

Public Document Pack



TONBRIDGE & MALLING BOROUGH COUNCIL

EXECUTIVE SERVICES

Chief Executive

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

Contact: Democratic Services
committee.services@tmbc.gov.uk

18 September 2020

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 online via Microsoft Teams on Monday, 28th September, 2020 commencing at 7.30 pm.
Information on how to observe the meeting will be published on the Council's website.

Yours faithfully

JULIE BEILBY

Chief Executive

A G E N D A

PART 1 - PUBLIC

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3.	Minutes	9 - 18
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To confirm as a correct record the Minutes of the meeting of Audit Committee held on 27 July 2020

Matters for Recommendation to the Cabinet

4.	Treasury Management Update and Mid-Year Review	19 - 40
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The report provides an update on treasury management activity undertaken during April to August of the current financial year. A mid-year review of the Treasury Management and Annual Investment Strategy for 2020/21 is also included.

Decisions to be taken under Delegated Powers

5.	Risk Management	41 - 58
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The report provides an update on the risk management process and The Strategic Risk Register

6.	Statement of Accounts 2019/20 and External Auditors Report on the outcome of the Audit of Accounts	59 - 64
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The report presents the current set of Accounts for 2019/20 in the format specified by the Code of Practice for Local Authority Accounting in the United Kingdom. Members are invited to endorse and approve the Statement of Accounts and the supplemental Audit Findings Report.

The following documents to be provided as supplementary papers:
Audited Set of Accounts; Audit Findings Report; and Letter of Representation

Matters submitted for Information

7.	Internal Audit and Counter Fraud Update	65 - 78
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Update of the work of the Internal Audit and Counter Fraud functions for the period April to August 2020

8.	Grant Thornton Progress Report and Sector Update	79 - 94
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Progress report and update from Grant Thornton on emerging national issues and developments relevant to the Borough Council.

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

Matters for consideration in Private

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| 10. | Exclusion of Press and Public | 97 - 98 |
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The Chairman to move that the press and public be excluded from the remainder of the meeting during consideration of any items the publication of which would disclose exempt information.

PART 2 - PRIVATE

Matters submitted for Information

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| 11. | Insurance Claims History | 99 - 106 |
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(LGA 1972 Sch 12A Paragraph 3 – Financial or business affairs of any particular person)

This report provides information on the nature and volume of liability and property damage insurance claims submitted during the period April to August 2020.

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| 12. | Urgent Items | 107 - 108 |
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Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

MEMBERSHIP

Cllr V M C Branson (Chairman)
Cllr Mrs F A Kemp (Vice-Chairman)

Cllr T Bishop
Cllr N Foyle
Cllr P M Hickmott
Cllr S A Hudson

Cllr J R S Lark
Cllr L J O'Toole
Cllr K B Tanner

Agenda Item 1

Apologies for absence

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Agenda Item 2

Declarations of interest

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Agenda Item 3

TONBRIDGE AND MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 27th July, 2020

Present: Cllr V M C Branson (Chairman), Cllr Mrs F A Kemp (Vice-Chairman), Cllr T Bishop, Cllr N Foyle, Cllr J R S Lark, Cllr L J O'Toole and Cllr K B Tanner.

Grant Thornton: External Auditors (Paul Dossett and Trevor Greenlee)

Councillors Mrs J A Anderson, M D Boughton, N J Heslop, M A J Hood, D Lettington, Mrs A S Oakley, W E Palmer, M R Rhodes and J L Sergison were also present pursuant to Council Procedure Rule No 15.21.

Apologies for absence were received from Councillors P M Hickmott and S A Hudson

PART 1 - PUBLIC

AU 20/11 DECLARATIONS OF INTEREST

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

AU 20/12 MINUTES

RESOLVED: That the Minutes of the meeting of the Audit Committee held on 20 January 2020 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE COUNCIL

AU 20/13 AUDIT COMMITTEE ANNUAL REPORT

The report of the Chairman of the Audit Committee aimed to inform the Council of the means by which the Committee had provided independent assurance to those charged with governance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance processes. The report summarised the work carried out by the Committee during 2019/20 and concluded that the required assurance set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Guidance had been provided by the Audit Committee to those charged with governance.

Members referred to counter fraud measures in relation to the misuse of blue badges and it was confirmed that further enforcement work was

planned for Tonbridge and Malling early in 2021 or when the coronavirus pandemic had improved sufficiently to allow work to progress.

RECOMMENDED: That the Annual Report be presented to the Council as 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.

*Referred to Council

AU 20/14 LOCAL CODE OF CORPORATE GOVERNANCE

The joint report of the Chief Executive and Director of Central Services informed Members of the outcome of the annual review of the Local Code of Corporate Governance. Members were advised that the introduction of the General Data Protection Regulation (GDPR) in May 2018 and the Data Protection Act 2018 required the adoption of new procedures and some minor updates to the Local Code in 2019.

In addition, the adoption by the Council of a Corporate Enforcement Policy, to guide the authority's enforcement activities in all of its statutory functions, in 2019 and an updated Corporate Strategy for 2020-2023 required further minor updates to the Local Code to reflect those documents.

Members discussed the training provided to newly elected councillors in relation to regulatory functions and noted that training continued to be offered on both an ad-hoc and programmed basis. The measures that could be taken if Members failed to attend training events without reasonable excuse or dispensation were set out in Protocol A: Members Attendance at Training in Part 5 (Codes) of the Constitution. Sanctions included the non-participation '*in the determination of planning applications or the business of the licensing authority until such time as they have attended alternative training approved by the General Purposes Committee.*' The importance of attending appropriate training when provided was recognised.

There was also discussion regarding Member attendance at meetings as set out in Section 85 (i) of the LGA 1972 which '*required a Member of a Local Authority to attend at least one meeting of that Authority within a 6 month consecutive period in order to avoid being disqualified*' and consideration would be given to ensuring this was included in the Constitution as part of its next review.

Finally, reference was made to the ongoing commitment to provide committee reports written in a public facing and non-technical manner (as set out in Annex 1 to the report) and for these to be available on the Borough Councils website in support of transparency and effective accountability.

RECOMMENDED: That the amendments to the Local Code of Corporate Governance, as set out in Annex 1 to the report and summarised above, be commended to Council for adoption.

*Referred to Council

AU 20/15 TREASURY MANAGEMENT UPDATE AND ANNUAL REPORT FOR 2019/20

The report of the Director of Finance and Transformation provided an update on treasury management activity undertaken during April to June of the current financial year within the context of the national economic climate. The treasury management outturn position for 2019/20 was also set out.

The report provided a commentary on investments derived from cash flow surpluses, core cash balances and other long term cash balances and it was noted that long term investment at the end of June 2020 comprised £5m in property fund investment. A full list of investments held on 30 June 2020 was set out at Annex 2 to the report.

Particular reference was made to the significant financial consequences arising from the coronavirus pandemic which had resulted in a fall in UK economic growth in April of -24.5%. There remained huge uncertainties as to how quickly the economy would recover to what was formerly regarded as normality. In addition, the Government measures to support jobs and businesses would result in a substantial increase in the nation's annual budget deficit and overall level of debt.

Member's attention was drawn to the financial and value for money considerations and it was reported that investment income for the year as a whole was expected to underperform against budget by some £237,000. Dividends from property funds of £35,800 (2.87%) had been generated during the period 1 April to 30 June 2020. This return was expected to increase as rents deferred in June were collected later in the year

The Committee remained supportive of property investments in general as it was recognised that the current recession was a result of a health and not a financial crisis. Recent falls in property values were expected to be reversed as the economy recovered from the impact of Covid-19. Opportunities for additional property fund investments would be considered in the future as resources become available from asset disposals and other windfalls as these managed funds provided a stable income stream.

Investment income for the 2019/20 financial year as a whole exceeded the revised estimate by £25,158 and the original estimate by £117,158.

Finally, reference was made to the funding of £18.7m provided by Government on 1 April for redistribution to eligible businesses in the Tonbridge and Malling Area. At the end of May, 91% had been spent. It was reported that the additional cash flow had generated £4,500 of interest.

RECOMMENDED: That the following be commended to Council: 

- (1) The action taken in respect of treasury management activity for April to June 2020 be endorsed; and
- (2) The 2019/20 outturn position be noted.

***Referred to Council**

DECISIONS TAKEN UNDER DELEGATED POWERS IN ACCORDANCE WITH PART 3 OF THE CONSTITUTION (RESPONSIBILITY FOR COUNCIL FUNCTIONS)

AU 20/16 RISK MANAGEMENT UPDATE

The report of the Management Team provided an update on the risk management process and the Strategic Risk Register (SRR).

Members were advised that the Covid-19 outbreak and its ongoing impact across the Borough Council's service areas, businesses and the wider community had been added to the SRR. A number of risks had been re-categorised as RED and included:

- Financial position/budget deficit
- Brexit impact and economic uncertainty (impacted by the coronavirus pandemic)
- Corporate Strategy
- Savings and Transformation Strategy

A schedule of ongoing risks and risks identified by Service Management Teams and Management Team since the last report to this Committee in January 2020 were set out in Annex 2 of the report.

Members noted that a number of current mitigation measures set out in Annex 1 had been overtaken by events. For example, the likelihood of a No Deal Brexit. However, Members were assured that the risks to the organisation were reviewed and monitored regularly.

RESOLVED: That the escalation of a number of key risks to RED (summarised above and set out in paragraph 1.3.4) as a consequence of the coronavirus pandemic be noted and acknowledged.

