is based on appropriate information and there is a history of using benchmarking to help understand the Council's cost base.

### **Overall VFM conclusion**

On the basis of our work and having regard to the guidance on the specified criteria published by the Audit Commission we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

## Section 4: Certification of grant claims and returns

- 01. Executive summary
- 02. Audit of the accounts
- 03. Value for Money
- 04. Certification of grant claims and returns**

# Certification of grant claims and returns

## **Introduction**

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some 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.

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

## **Key messages**

For the financial year 2012/13 we will be required to certify two of the Council's claims and returns.

The NNDR3 return records the Council's contribution to the national NNDR pool. For 2012/13 the Council's contribution was £52,203,818. We certified the return without qualification or amendment ahead of the deadline stipulated by the Department for Communities and Local Government.

Our work on the housing benefit and council tax benefit subsidy claim, which has a certification deadline of 30 November, is still in progress. The total subsidy claimed by the Council for 2012/13 is £41,132,952.

# Appendices

## Appendix A: Reports issued and fees

We confirm below the fees charged for the audit and for the provision of non-audit services.

<b>Fees</b>	<b>Per Audit plan £</b>	<b>Actual fees £</b>
Audit Fee	60,135	60,135
Grant certification fee	22,000	TBC
<b>Total fees</b>	<b>82,135</b>	<b>TBC</b>

Our grant claim work is still in progress. We will confirm the actual fee when our work on the 2012/13 housing benefit and council tax benefit subsidy claim has been completed. Where a fee variation is requested the fee for the audit is not final until the Audit Commission has determined the fee.

<b>Fees for other services</b>	<b>Fees £</b>
<b>Service</b>	
Tonbridge Town Centre Redevelopment scheme: Comment on proposals	3,800

### Reports issued

<b>Report</b>	<b>Date issued</b>
Audit Plan	June 2013
Audit Findings Report	August 2013
Financial Resilience Report	August 2013
Annual Audit Letter	October 2013
Certification report	January 2014 (planned)





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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

27 January 2014

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

#### Part 1- Public

#### Matters for Information

**1 AUDIT COMMISSION PUBLICATION – TOUGH TIMES 2013 – COUNCILS’ RESPONSES TO FINANCIAL CHALLENGES FROM 2010/11 TO 2013/14 AND GRANT THORNTON PUBLICATION – 2016 TIPPING POINT - CHALLENGING THE CURRENT**

The Audit Commission in November 2013 published its third and final report examining councils’ financial resilience in response to reductions in funding from central government and a number of other financial challenges since 2010/11. A similar report published by Grant Thornton in December 2013 assesses whether a sample of English local authorities have arrangements in place to ensure their sustainable financial future.

#### 1.1 Introduction

1.1.1 Tough Times 2013 provides an up-to-date picture of how councils coped financially in 2012/13; their expected funding and spending for 2013/14; and the views of the Commission’s appointed auditors on councils’ short and medium term financial resilience. The research shows that to date councils have risen to the challenges presented by reduced funding, whilst acknowledging that significant financial challenges lie ahead for councils as reductions in funding from central government continue.

1.1.2 The paper, based on an analysis of financial data on English councils’ actual spending in 2012/13 and spending plans for 2013/14; and a survey of councils’ appointed auditors provides an up-to-date picture of: how councils coped financially in 2012/13, councils’ expected funding and spending in 2013/14; and auditors’ views on councils’ short and medium term financial resilience.

1.1.3 The paper runs to some 53 pages so rather than reproduce in hard copy, the paper can be found at the following link:

<http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf>

- 1.1.4 The Commission's research found that the three strategies most widely adopted by councils in response to their financial challenges since 2010/11 were: reducing overall staff numbers; delivering some services more efficiently; and reducing or restructuring the senior management team. Councils also entered into new service delivery arrangements; renegotiated existing service delivery contracts and are strategically using revenue reserves to support recurrent spending – not simply as an unplanned measure. The Audit Commission believe that councils must share what they have learnt about making savings and keep looking for new ways to deliver public services that rely less on funding from central government.
- 1.1.5 The Grant Thornton publication concluded that 79% of local authorities expect some form of tipping point in 2015/16 or 2016/17. The report also suggests some of the key priorities for local authorities in responding to the challenge of remaining financial sustainable. This includes a relentless focus on generating additional sources of revenue income from: investments in the commercial property portfolio; increased commercialisation of services and local authority trading; and regeneration and inward investment to boost local economic activity. In addition, councils will need to continue to improve efficiency through shared services, strategic partnerships and wider re-organisation.
- 1.1.6 The paper runs to some 34 pages so rather than reproduce in hard copy, the paper can be found at the following link:
- [http://www.grant-thornton.co.uk/Global/Publication\\_pdf/LG-Financial-Resilience-2016-tipping-point.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf)

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

- 1.2.1 The Annual Audit Letter for the year ended 31 March 2013 concluded that: "The Council continues to have a strong focus on effective financial management, including a robust medium term financial planning framework. Although the Council faces significant financial pressures in future years it has an effective framework of arrangements to address these pressures."
- 1.2.2 The Council is keenly aware of the significant financial challenge that lies ahead as reductions in funding from central government continue, but we believe our Medium Term Financial Strategy is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way. Clearly, the absolute size of the 'funding gap' will influence the timescales we afford ourselves to address the problem.