AU 20/17 ANNUAL GOVERNANCE STATEMENT 2019/20

The report of the Management Team presented the Annual Governance Statement for the year ended 31 March 2020 which was required to be certified by both the Leader of the Council and the Chief Executive to accompany the Council's Statement of Accounts 2019/20.

The Annual Governance Statement had been prepared by way of a self-assessment questionnaire and supporting evidence and was intended to demonstrate that there was a sound system of corporate governance in place throughout the organisation.

Members were pleased to note that no significant governance issues had been identified and there were no other areas identified for improvement. However, it was reported that the recent introduction of Emergency Provisions for Decision Taking (as set out in Part 7 of the Constitution) to address any governance issues arising from a no-deal Brexit had proved beneficial during the current coronavirus pandemic. In addition, the introduction of 'virtual meetings' had meant some changes to protocols and procedures, as set out in the '[Protocol for Use of Videoconferencing Facilities](#)' published as a supplement to the Constitution in May 2020.

RESOLVED: That the Annual Governance Statement for the year ended 31 March 2020, as set out at Annex 1 to the report, be endorsed.

**AU 20/18 STATEMENT OF ACCOUNTS AND EXTERNAL AUDITORS
REPORT ON THE OUTCOME OF THE AUDIT OF STATEMENT OF
ACCOUNTS 2019/20**

The report of the Director of Finance and Transformation presented an unaudited set of Accounts for 2019/20 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom. The Annual Governance Statement (referred to at Minute AU 20/17) accompanied the Statement of Accounts.

The Committee was reminded that responsibility for approval of the Statement of Accounts was delegated to the Audit Committee under the Council's constitutional arrangements. In response to the Covid-19 pandemic the deadline for approval and publication of an audited set of accounts for 2019/20 had been moved from 31 July to 30 November 2020.

In addition, the report of the external auditors (published as a supplement to the main report) set out progress in delivering their responsibilities in auditing the Borough Council's accounts.

It was anticipated that an audited set of accounts would be presented for approval at the next meeting of the Audit Committee. At the current time, no significant concerns had been raised by the External Auditors.

Members were advised that the extent of the adverse financial impact arising from the Covid-19 pandemic would not be known for some time. However, in all likelihood the Borough Council's reserve balances would be very much reduced from that assumed in February 2020, as part of the budget setting process, and as a result would have an adverse impact on the scale and timing of the savings to be achieved.

Finally, Members supported the comments of the External Auditors in acknowledging the performance of the Finance Team in delivering a complete and good quality set of financial statements on the same timescales as in previous years despite the difficulties caused by the Covid-19 pandemic and asked that their appreciation be recorded.

RESOLVED: That

- (1) the Statement provided by the Director of Finance and Transformation in support of assertions made in the Statement of Responsibilities for the Statement of Accounts, as set out at Annex 2 to the report, be noted;
- (2) the (unaudited) Statement of Accounts 2019/20 as currently presented be noted;
- (3) the External Auditors progress on the audit of the Statement of Accounts for 2019/20 (published as a supplement to the main report) be noted;
- (4) in all likelihood, the Covid-19 pandemic would have a significant impact on the Borough Council's reserve balances and as a result, in turn, have an adverse impact on the scale and timing of the savings to be achieved be noted.

AU 20/19 MEMBERS ASSURANCE ON COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING

The report of the Chairman of the Audit Committee explained how those charged with governance were required to provide assurance to the external auditor under International Standards on Auditing. Members considered the question asked and accompanying response which had been agreed with the Chairman and noted that the Management Team was also required to provide assurance in this regard and that this was the subject of a separate report.

RESOLVED: That the response set out in Annex 1 to the report be endorsed.

AU 20/20 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

The report of the Chief Audit Executive informed the Committee of the findings of the annual review of the effectiveness of the Internal Audit function. Members were advised that the Management Team had concluded that the opinion on the effectiveness of the Internal Audit function in place for the year 2019/20 was Good.

Members welcomed the inclusion of a specific review of ethics and values for consideration in annual planning for future years.

RESOLVED: That on the basis of the findings of the review, the opinion that the effectiveness of Internal Audit function for the year 2019/20 was Good be endorsed.

AU 20/21 INTERNAL AUDIT AND FRAUD PLAN 2020/21

The report of the Chief Audit Executive presented the Internal Audit and Fraud Plan for 2020/21 which had been developed using a risk-based approach. Significant risk areas and priorities had been identified through a risk assessment which included reviews of the Strategic and Service Risk Registers, analysis of the wider environment, use of organisational knowledge and discussions with Service Heads and Directors. The Plan had been reviewed and endorsed by the Management Team.

Members asked a number of questions related to financial controls for charging for garden waste and reconciliation's, debt collection and the prevention of fraud related to Single Person Council Tax Discount. These were addressed by Officers and Members were reassured by the responses which confirmed that robust control measures were in place.

RESOLVED: That the Internal Audit and Fraud Plan for 2020/21, as set out in Annex 1 to the report, be approved.

AU 20/22 INTERNAL AUDIT CHARTER

The report of the Chief Audit Executive presented the Internal Audit Charter for Member consideration and approval.

For 2020-21 the Charter had been reviewed comprehensively against both the Public Sector Internal Audit Standards (PSIAS) and guidance provided by the Institute of Internal Auditors and, as a result, some changes had been made.

The Internal Charter had been prepared with due consideration to proper practice and it was considered that adequate action had been taken to minimise the risk that external assessment could consider the Charter to not meet proper practice. It was reported that the Management Team had approved the initial Charter on 10 March 2020.

RESOLVED: That the Internal Audit Charter, attached as Annex 1 to the report, be approved and noted.

MATTERS SUBMITTED FOR INFORMATION

AU 20/23 MANAGEMENT TEAM ASSURANCE ON COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING

The Committee received the report of the Management Team on assurance provided to the external auditor under International Standards on Auditing. Reference was made to the similar assurance to be provided by the Audit Committee for which this report provided supporting evidence (Minute AU 20/19 refers).

It was considered that the risk management system in place, supported by the policies and internal controls, were sufficiently robust to minimise incidents of fraud and error to ensure compliance with the Standards.

RESOLVED: That the report be received and noted.

AU 20/24 OPINION OF THE CHIEF AUDIT EXECUTIVE ON THE INTERNAL CONTROL ENVIRONMENT, TOGETHER WITH THE ANNUAL INTERNAL AUDIT REPORT AND ANNUAL COUNTER FRAUD REPORT FOR 2019/20

The report informed the Committee of the opinion of the Chief Audit Executive on the Council's framework for governance, risk management and control together with the Internal Audit work completed during 2019/20 to support that opinion. The report also informed the Committee of the work carried out by the Counter Fraud function in 2019/20.

It was the opinion of the Chief Audit Executive that Tonbridge and Malling Borough Council's framework of governance, risk management and control 'adequately' contributed to the proper, economic, efficient and effective use of resources in achieving objectives during 2019/20.

Members asked a number of questions related to data management and the resilience of business continuity and emergency planning. These were addressed by Officers and Members were reassured by the responses that robust measures were in place to ensure value for money and mitigate risk. It was also noted that the recommendations arising from the 2019-20 Internal Audit Assurance and Consultancy Reviews (set out in Annex 1 to the report) would be implemented during the year and outcomes would be presented to future meetings of the Committee.

RESOLVED: That the report be received and noted.

AU 20/25 NATIONAL AUDIT OFFICE GUIDE FOR AUDIT AND RISK COMMITTEES ON FINANCIAL REPORTING AND MANAGEMENT DURING COVID-19

The report of the Director of Finance and Transformation advised the Committee that the National Audit Office (NAO) had prepared a [Guide](#) for Members sitting on Audit and Risk Committees to discharge their responsibilities and to examine the impacts on their organisations of the Covid-19 pandemic. Grant Thornton UK LLP (external auditors) had published a paper on Covid-19 and local government and this was attached for information.

It was noted that the guidance reinforced the stark financial context arising from Covid-19 and the challenging economic position for local authorities. It also highlighted that the issues were likely to change and these should be recognised as part of future risk assessments.

RESOLVED: That the report be received and noted.

AU 20/26 SCALE OF AUDIT FEES 2020/21

The report of the Director of Finance and Transformation informed Members of the scale of fees for the audit of the 2020/21 accounts set by Public Sector Audit Appointments Limited (PSAA).

It was noted that the PSAA proposed a fee scale for 2020/21 which was unchanged from the fee scale for 2019/20 of £35,248 leaving the appointed auditor and audited body to discuss an appropriate adjustment to the fee following changes to the scope and depth of audit work required. In January 2020, Members were advised that the fee for 2019/20 proposed by Grant Thornton UK LLP, subject to PSAA agreement, was £42,748. Against this background the PSAA acknowledged that the fee scale for the audit of 2020/21 accounts would need to be revisited once there was clarity on the scale of audit work required.

RESOLVED: That the report be received and noted

AU 20/27 EXCLUSION OF PRESS AND PUBLIC

The Chairman moved, it was seconded and

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

PART 2 - PRIVATE

MATTERS SUBMITTED FOR INFORMATION

AU 20/28 INSURANCE CLAIMS HISTORY

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

The report of the Director of Finance and Transformation informed Members as to the nature and volume of liability and property damage insurance claims submitted for the year ended 31 March 2020.

RESOLVED: That the report be received and noted.

The meeting ended at 9.15 pm

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

28 September 2020

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet – Council Decision

1 TREASURY MANAGEMENT UPDATE AND MID-YEAR REVIEW

The report provides an update on treasury management activity undertaken during April to August of the current financial year. A mid-year review of the Treasury Management and Annual Investment Strategy for 2020/21 is also included in this report.

1.1 Introduction

- 1.1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management was revised December 2017 and adopted by Council on 30 October 2018.
- 1.1.2 The primary requirements of the Code are as follows:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the full Council of an Annual Treasury Management Strategy Statement, including the Annual Investment Strategy, for the year ahead; a mid-year Review Report (this report) and an Annual Report (stewardship report) covering activities during the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.
- 1.1.3 This mid-year report has been prepared in compliance with the Code and covers the following:
 - An economic update and interest rate forecast.

- Investment performance for April to August of the 2020/21 financial year including recent benchmarking data.
- Compliance with Treasury and Prudential Limits for 2020/21.
- A review of the risk parameters contained in the 2020/21 Treasury Management and Annual Investment Strategy.

1.2 Economic Background

- 1.2.1 As expected, the Bank of England's Monetary Policy Committee (MPC) kept Bank Rate unchanged at their meeting on 6 August at 0.1%. The MPC also maintained the level of quantitative easing (QE) at £745bn. The Bank's forecasts were adjusted in three key areas:
- The fall in GDP in the first half of 2020 was revised down from 28% to 23%. This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to lockdown.
 - The peak in the unemployment rate was revised down from 9% to 7.5% in the seconds half of 2020.
 - The Bank anticipates there will be excess demand in the economy towards the end of 2022 causing CPI inflation to rise above the 2% target and remain above target in 2023.
- 1.2.2 The MPC also dismissed the use of negative interest rates, at least in the short term, suggesting that while negative rates can work in some circumstances it would be “less effective as a tool to stimulate the economy” at this time when banks have concerns about future loan losses. The MPC also has “other instruments available”, including QE and the use of forward guidance.
- 1.2.3 The MPC still expects the £300bn of QE purchases announced between its March and June meetings to continue until the “turn of the year”.
- 1.2.4 Whilst the economy is recovering better than previously forecast by the Bank, the MPC acknowledged that the “medium-term projections were a less informative guide than usual” and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term including the potential for a second wave of the virus. However, rather than a national lockdown, as in March, any spikes in virus infections are now expected to be addressed through localised measures which should limit economic impacts. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down in the furlough scheme through to the end of October is another development that could cause the Bank to review the need for additional support later in the year. Recovery is also expected to be more prolonged than the rapid V shape initially anticipated and longer term adjustment in areas like office space and travel which may take a number of years to recover

to their pre lockdown levels. There is also likely to be a reversal of globalisation as the pandemic has shown how vulnerable long-distance supply chains are. Digital services, however, is one area that has seen significant growth.

- 1.2.5 One key addition to forward guidance was a new phrase in the policy statement, namely that the Bank “does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably”. Given the expectations for inflation, some economist conclude that the current ultra-low Bank Rate will remain in place for a number years.

1.3 Interest Rate Forecast

- 1.3.1 Following the financial crisis in 2008, Bank Rate was cut to an emergency level of 0.5% where it remained for over seven years. The outcome of the 2016 EU referendum prompted Bank Rate to be cut to 0.25% in August 2016. Since then Bank Rate has risen in 0.25% steps, peaking at 0.75% from August 2018. Link’s forecast used in the 2020/21 Investment Strategy assumed economic conditions would continue to improve requiring a gradual rise in Bank Rate over the next three years.

Link - Nov 2019	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
	%	%	%	%	%	%	%	%	%	%	%
Bank Rate	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 mth LIBID	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 mth LIBID	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 mthLIBID	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
25yr PWLB	3.40	3.50	3.60	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

- 1.3.2 The world has changed since the 2020/21 Strategy was published last February. Interest rate forecasting is now much more problematic and tentative than it is in normal circumstances. The scale of both Government and Central Bank intervention in recent months is historic in magnitude. Most governments have implemented lockdowns to limit the spread of Covid-19. Whilst lockdown measures are now being relaxed, the full extent of the economic impacts is still uncertain.

- 1.3.3 Link updated their forecast in August 2020 as follows:

Rate	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-23	Mar-23
	%	%	%	%	%	%	%	%	%	%	%
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 mth LIBID	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-	-
6 mth LIBID	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
12 mthLIBID	0.20	0.20	0.20	0.20	0.20	0.20	0.20	-	-	-	-
25yr PWLB	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.00

- 1.3.4 The forecast is based on the assumption that Covid-19 will be defeated in the UK over the next six to twelve months through localised lockdowns and or the use of a vaccine. In addition:
- On-going market volatility may necessitate further Government and Central Bank intervention.
 - MPC will aim for very loose monetary policy, primarily through the use of quantitative easing, in order to maintain low yields and funding costs to help support businesses and to maintain appropriate levels of liquidity.
 - The result is expected to be a very flat yield curve for at least a year and only marginal increases over the following year.
 - Bank Rate will stay at 0.1% for the next two years.
 - Inflation is likely to be below 2% throughout 2020 and wage increases will be limited in the face of economic uncertainty coupled with a steady rise in unemployment.
 - The economy is likely to take a considerable time to recover lost momentum.
 - There will be a recession in world growth in 2020; growth is unlikely to recover quickly.

1.4 Investment Performance

- 1.4.1 In accordance with the CIPFA Code the Council's priorities, in order of importance, are: to ensure security of capital; liquidity; and having satisfied both, to obtain an appropriate level of return which is consistent with the Council's risk appetite.
- 1.4.2 The Council's investments are derived from cash flow surpluses, core cash balances and other long term cash balances.
- 1.4.3 Cash flow surpluses are available on a temporary basis and the amount mainly dependent on the timing of council tax and business rates collected and their payment to precept authorities and government. Less significant cash flows relate to receipt of grants, payments to housing benefit recipients, suppliers and staff. Cash flow surpluses build up during the course of a financial year and are spent by financial year end. Thus far in 2020/21 cash flow surpluses have averaged £29m.
- 1.4.4 The Authority also has £18m of core cash balances. These funds are for the most part available to invest for more than one year, albeit a proportion is usually transferred to cash flow towards the end of the financial year to top-up daily cash balances. Core cash includes the Council's capital and revenue reserves which are being consumed over time to meet capital expenditure and 'buy time' to enable the authority to deliver its revenue savings targets.

- 1.4.5 Cash flow and core cash balances also include some £10m to meet business rate appeals of which £3m are expected to be resolved in 2020/21 and the remainder in future years.
- 1.4.6 Long term investment at the end of August 2020 comprised £5m in property fund investments.
- 1.4.7 A full list of investments held on 31 August 2020 is provided at **[Annex 1]** and a copy of our lending list of 1 September 2020 at **[Annex 2]**. The table below provides a summary of funds invested and interest / dividends earned at the end of August.

	Funds invested on 31 August 2020 £m	Average duration to maturity Days	Weighted average rate of return %	Interest / dividends earned 1 April to 31 August 2020 £	Gross annualised return %	LIBID benchmark (average 1 April to 31 August 2020)
Cash flow	22.2	8	0.11	28,000	0.23	-0.05(7 Day)
Core cash	18.0	186	0.47	44,600	0.66	0.14 (3 Mth)
Sub-total	40.2	88	0.27	72,600	0.38	0.02 (Ave)
Long term	5.0			35,400	2.83	
Total	45.2			108,000	0.65	

Property funds pay dividends quarterly. The return quoted above is based on dividends received for the quarter April to June 2020.

- 1.4.8 **Cash flow and Core cash Investments.** Whilst the authority outperformed the LIBID benchmark by 36 basis points, Interest earned of £72,600 to the end of August is £59,000 below the original estimate for the same period. The fall in income is due to the impact the emergency cuts in Bank Rate in March 2020 have had on investment opportunities. During March 2020 Bank Rate fell from 0.75% to 0.1%.
- 1.4.9 If bank offers remain at their current ultra-low levels throughout 2020/21, cash flow and core cash investment is likely to underperform against budget for the year as a whole by some £182,000. The potential to mitigate some of that impact is considered in Section 1.6 below.
- 1.4.10 Members will be aware from the media in general and committee reports (Cabinet, FIPAB amongst others) of the pressures that the pandemic has and is having on the Council's finances. To ensure sufficient liquidity to meet payment obligations all core fund maturities arising in February, March and April were transferred to

cash flow balances rather than being reinvested in new fixed term deposits. Following that action no payment issues arose and none are expected to arise during the remainder the 2020 calendar year. There remains a question mark over the proportion of council tax and business rates which will be collected in 2020/21. The lion's share of that collection is being paid to government and precept authorities spread over twelve monthly instalments. The current payment schedule for council tax predates Covid-19.