## **1.3 Legal Implications**

- 1.3.1 The Audit Commission is a public corporation set up in 1983 to protect the public purse. The Commission appoints auditors to a range of local public bodies and oversee their work. They also help public bodies manage the financial challenges they face by providing authoritative, evidence-based analysis.

**1.4 Financial and Value for Money Considerations**

1.4.1 As set out in the above Audit Commission and Grant Thornton publications.

**1.5 Risk Assessment**

1.5.1 As set out in the above Audit Commission and Grant Thornton publications.

Background papers:

Nil

contact: Neil Lawley  
Paul Worden

Sharon Shelton  
Director of Finance and Transformation

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

27 January 2014

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

#### Part 1- Public

#### Matters for Information

#### 1 GRANT CERTIFICATION WORK 2012/13

**This report summarises the findings from the certification by Grant Thornton of the 2012/13 housing and council tax benefit subsidy claim and the national non-domestic rates return. The report of the external auditors is attached at [Annex 1].**

#### 1.1 Housing and Council Tax Benefit Subsidy Claim

- 1.1.1 For the year 2012/13, the Council's gross expenditure for Housing and Council Tax Benefit totalled £41.1 million. By way of comparison, this level of expenditure represents around 55% of gross expenditure of the Council as a whole.
- 1.1.2 The majority of this expenditure is met by monthly instalments paid to the Council by the Department for Work and Pensions (DWP), based on initial and mid-year estimates provided by the Council.
- 1.1.3 A final claim is submitted to the DWP at the end of the financial year including a balancing sum. This sum is the difference between the amount the Council has received through the year based on estimates and the subsidy due based on actual expenditure. The balance owed by the Council to the DWP in 2012/13 was £451,846.

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

#### 1.2 National Non-Domestic Rates Return

- 1.2.1 The Council has a duty to collect non-domestic (business) rates on behalf of the Department for Communities and Local Government. The rates are levied on almost all business premises, occupied or empty. In 2012/13 the Council collected 99.7% of the collectable non-domestic rates. This was a total sum of £52.2 million from 3,530 businesses in the Borough.

1.2.2 I am pleased to report the claim was certified without amendment or qualification.

### **1.3 Legal Implications**

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

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

1.4.1 The indicative fee for certification work for 2012/13 was £22,000. The actual fee for 2012/13 was £27,180 due to additional work required, in the main, on the housing and council tax benefit subsidy claim and is not expected to be repeated in 2013/14.

### **1.5 Risk Assessment**

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

Background papers:

contact: Paul Worden

Nil

Sharon Shelton  
Director of Finance and Transformation





# Certification report 2012/13 for Tonbridge & Malling Borough Council

Year ended 31 March 2013  
January 2014

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## Section 1: Executive summary

01. Executive summary

02. Results of our certification work

# Executive summary

## Introduction

We are required to certify certain of the claims and returns submitted by Tonbridge & 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.

We have certified two claims and returns for the financial year 2012/13 relating to expenditure of £93.3 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

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

## Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below.

Aspect of certification arrangements	Key Messages
<b>Submission &amp; certification</b>	All draft and final audited claims and returns were submitted within the required government department deadlines.
<b>Accuracy of claim forms submitted to the auditor (including amendments &amp; qualifications)</b>	<b>NNDR 3 return</b> No amendment was required to the NNDR 3 return.  <b>Housing and council tax benefit subsidy claim</b> A number of errors identified from audit testing and extrapolations of the potential impact on subsidy were reported to the Department of Work and Pensions (DWP) by a qualification letter.
<b>Supporting working papers</b>	<b>NNDR 3 return</b> Clear working paper trails were provided to support the return.  <b>Housing and council tax benefit subsidy claim</b> Clear working papers were provided to support the draft claim. Additional working papers were provided to support detailed audit testing.

### **Certification fees**

The Audit Commission sets an indicative scale fee for certification work at each audited body. In 2012/13 the indicative scale fee for the Council was £22,000. Additional work has been required on both the housing benefit subsidy claim and the NNDR return, as set out in more detail at Appendix B. We are proposing a final fee of £27,180. The fee increase has been agreed with officers, but before finalising the fee we are awaiting comments from the Audit Commission, who are required to approve variations to scale fees.