- 1.4.11 The recession is born out of a health crisis not a financial crisis. Whilst the UK sovereign credit rating has been downgraded from AA to AA- by Fitch, individual UK bank long-term and short-term credit ratings, for those banks on the Council's lending list, have not thus far been downgraded by the credit rating agencies. Whilst there have been a number of changes to rating watch and outlooks these have not resulted in a reduction in the investment duration assessment provided by Link (i.e. banks considered good for 12 month investment last January carry the same assessment today). Credit default swap data (a measure of risk) remains substantially below levels noted during the sovereign debt crisis of 2012.
- 1.4.12 The Council takes advantage of Link's benchmarking service which enables performance to be gauged against Link's other local authority clients. An extract from the latest benchmarking data is provided in the form of a scatter graph at **[Annex 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. As at 30 June 2020 the Council's return at 0.34% (purple diamond) was below the local authority average of 0.49%. Based on the Council's exposure to credit / duration risk that return was in-line with Link's predicted return (between the upper and lower boundary indicated by the diagonal lines). The Council's risk exposure was consistent with the local authority average.
- 1.4.13 **Long term Investment.** The availability of cash balances over the longer term (10 years) and the suitability of different types of long term investment (equities, bonds and commercial property) was explored in the report to Audit Committee, January 2017. Of the alternatives, investment in property funds was considered best suited to meet the Council's more immediate funding need: a sustainable, stable income stream.
- 1.4.14 £3m was invested in property investment funds during 2017/18 and a further £2m invested during 2018/19. Investment was spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time. Additional property fund investments are expected in the future as resources become available from asset disposals and other windfalls.
- 1.4.15 During the period 1 April 2020 to 30 June 2020 the £5m investment in property funds generated dividends of £35,400 which represents an annualised return of 2.83% (3.48% in 2019/20). Covid-19 has resulted in a proportion of rents due to be collected in June being deferred. These deferred rents are expected to be collected at some point during the current financial year. However, income from

property funds is expected to underperform against budget by some £55,000 for the financial year as a whole primarily due to a delay in the receipt of proceeds from sale of the River Walk offices.

- 1.4.16 Property funds issue and redeem primary units at a buy and sell price with the difference between the two prices reflecting the costs associated with buying and selling property (legal and other fees, stamp duty etc.). The price spread varies from fund to fund but is typically in the region of 8% (6% on entry to a fund and 2% on exit). Where units are traded on a secondary market the impact of the spread can be reduced and delays in the purchase / redemption of units avoided.
- 1.4.17 Economic growth in the UK slowed in 2018/19 as did the rate at which fund sale values appreciated. A fall in sale values was recorded at some month ends especially during the second half of 2018/19 and throughout 2019/20. More recently, the Covid-19 impact on the economy is expected to see commercial property values continue to decline in 2020/21 before commencing a recovery.
- 1.4.18 Although each property is unique, its value is informed by the sale of similar properties. During recession property transaction volumes diminish making valuation less certain. Each of our property fund managers have attributed “uncertainty” to their most recent monthly valuations. At the same time, and by regulation, when valuation is uncertain fund managers are required to suspend the purchase and redemption of units by investors. The suspension is intended to protect the interests of purchasers, sellers and continuing investors such as ourselves and is welcomed.
- 1.4.19 Current qualified sale values vs initial purchase price are as follows:

Property fund (Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)	Purchase price a £	Sale value at date of purchase b £	Sale value 30 June 2020 C £	30 June 2020 sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	901,200	(98,800)
Lothbury (Primary, July 2017)	1,000,000	927,700	916,900	(83,100)
Hermes (Secondary, Oct 2017)	1,000,000	939,000	964,400	(35,600)
LAPF (Primary, June 2018)	1,000,000	922,200	864,050	(135,950)
Lothbury (Secondary, July 2018)	1,000,000	973,000	899,200	(100,800)
Total change in principal	5,000,000	4,684,100	4,545,750	(454,250)
			Total dividends received	448,050
			Net loss since inception	6,200

- 1.4.20 Since inception, the Council has received dividends from its property fund investments totalling £448,050. Taking the current £454,250 deficit on sale values into account the net loss to the Council is £6,200 (was a net gain of £173,800 to the end of December 2019). Fund values have fallen £258,300 in the six months to June 2020 due to the Covid-19 impact on the economy and commercial property values. The deficit in sales value is expected to be recouped overtime as the economy recovers.
- 1.4.21 Members are reminded that higher yielding investments (e.g. property, equities) have the potential to fluctuate in value, both up and down. It is this feature which makes them unsuitable for short term investment where certainty over value at maturity is a key criteria. The Council's property fund investments are not required to meet day to day spending commitments and will only be realised should a higher yielding opportunity be identified.

1.5 Compliance with the Treasury Management and Annual Investment Strategy

- 1.5.1 Throughout the period April to August 2020 all of the requirements contained in the 2020/21 Annual Investment Strategy intended to limit the Council's exposure to investment risks (minimum sovereign and counterparty credit ratings; duration limits; exposure limits in respect of counterparties, groups of related counterparty and sovereigns; and specified and non-specified investment limits) have been complied with. No borrowing was undertaken during April to August 2020.
- 1.5.2 The Council has also operated within the treasury limits and prudential indicators set out in the Annual Investment Strategy and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **[Annex 4]** to this report.

1.6 Review of Risk Parameters

- 1.6.1 Members will recall the detailed consideration that was given to the 2020/21 Treasury Management and Annual Investment Strategy at Audit Committee in January. For ease of reference the parameters included in the Strategy that aim to limit the Council's exposure to investment risks are summarised in **[Annex 5]**.
- 1.6.2 In undertaking this review **no changes to the current approved risk parameters are proposed at this time**. The Strategy ensures that the Council is investing in high credit quality counterparties and there are an adequate number of counterparties available to maintain a well-diversified portfolio. However, Officers are mindful that investment returns offered by banks and building societies that feature on the Council's lending list have dropped to a fraction of the levels experienced in recent years and that this situation may persist for some time. Having reviewed options with our Treasury Advisor there is little added return to be had from either reducing our minimum credit criteria (Fitch A-, F1) or from extending investment duration beyond current constraints (Link suggested duration plus up to six months for UK institutions). However, we will be looking to expand the Council's lending list to include any UK banks and building societies

that don't currently feature on our lending list but nevertheless meet our minimum credit criteria (potentially one UK bank and two building societies). This will ensure that we can take advantage of all available opportunities as they arise.

- 1.6.3 We will also be exploring alternative investment options including the use of bond funds and multi-asset income funds. Whilst multi-asset income funds are provided for in our current Strategy, bond funds would be a new addition. Unlike our current bank and building society investments capital values in these types of fund will fluctuate overtime. Investment in these types of product is regarded as medium term typically spanning some three to five years and is therefore dependent on cash balances being sufficient over the medium term to ensure liquidity issues don't arise. Subject to an understanding and acceptance of the risks, bond funds as an alternative type of investment, may be offered for inclusion in next year's Annual Investment Strategy. Any investment in either type of fund will of course be dependent on the level of reserves and other balances available for such an investment.

1.7 Legal Implications

- 1.7.1 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority including securing effective arrangements for treasury management. In addition, Link are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

1.8 Financial and Value for Money Considerations

- 1.8.1 The Bank Rate having remained at a historic low of 0.5% for over seven years was cut to 0.25% in August 2016. In November 2017, the Bank of England (BoE) returned the Bank Rate to 0.5%. Bank rate was increased to 0.75% in August 2018. In response to the anticipated impact of Covid-19 on the economy, BoE cut Bank Rate to 0.1% in March 2020. Link's current forecast (August 2020) anticipates Bank Rate remaining at 0.1% for at least the next two years.
- 1.8.2 Following the March 2020 cuts in Bank Rate investment income at the end of August 2020 (month five of the financial year) from cash flow surpluses and core cash investments is £59,000 below budget for the same period. Income from property funds at the end of June is below budget by £9,600. Investment income for the year as a whole is expected to underperform against budget by some £237,000. No better and no worse than the figure reported to Audit Committee in July 2020.
- 1.8.3 Performance is monitored against a benchmark return and against other local authorities in Kent and the broader local authority pool via Link's benchmarking service.
- 1.8.4 Whilst the annual income stream from a property fund exhibits stability (circa 4% per annum net of management fees) capital values rise and fall with the cyclical

nature of economic activity. During a downturn in the economy capital values may fall significantly. The duration of a property fund investment may need to be extended to avoid crystallizing a loss and as a consequence, the investment's duration cannot be determined with certainty.

- 1.8.5 Buying and selling property involves significant costs making property unsuitable for short term investment. Buying and selling costs are reflected in the entry fees (circa 6%) and exit fees (circa 2%) a property fund will charge unit holders. These fees are expected to be recouped overtime through capital appreciation.
- 1.8.6 The money being applied to property fund investment from existing resources is expected to be available in perpetuity. Nevertheless, the Council's cash balances will continue to be monitored and due regard had to the potential for a fund to delay payment of redemption requests by up to twelve months. Funds will seek to minimise their own cash balances in favour of holding property and therefore manage redemption requests for the benefit of all fund participants. The Council is only likely to seek redemption to pursue a higher yielding income opportunity should one be identified.

1.9 Risk Assessment

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

1.10 Equality Impact Assessment

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

1.11 Recommendations

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

- 1) Endorse the action taken by officers in respect of treasury management activity for April to August 2020.
- 2) Retain the existing parameters intended to limit the Council's exposure to investment risks.

Background papers:

contact: Mike Withey

Link interest rate forecast (August 2020)
 Link benchmarking data (June 2020)

Sharon Shelton
 Director of Finance and Transformation

Tonbridge and Malling Borough Council - Investment summary 31 August 2020

Counterparty / type of investment	Sovereign	Fitch long term	Fitch short term	Link suggested post CDS duration limit	Investment						Cash Flow surpluses £	Core Cash balances £	Long term investment balances £	
					Start date	End date	Duration at start	Amount invested £	Return %	Proportion of total %				
Banks, Building Societies & Other Financials														
Barclays Bank : 95 day notice account 95 day notice account Certificate of deposit	UK	A+	F1	6 months	20/06/2019	TBD	95 Days	6,000,000 1,000,000 3,000,000 2,000,000	0.30 0.30 0.61	13.28%		1,000,000 3,000,000 2,000,000		
HSBC Bank : 31 day notice account 31 day notice account	UK	AA-	F1+	1 year	02/12/2019	TBD	31 Days	5,000,000 3,000,000 2,000,000	0.25 0.25	11.06%	3,000,000 2,000,000			
Lloyds Bank : Fixed term deposit	UK	A+	F1	1 year	14/11/2019	13/11/2020	1 year	1,000,000 1,000,000	1.10	2.21%		1,000,000		
National Westminster Bank : Certificate of deposit Deposit account	UK	A+	F1	1 year	06/07/2020	05/07/2021	1 year	2,100,000 2,000,000 100,000	0.42 0.01	4.65%	100,000	2,000,000		
Santander UK Bank : Fixed term deposit Fixed term deposit Fixed term deposit Fixed term deposit	UK	A+	F1	6 months	05/06/2020	05/03/2021	9 Months	7,000,000 2,000,000 2,000,000 2,000,000 1,000,000	0.48 0.48 0.45 0.40	15.49%		2,000,000 2,000,000 2,000,000 1,000,000		
Standard Chartered : Fixed term deposit	UK	A+	F1	6 months	21/05/2020	22/02/2021	9 Months	2,000,000 2,000,000	0.48	4.43%		2,000,000		
Money Market Funds														
Blackrock MMF - shares/units held	N/A	AAA	mmf (Eq)	5 years	28/08/2020	01/09/2020	Overnight	250,000	0.02	0.55%	250,000			
BNP Paribas MMF - shares/units held	N/A	AAA	mmf (Eq)	5 years	28/08/2020	01/09/2020	Overnight	250,000	0.05	0.55%	250,000			
DWS Deutsche MMF - shares/units held	N/A	AAA	mmf	5 years	28/08/2020	01/09/2020	Overnight	897,000	0.05	1.98%	897,000			
Federated MMF - shares/units held	N/A	AAA	mmf	5 years	28/08/2020	01/09/2020	Overnight	8,000,000	0.08	17.70%	8,000,000			
Morgan Stanley MMF - shares/units held	N/A	AAA	mmf	5 years	28/08/2020	01/09/2020	Overnight	7,696,000	0.07	17.03%	7,696,000			
Property Funds														
Hermes Property Unit Trust : Property fund units	N/A	N/A	N/A	N/A	29/09/2017	N/A	N/A	1,000,000 1,000,000	3.28	2.21%			1,000,000	
Local Authorities' Property Fund : Property fund units Property fund units	N/A	N/A	N/A	N/A	29/06/2017	N/A	N/A	2,000,000 1,000,000 1,000,000	4.22 3.96	4.43%			1,000,000 1,000,000	
Lothbury Property Trust : Property fund units Property fund units	N/A	N/A	N/A	N/A	06/07/2017	N/A	N/A	2,000,000 1,000,000 1,000,000	3.02 2.91	4.43%			1,000,000 1,000,000	
Total invested						45,193,000			100.00%	22,193,000	18,000,000	5,000,000		

Number of investments	23	Average investment value £			1,965,000			
Number of counter parties	14	Average counter party investment £			3,228,000			
Group exposures:								
Royal Bank of Scotland + National Westminster (UK Nationalised MAX 20%)					Core £ 2,000,000 Cash £ 100,000 Combined £ 2,100,000 % 4.65			
Bank of Scotland + Lloyds (MAX 20%)					1,000,000 - 1,000,000 2.21			
Property Funds Total					£ 5,000,000 % 11.06			

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

11.06%

Notes:

Property fund returns are based on dividends distributed from the start of each investment. Capital appreciation / depreciation is recorded elsewhere. Last update August 2020.

End date for notice accounts to be determined (TBD)

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Tonbridge and Malling Borough Council Lending List

Checked against Link's "Suggested Credit List" dated 28/08/20 Minimum investment criteria is Link's green duration band (100 days). Entry point broadly equates to Fitch A-, F1 unless UK nationalised.							
Counterparty	Sovereign	Sovereign rating [1]	Fitch long term	Fitch short term	UK classification	Exposure limit	Link duration based on [2] Credit ratings Post CDS
UK Banks, Building Societies and other Financial Institutions :							
Bank of Scotland (Group limit BOS & Lloyds £7m)	UK	AA-	A+	F1	Ring-fenced	£7m	1 year
Barclays Bank (Group Limit Barclays and Barclays UK £7m)	UK	AA-	A+	F1	Non-RF	£7m	6 months
Barclays Bank UK (Group Limit Barclays and Barclays UK £7m)	UK	AA-	A+	F1	Ring-fenced	£7m	6 months
Goldman Sachs International Bank	UK	AA-	A+	F1	Exempt	£7m	6 months
Handelsbanken Plc (Group Limit with Svenska Handelsbanken AB £7m)	UK	AA-	AA	F1+	Exempt	£7m	1 year
HSBC UK Bank	UK	AA-	AA-	F1+	Ring-fenced	£7m	1 year
Lloyds Bank (Group limit BOS & Lloyds £7m)	UK	AA-	A+	F1	Ring-fenced	£7m	1 year
Santander UK	UK	AA-	A+	F1	Ring-fenced	£7m	6 months
Standard Chartered Bank	UK	AA-	A+	F1	Exempt	£7m	6 months
Coventry Building Society	UK	AA-	A-	F1	Exempt	£7m	6 months
Nationwide Building Society	UK	AA-	A	F1	Exempt	£7m	6 months
National Westminster Bank (Group limit Nat West and RBS £7m). UK Nationalised.	UK	AA-	A+	F1	Ring-fenced	£7m	1 year
The Royal Bank of Scotland (Group limit Nat West and RBS £7m). UK Nationalised.	UK	AA-	A+	F1	Ring-fenced	£7m	1 year
UK Debt Management Office including Treasury Bills	UK	AA-	n/a	n/a	n/a	No limit	5 years
UK Treasury Sovereign Bonds (Gilts)	UK	AA-	n/a	n/a	n/a	£16m/£8m	5 years
UK Local Authority (per authority)	UK	AA-	n/a	n/a	n/a	£7m	5 years
Non-UK Banks :							
Bank of Montreal	Canada	AA+	AA-	F1+	n/a	£7m	1 year
Toronto Dominion Bank	Canada	AA+	AA-	F1+	n/a	£7m	1 year
Nordea Bank Abp	Finland	AA+	AA-	F1+	n/a	£7m	1 year
Rabobank (Cooperatieve Rabobank U.A.)	Netherlands	AAA	AA-	F1+	n/a	£7m	1 year
ING Bank	Netherlands	AAA	AA-	F1+	n/a	£7m	1 year
Svenska Handelsbanken AB (Group Limit with Handelsbanken Plc £7m)	Sweden	AAA	AA	F1+	n/a	£7m	1 year
[1] Reflects the lowest of the three rating agencies views (Fitch, Moody's and Standard and Poor's). Strategy requires sovereigns to be rated at least AA-. Non-UK sovereign limit of 20% or £7m per sovereign.							
[2] All deposits overnight unless otherwise approved in advance by the Director of Finance and Transformation AND Chief Financial Services Officer. If other than overnight duration for non-UK entities must not exceed Link's post CDS duration suggestion. For UK entities duration may be extended by up to three months based on credit ratings alone or six months if CDS is below average, subject to a maximum combined duration of 12 months.							

Money Market Funds (Minimum investment criteria AAA) :					
Fund Name	Moody	Fitch	S&P	Exposure Limit	Link credit worthiness
Blackrock Institutional Cash Series - Sterling Liquidity	AAA	-	AAA	£8m	5 years
BNP Paribas InstiCash - GBP	-	-	AAA	£8m	5 years
DWS Deutsche Global Liquidity - Deutsche Managed Sterling	AAA	AAA	AAA	£8m	5 years
Federated Cash Management - Short Term Sterling Prime	-	AAA	AAA	£8m	5 years
Insight - Sterling Liquidity (Group limit IL & ILP of £7m)	-	AAA	AAA	£8m	5 years
Morgan Stanley Liquidity - Sterling	AAA	AAA	AAA	£8m	5 years

Enhanced Cash Funds (Minimum investment criteria AAA) :					
Fund Name	Moody	Fitch	S&P	Exposure Limit	Link credit worthiness
Insight - Sterling Liquidity Plus (Group limit IL & ILP £7m)	-	AAA	AA+	£3.5m	5 years