### **The way forward**

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

### **Acknowledgements**

We would like to take this opportunity to thank the Council's officers for their assistance and co-operation with our 2012/13 certification work.

**Grant Thornton UK LLP**  
January 2014

# Appendices

## Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value	Amended?	Qualified?	Comments
Housing and council tax benefit subsidy scheme	£ 41,132,952	No	Yes	<p>The Audit Commission certification framework requires sample testing of benefit claims to confirm benefit has been awarded in accordance with regulations and correctly recorded for subsidy purposes. Where errors are identified from certification testing then testing on further claims is performed for the issue giving rise to the error. We also consider the implications for other cells on the claim form, including for other benefit types. The overall impact on subsidy is extrapolated and reported to DWP using a qualification letter.</p> <p>Our sample testing of benefit claims in 2012/13 identified a number of errors as follows;</p> <p><b>Rent rebates</b></p> <p>On 27 claims expenditure relating to self-contained licensed accommodation had been wrongly classified as relating to non-self contained accommodation. In all cases the impact was to underclaim subsidy. Officers estimate that the total amount of subsidy underclaimed in 2012/13 was £7,775. Officers propose to action adjustments on the 2013/14 subsidy claim.</p> <p><b>Rent allowances</b></p> <p>Testing identified a number of errors due to</p> <ul style="list-style-type: none"> <li>• earnings being incorrectly applied following an extended payment period</li> <li>• state retirement pension being incorrectly updated</li> </ul> <p>The impact extrapolated for subsidy purposes was to move £8086 from cells on the claim form paying 100% subsidy into cells paying 40% subsidy (£2,366) and nil % subsidy (£5,720).</p> <p><b>Council tax benefit</b></p> <p>Testing identified a number of errors due to</p> <ul style="list-style-type: none"> <li>• earnings being incorrectly applied following an extended payment period</li> <li>• state retirement pension being incorrectly updated</li> <li>• non-dependent deductions being incorrectly calculated</li> </ul> <p>The net impact extrapolated for subsidy purposes was to move £7,436 from cells on the claim form paying 100% subsidy and £42 from a cell paying 40% subsidy into a cell paying nil % subsidy.</p>

## Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value	Amended?	Qualified?	Comments
Housing and council tax benefit subsidy scheme	£			<p><b>Adjustments due to the non-award of single person discount</b></p> <p>In early 2012 officers identified that the Council had potentially over-claimed subsidy in previous years in respect of council tax benefit due to the non-award of single person discount. In March 2012 the Council completed a preliminary review of the relevant cases. An estimated adjustment was included in the 2011/12 subsidy claim.</p> <p>In 2012/13 the Council performed further work in a number of areas. It has now completed its review of all cases where an adjustment was required. All amendments to estimated figures were actioned in the 2012/13 claim year.</p> <p>We performed sample testing of the adjustments actioned in 2012/13. We concluded that</p> <ul style="list-style-type: none"> <li>the adjustments agreed to supporting evidence and had been correctly calculated</li> <li>the Council had made the necessary adjustments to avoid double counting with the estimate included in the 2011/12 claim.</li> </ul>
NNDR 3 return	52,203,817	No	No	



## Appendix B: Fees

Claim or return	2012/13 indicative fee	2012/13 proposed fee	Variance	Explanation for significant variances
	£	£	£	
Housing benefits subsidy claim	21,120	24,540	3,420	Additional work was required to review the adjustments processed by the Council for the non award of single person discount in previous years.
National non-domestic rates return	880	2,640	1,760	The Audit Commission certification framework requires auditors to complete more detailed testing on the NNDR return at least once every three years. This more detailed testing was performed at the Council in 2012/13. The indicative scale fee is based on the limited work programme performed in other years.
<b>Total</b>	<b>22,000</b>	<b>27,180</b>	<b>5,180</b>	

## Appendix C: Action plan

**Priority**

**High** - Significant effect on arrangements

**Medium** – Some effect on arrangements

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	<b>Housing and council tax benefit subsidy scheme</b>			
1	Officers should consider the nature of the errors identified from certification testing and identify any training, supervisory or systems issues which might help reduce errors in future years.	Medium	The nature of the errors will be assessed and appropriate training, amendments to procedures and changes to systems will be made.	Assessment to take place by 31/3/14 Principal Benefit Officer
2	Benefit records for individual claimants should be amended in the current year for all errors identified from 2012/13 certification testing.	Medium	Agreed.	Amendments to be made by 31/3/14 Principal Benefit Officer



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