Approved by Director of Finance and Transformation 01 September 2020	No change
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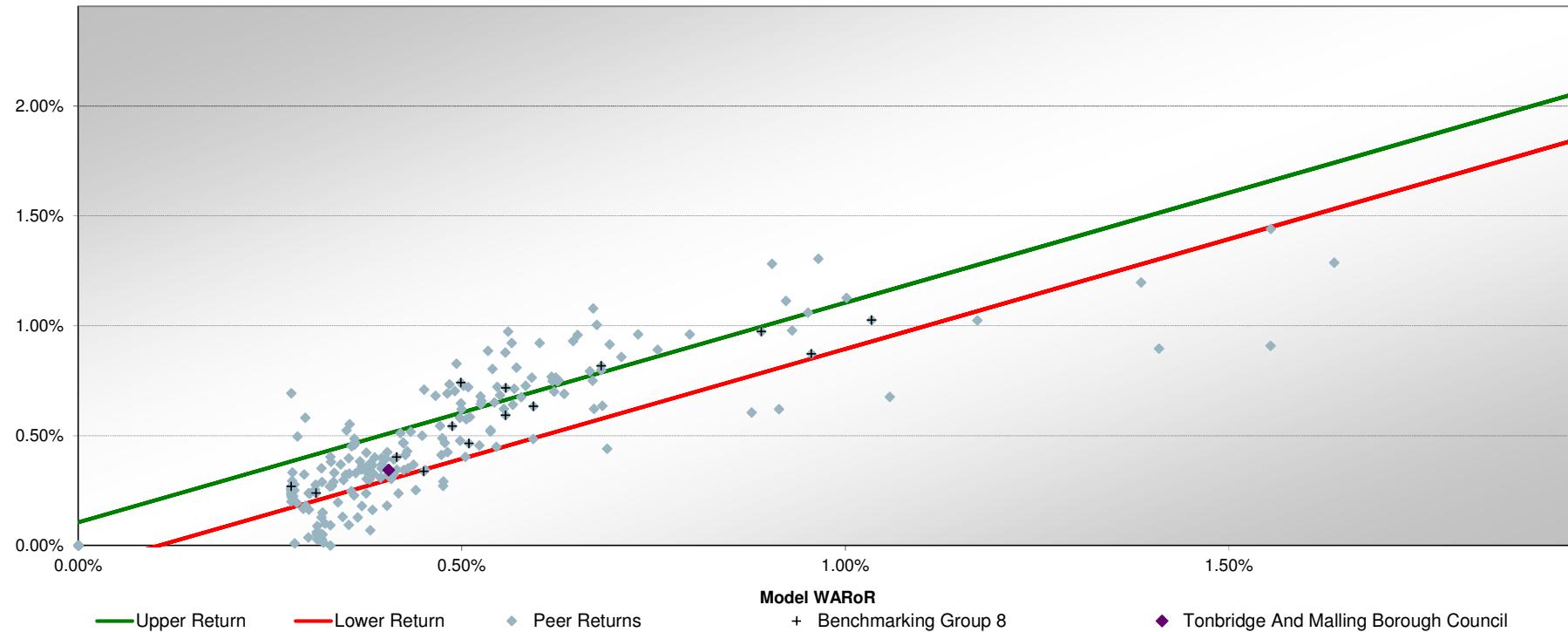
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Tonbridge And Malling Borough Council

Population Returns against Model Returns June 2020

Actual WARoR

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	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge And Malling Borough Council	0.34%	0.40%	-0.06%	0.30%	0.51%	Inline

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Prudential and Treasury Indicators

1 Prudential Indicators	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Capital expenditure	6,407	3,876	2,416
Ratio of financing costs to net revenue stream	-4.24%	-3.56%	-6.07%
Net borrowing requirement:			
Brought forward 1 April	nil	nil	nil
Carried forward 31 March	nil	nil	nil
In year borrowing requirement	nil	nil	nil
Capital financing requirement as at 31 March	nil	nil	Nil
Annual change in capital financing requirement	nil	nil	Nil
Incremental impact of capital investment decisions:			
Increase in Council Tax (Band D) per annum	£0.25	£1.03	£2.06

2 Treasury Management Indicators	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Authorised limit for external debt:			
Borrowing	nil	7,000	7,000
Other long term liabilities	nil	nil	nil
Total	nil	7,000	7,000
Operational boundary for external debt:			
Borrowing	nil	4,000	4,000
Other long term liabilities	nil	nil	nil
Total	nil	4,000	4,000
Actual external debt	nil	nil	nil
Upper limit for fixed rate exposure over one year at year end	nil	0 – 60%	0 – 60%
Upper limit for variable rate exposure under one year at the year end	19,610 (49.5%)	40 – 100%	40 – 100%
Upper limit for total principal sums invested for over 365 days	5,000 (12.6%)	60%	60%

3 Maturity structure of new fixed rate borrowing during 2020/21	Upper limit %	Lower limit %
Under 12 months	100	nil
Over 12 months	nil	nil

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2020/21 Annual Investment Strategy Risk Parameters

The strategy includes parameters that aim to limit the Council's exposure to investment risks by requiring investments to be placed with high credit rated financial institutions and that those investments are diversified across a range of counterparties. More specifically the 2020/21 Strategy requires:

- Counterparties must be regulated by a Sovereign rated AA- (UK minimum of A-) or better as recognised by each of the three main rating agencies (Fitch, Moody's and Standard & Poor's).
- Whilst 100% of funds can be invested in the UK, exposure to non-UK banks is restricted to no more than 20% of funds per Sovereign.
- Exposure to individual counterparties and groups of related counterparty must not exceed 20% of funds.
- In selecting suitable counterparties the Council has adopted Link's credit worthiness methodology. The methodology combines the output from all three credit rating agencies including credit watches / outlooks and credit default swap data to assign a durational band to a financial institution (100 days, 6 months, 1 year, 5 years, etc.). At the time of placing an investment the financial institution must be assigned a durational band of at least 100 days. This broadly equates to a minimum long term credit rating of Fitch A- (high) and a short term credit rating of Fitch F1 (strong). A minimum of Fitch BBB (good), F2 (good) applies to UK nationalised banks.
- The duration of an investment in a foreign bank must not exceed Link's recommendation. For UK financial institutions Link's duration recommendation can be enhanced by up to six months subject to the combined duration (Link recommendation plus the enhancement) not exceeding 12 months. Where duration exceeds Link's recommendation by more than three months, the institution's CDS must be below average at the time the investment is placed and exposure in the extended duration (3 to 6 months) limited to 10% of investment balances.
- Money Market funds should be rated AAA and exposure limited to no more than 20% per fund. LNAV and VNAV funds may be used as a substitute for CNAV funds.
- Enhanced Cash Funds / Government Liquidity Funds / Gilt Funds should be rated AAA and exposure limited to no more than 10% per fund and 20% to all such funds.
- Exposure to each non-rated property fund used for long term investment is subject to a maximum £3m (20% of expected long term balances) per fund and across all such funds. No limits applies to new resources made available from, or in anticipation of, the sale of existing property assets or other windfalls.

- Each non-rated diversified income (multi-asset) fund used for medium term investment is subject to a maximum £3m (20% of expected long term balances) per fund and across all such funds.

All specified and non-specified Investments will be:

Subject to the sovereign, counterparty and group exposure limits identified above.

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

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

Sterling denominated.

Specified Investments (maturities up to 1 year):

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

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

Investment	Minimum Credit Criteria	Max duration to maturity
Fixed term deposits with variable rate and variable maturities (structured deposits) - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Fixed term deposits with variable rate and variable maturities (structured deposits) - banks and building societies	UK sovereign A- / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Term deposits - local authorities	UK Sovereign A-	3 years
Term deposits - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Term deposits - banks, building societies	UK Sovereign A- / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Certificates of deposit - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Certificates of deposit - banks and building societies	UK Sovereign A- / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Commercial paper - UK nationalised banks	UK Sovereign A- Counterparty BBB,F2 (Green)	2 years
Commercial paper - banks and building societies	UK Sovereign A- / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Floating rate notes issued by multilateral development banks	AAA	2 years
Bonds issued by multilateral development banks	AAA	2 years
Sovereign bonds (other than the UK Government)	AAA	2 years
UK Government Gilts	UK Sovereign A-	5 years
Property Funds	N/A	N/A
Diversified Income Funds	N/A	N/A

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

28 September 2020

Report of the Management Team

Part 1- Public

Delegated

1 RISK MANAGEMENT

An update on the risk management process and the Strategic Risk Register.

1.1 Introduction

- 1.1.1 The Risk Management Strategy sets out the Council's risk management objectives and details the roles and responsibilities of officers, Members and the Council's partners in the identification, evaluation and cost-effective control of risks.
- 1.1.2 The Council's risk management arrangements are designed to ensure that risks are reduced to an acceptable level or, where reasonable, eliminated thereby safeguarding the Council's assets, employees and customers and the delivery of services to the local community. Examples of risk include budget deficit, cyber/data loss, environmental and reputational.
- 1.1.3 The current Risk Management Strategy was recommended by this Committee in January and subsequently adopted by Full Council on 18 February 2020.

1.2 Risk Management Escalation Process

- 1.2.1 Effectively risks are assessed/scored in terms of their likelihood/impact.
- 1.2.2 Any risk evaluated as 'High Risk' (score of 15 or above) will be deemed by the Council to be beyond 'risk tolerance' and to have exceeded its 'risk appetite' and will be escalated immediately. Such risks should be added to the service's risk register and discussed at the earliest opportunity within the Service Management Team (SMT) to inform a decision as to whether this should be escalated to Management Team by the respective Service Director. Management Team should then consider whether the risk is significant enough for inclusion in the Strategic Risk Register and action this if relevant. A record should be maintained of risks discussed at both SMTs and Management Team and the outcome of those discussions.

1.2.3 Similarly risks identified as “Medium Risk” may be escalated to the appropriate SMT for advice and to ensure they are kept fully aware of the current risks being faced. Risks determined as “Low Risk” should be managed within the service team. It is recommended that SMTs consider periodic review or moderation processes for Service Risk Registers to ensure they are happy with the scores risks have been given and confirm whether there are ‘Medium’ or ‘Low’ risks they wish to consider further.

1.3 Strategic Risk Register

1.3.1 The Strategic Risk Register (SRR) is considered to be a ‘live’ document and is updated, as often as is required, by the Management Team. An update of the current strategic risks and how they are being managed as at the time of writing is appended at [Annex 1].

1.3.2 As reported to the July meeting of the Committee the Covid-19 pandemic and measures taken in response resulted in a number of risks on the Strategic Risk Register being re-categorised as RED and remains the case. The risks re-categorised as Red are:

- 1) Financial position/budget deficit
- 2) Brexit Impact and Economic uncertainty (Impacted by Coronavirus Pandemic)
- 3) Corporate Strategy and Savings and Transformation Strategy
- 4) Waste Services

1.3.3 Work is in progress to assess and determine how the council might best address the increased risk, but will be some time before a better understanding begins to emerge as to the full extent of the impact.

1.3.4 Members are asked to note the updates since the last iteration of the Register.

1.3.5 To give Members some reassurance as to the effectiveness of risk management outcomes from the risk management escalation process are reported to the meetings of this Committee unless that is there is something that needs to be brought to Members’ attention in the interim.

1.4 Ongoing Risks and Risks Identified by Service Management Teams and Management Team

1.4.1 A schedule of ongoing risks and risks identified by Service Management Teams and Management Team since the last report to this Committee in July is appended at [Annex 2].

1.5 Legal Implications

- 1.5.1 There is a Health and Safety requirement for effective risk management to be in place and the Strategy supports this requirement.
- 1.5.2 There is also a requirement in the Accounts and Audit Regulations that accounting control systems must include measures to ensure that risk is appropriately managed.

1.6 Financial and Value for Money Considerations

- 1.6.1 Financial issues may arise in mitigating risk which will be managed within existing budget resources or reported to Members if this is not possible.
- 1.6.2 Effective risk management arrangements make a positive contribution to ensuring value for money is provided in the delivery of services.

1.7 Risk Assessment

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

1.8 Equality Impact Assessment

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

1.9 Policy Considerations

- 1.9.1 Risk management is relevant to all areas of the Council's business.

1.10 Recommendations

- 1.10.1 Members are asked to note the updates to the Strategic Risk Register since the last iteration.

Background papers:

contact: Sharon Shelton

Nil

Sharon Shelton

Director of Finance and Transformation on behalf of the Management Team

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No	Risk Title	Risk Type	Consequences	Date identified	Likelihood Score	Impact score	Overall risk score	Current Mitigation	Desired Likelihood Score	Desired Impact score	Desired risk score	Actions required to ensure mitigation remains	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Review Date
1	Safeguarding and PREVENT	S, R	Significant impact should a child, young person or adults at risk come to harm, including radicalisation and child sex exploitation, and TMBC are unable to demonstrate appropriate processes were in place. Coronavirus has increased support to vulnerable individuals.	01/04/2017	3	4	12	The responsibility for safeguarding is with the Chief Executive, rather than an individual service and a review implemented. Audit Review undertaken, identifying areas of weakness to be address, progress to date with Training delivered to all Hackney Carriage and Private Hire Drivers. Secure Database now in place, with secure access, for recording of safeguarding concerns and referrals onto other agencies Community Hub established to support those on NHS shielded list and other non-shielded vulnerable adults. Community Hub telephone contact line remains available and support can be re-established for any urgent need or in the event of regional lockdown/second wave.	3	4	12	Posts requiring DBS checks have been reviewed by Legal Services and are now part of a single secure register. Policy procedure on DBS checks reported to Corp MT in Sept 2019. Safeguarding Audit undertaken and completed in 2018/19. Safeguarding concerns highlighted through the work of the Community Hub are referred to appropriate agencies where necessary and also raised with partners at the weekly CSU meetings.	Safeguarding Policy	Chief Executive	Mar-21
2	Financial position/budget deficit	F, R	Financially unstable organisation. Failure to deliver a balanced budget, detrimental impact on quality of service, increased intervention. Failure to maximise New Homes Bonus. Coronavirus pandemic has significant economic implications for the Council, businesses and residents.	01/04/2017	4		16	The Council provides an annual statement (as a minimum) on the following areas; Treasury Management and Investment Strategy. Robustness of estimates and adequacy of reserves. Effective monitoring control procedures. Savings and Transformation Strategy (STS) reviewed and updated. Unqualified Audit and Value for Money Opinion contained with Annual Audit Letter. Medium Term Financial Strategy (MTFS) updated and shared regularly with Cabinet to keep members aware of current financial situation. Business Rates income monitoring as part of Pool/Pilot arrangements. Now appear to be above baseline following closure of Aylesford Newsprint. Local government finance settlement for 20/21 confirmed as anticipated. New Homes Bonus to be paid in 20/21. Council Tax increase approved by Council for 20/21 at 2.4% (£5) Business Rate performance now expected to be above baseline for 20/21 Impact of Pandemic is having significant effect on Council finances. Review and Reassessment underway. Ethos of priority spend only agreed by MT and Cabinet (19 May 2020). Government funding of £1.35m received, but will not be sufficient to cover costs and loss of income in year. Report to Cabinet 30/6/20 regarding impact of pandemic on 20/21 and MTFS. In that report, suggested range of £7m to £10m to be required from reserves and balances. Since then more government funding announced regarding 'loss of income' but fine detail and guidance still awaited at time of writing. Target of £500k saving in 20/21 relating to the essential spend policy.	3	3	9	Areas of potential savings yet to be identified and prioritised, with commitment to delivery of those selected. Commissioning of service reviews via MT to identify potential areas of transformation and savings. Strategic asset review to be undertaken. O&S Committee Jan 18 established work programme to identify potential savings. Fair Funding review underway but will need to await outcome which due to Brexit has been delayed. Savings target updated in August 2019 to £675k, Cabinet in June asked how funding gap should be address with focus on first tranche. Further update to MTFS in progress. Report being prepared for Cabinet 16 October Draft budget prepared for 20/21 will need to be assessed in the light of the provisional local government finance settlement, which has been delayed due to the General Election. Draft budget and MTS show savings target at £320k Continued tight rein on spend in hand. Returns are being submitted to government on a monthly basis as required by MHCLG with lobbying through various groups for additional funding. Re-focus and re-determine Council budget priorities. Rebuild Medium Term Financial Strategy based on impacts during pandemic and forecast impacts into the future. Reset Savings and Transformation Strategy Set aside £200k in an earmarked reserve for recovery (Cabinet 3 June 2020). In due course work to deliver MTFS and STS, adjusting priorities in line with other strategies and outcome of Fair Funding Review by government. Further government funding has been announced since report to Cabinet regarding MTFS impacts on 30 June, but fine detail still awaited. Once received, forecasts will be updated. Further lobbying taking place regarding losses relating to leisure centres which do not appear to have been covered through latest announcements. Essential spend target of £500k in 20/21 approved by Cabinet to be monitored by MT.	Vision- to be a financially sustainable Council. Taking a business like approach.	Director of Finance and Transformation	Jan-21

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								Return on fees and charges being prepared for MHCLG in response to Government offer of compensation for lost fees and charges. Estimate this could be between £1m-£1.3m. Relates to 20/21. In addition, all tranches of government funding for costs has accumulated to £1.55m. Council continues to work with TMLT to mitigate all costs and compensate for core costs as agreed by Cabinet. Lobbying of government continues for leisure operator impacts. .					From AD 16 Sept taking on board current mitigations and funding. More detailed report being prepared for Cabinet 14 Oct to cover MTFS update and STS. Funding gap now likely to be circa £750k. Essential spend being monitored by MT - target not reached yet but WIP.			
3	Brexit Impact and Economic Stability (Impacted by Coronavirus Pandemic)	F	Financial impact and effect on the economy as well as uncertainty around current EU legislation, i.e. what replaces it, could have a significant financial impact and lead to legislative changes impacting on finance and resources. A number of key threats to business continuity including: border delays and congestion impacts on the Kent road network creating difficulties for local businesses, TMBC staff and potential air quality issues; loss of KCC staff e.g. welfare/social services support; potential loss of TMBC waste contract workforce, general increase in costs as imports become restricted. Coronavirus pandemic has significant economic implications for businesses and residents.	01/04/2017	4	4	16	Kent-wide working to understand, plan for and react to pressures. Regular review of: MTFS reflecting economic factors Treasury Management and Investment strategies. Bid for Brexit funding compiled but even funding distributed to District Councils, irrespective of geographic location. The potential for No Deal BREXIT could have far wider and more impactful implications that has been factored into MTFS. The likelihood of a No Deal Brexit has reduced (January 2020), however impact of coronavirus is significant. Chancellor has awarded business reliefs through Spring Budget 2020, grants schemes for businesses, further rate reliefs, loans schemes and employment schemes. Nevertheless economic downturn and recession still very likely due to the longevity of the pandemic. Furlough scheme running until end Oct 20 has 'stabilised' economic impact of Covid to some extent.	3	4	12	Council working with Kent Resilience forum and County Partnership groups including Strategic and Tactical Co-ordinating Groups. Business Impact assessments complete. Business continuity planning updated to ensure smooth running of services to public, including expansion of remote working initiatives with Laptop access to Council IT infrastructure. In order to prepare management Brexit Emergency Planning Exercises were held in March 2019. Work still ongoing with partners whilst Brexit delayed until 31st October 2019. Government advice to plan for No Deal Brexit. MT to review plans weekly including engagement with KRF and Countywide planning arrangements. MT to monitor further funding arrangements announced and will plan accordingly. MT undertaking review of Business Continuity Plans for our key services led by service managers. Further Brexit funding announced. TMBC to receive allocation of £70k (money not yet received) Investment in additional laptops made in lead up to pandemic declaration meant that the majority of Council staff could work efficiently from home during 'lockdown' providing existing services (in the main) as well as new ones. Reports will be made to appropriate Boards and Committees as things develop. Update report on digital strategy to FIPAB 22 July. IT staff continuing to support staff working from home. As furlough scheme ends late October, likely to be a greater demand on Council services and signposting. Staff preparing for this eventuality.	N/A - external risk.	Chief Executive / Director of Finance and Transformation/ Management Team	Jan-21	

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4	Corporate Strategy and Savings and Transformation Strategy	F, R, S	<p>Failure to meet objectives and/or make savings, including those arising from the planned West Kent Waste Partnership. Impact on quality of service, budget overspends, salami slicing, etc. staff motivation impacted and increased risk of fraud or error.</p> <p>Coronavirus pandemic has significant economic implications for the Council, businesses and residents.</p>	01/04/2017		4	4	<p>STS reviewed and updated in line with review of MTFS. With regular reports to update MT and Members</p> <p>Corporate Strategy reviewed - report to O&S January 2020</p> <p>Plans underway to reassess implications of pandemic - report to Cabinet 3 June 2020</p> <p>Commitment to review and update MTFS and STS</p> <p>Report to Cabinet 30/6/20 regarding impact of pandemic on 20/21 and MTFS. In that report, suggested range of £7m to £10m to be required from reserves and balances. Since then more government funding announced regarding 'loss of income' but fine detail and guidance still awaited at time of writing. Target of £500k saving in 20/21 relating to the essential spend policy.</p> <p>STS to be reviewed and updated by MT and back to Cabinet in Autumn</p> <p>Corporate Strategy addendum approved by Cabinet. Items being considered by Boards</p>	3	3	9	<p>Areas of potential savings to be formally identified and prioritised, with commitment to delivery of those selected.</p> <p>Commissioning of in service reviews via MT to identify potential areas of transformation and savings.</p> <p>Strategic asset management review to deliver new income .</p> <p>O&S programme to be supported in order to deliver savings to contribute to STS.</p>	<p>Vision- to be a financially sustainable Council focusing on ensuring good value for money, continuously reviewing how our services are provided and funded, focusing our available resources where they will have most beneficial impact, and maximising commercial opportunities.</p> <p>Taking a business like approach.</p>	<p>Chief Executive / Director of Finance and Transformation/ Management Team</p>	Jan-21

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5	Local Plan	F, R	Lack of sound legal footing for Plan leading to risk of failure at Examination. Risk of challenge from not meeting identified development needs. Delay to timetable due to coronavirus restrictions. Shrinking 'plan period' and housing trajectory as a result. Reputational risk and widespread public concern arising from decision making on strategic development. Lack of infrastructure to support future development.	01/04/2017	3	4	12	Audit of Local Plan process complete with Specialist Consultants and Counsel engaged where appropriate on key issues for examination. The following Statements of Compliance were submitted with the Local Plan on 23.1.19: •SC1 - Duty to Cooperate Statement •SC2 - Soundness Self-Assessment Tool Kit •SC3 - Legal Compliance Checklist •SC4 - Equality Impact Assessment (EQIA) Duty to Co-operate Compliance Statement submitted 23.1.19. Position Statements with neighbouring Authorities prepared. On-going discussions and audit in hand. Regular contact with Inspectors maintained via Programme Officer. Additional consultations on some examination documents submitted since January carried out November/December 2019. Matters Issues and Questions for first phase of Hearings published February 2020. Dates for first phase of Hearings set for May/June, but subsequently postponed for at least 6 months in March 2020 due to Government restrictions. Exploring ways Hearings could take place under current restrictions. Members are regularly updated by email by the Planning Policy Manager and reports to P&TAB. Liaison undertaken with key stakeholders, service and infrastructure providers.	3	3	9	Counsel and key consultants retained until end of Hearings. Counsel providing advice for preparing Council's Statements (Feb 2020 onwards). Consultants monitoring/updating evidence where appropriate to ensure Council's case is as robust as possible. Submission to Sec of State made 23rd Jan 2019. Inspectors appointed and dialogue commenced. New lead Inspector appointed February 2020 (Ms Louise Crosby replacing Mr Simon Berkeley). Questions raised by inspectors responded to on 31st July 2019. Additional consultation requested by Inspector implemented November/December 2019. This will delay the date of the Examination to later in 2020. Correspondence received by Inspector on 13/09/19 identifies 3 key matters to be covered by phase 1 of the hearings (this was subsequently increased to 4 Matters); no dates set for phase 2 of the hearings. Ensuring that the practical arrangements for the Hearings are satisfactory to the Inspectors, including necessary adjustments for social distancing including virtual hearings to ensure the 'right to be heard' by those expressing a wish to participate. Maintain regular Duty to Cooperate meetings with neighbouring Authorities and KCC. Meetings have continued virtually during lockdown. Continue to update Members on status of Local Plan (including Update Report for Members at 28.7.20 P&TAB using MS Teams).	Local Plan assists in economic growth, delivering the supply of future housing and addressing affordability. Procedures set by National Government	Director of Planning, Housing and Environmental Health	Nov-20
6	Organisational development inc. staff recruitment and retention/skills mix	F, R, S	Lack of resources or the right skills to deliver required outcomes, loss of key professionals/senior officers due to pay constraints and pressures, reduced staff morale and quality of work, leading to financial loss, reputational damage and detrimental impact on staff wellbeing.	01/04/2017	3	4	12	Review of staff resources and skills via service reviews. Organisational structure reviews are part of S&TS to achieve efficiency, coordinated service delivery and reflect changing legislative and policy requirements and priorities.	3	4	12	Succession planning along with Development of further skills and expertise through strategies such as shared services and specialist Commissioning. Engagement of external consultants and specialists where required. Resilience and rationalisation of existing structures. Recruitment and retention strategy to be reviewed by MT. Pay Award agreed by Members, 2% for 2018/19 in line with national award. 2.5% for 2019/20 above the national award. Structural reviews approved by Members in 2017/18 and 2018/19. Personnel staff recruited with specialist experience in recruitment. This was demonstrated with a revised methodology for the recruitment of the DPEHH and Head of IT. Transitional arrangements to encourage development opportunities where appropriate.	HR Strategy Savings and Transformation Strategy	Chief Executive	Dec-20

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7	Health and Safety	F, R, S	Significant reputational impact should a service user, officer, member or contractor come to harm and TMBC are unable to demonstrate appropriate processes were in place.	01/04/2017		3	4	12	Lone working policy and service based practices to be continuously monitored. Health and Safety considered by management at weekly SMT meetings. Staff involvement with JECC (supported by Members). Ongoing review undertaken to react to potential key risk areas. Organisational learning and response to national events. Incident and near miss reporting. Coronavirus information being given to staff regularly based on public health advice and guidance and, where appropriate, Risk Assessments to be shared with staff and Union.	2	3	6	Embedding and dissemination of good practice through staff briefings. Officer led Health and Safety Group identifying cross organisational issues with feedback to Management Team and Health and Safety Officer. All services have reviewed all their Health & Safety local Procedures in particular Lone working and service specific risk assessments. Staff survey to be drafted to consider impact of work on wellbeing and whether support services meet need and communication channels are adequate. Staff survey has been completed to consider impact of work on wellbeing and whether support services meet need and communication channels are adequate. Findings from staff survey being completed. Corporate Health & Safety Policies and procedures are up to date and reviewed regularly which all staff can access. Continuing focus on risk assessment process including reviews as a result of Coronavirus pandemic. Further staff wellbeing survey to focus on working at home and wellbeing.	Staff wellbeing and customer care underpin the Council's fundamental service and corporate objectives	Director of Planning, Housing and Environmental Health	Nov-20
8	Compliance with legislation inc. new GDPR requirements	F, R	Failure to meet legislative requirements or statutory obligations may result in loss of personal data, financial penalties and/or damage to the Council's reputation.	01/04/2017		3	4	12	The Council has a nominated Senior Information Risk Officer and Data Protection Officer. Assessment of Legal implications included within all reports to Members. GDPR requirements are addressed by two officer groups, Information Governance Group and Procurement OSG, which includes Legal representation. CPD and Professional Monitoring offered to all staff The Council has undertaken both Corporate Governance and GPDR reviews / audits. Legal Services give sign off of key corporate projects	2	4	8	The Council continues to disseminate new legislative requirements to both Officers and Members. Officers ensure that professional updation training is undertaken. Members received GDPR training in July 2018, with all officers completing e-learning on GDPR by May 2018. Revised constitution, updated to reflect GDPR approved by Members in July 2019. Additional GDPR and Cyber Awareness Training now being undertaken by all staff and members, completion date of October 2019. Protocol for virtual meetings agreed in May 2020 to allow for all Members to continue during the pandemic.	Need to ensure that all 7 key themes of the Corporate Strategy are delivered in lawful manner.	Director of Central Services and Deputy Chief Executive	Oct-20
9	Cyber security	F, R	Loss of data and legislative breach, leading to financial penalties and reputational impact	01/04/2017		3	4	12	The Council has; IT Security Policy Network Security Measures (Firewall, access level controls) Considered cyber insurance Established and Information Governance Group Reviewed and cleansed data held by the Authority. Work underway to mitigate processor flaws which could lead to external cyber attack. Appointed a Member Cyber Champion. Rolled out Cyber awareness training to all staff and Members. Deployed software to identify potential confidential data held on the servers. Renewed and upgraded the software to identify and stop cyber attacks. We have a 2 level system for security with the KPSN gateway being the first level and then the Council's own firewalls the second.	4	3	12	The Council has; Procured cyber security 'recovery' contract via Kent Connects. Prioritised the resources (both financial and staff) to ensure relevant updates are carried out in a timely manner. Continued roll out of mitigation for processor flaws. Considers cyber security as part of disaster and business continuity recovery process. Deployed improved cyber security training to all staff and members to be completed by end of October 2019. New software in process of procurement for cyber management Solarwinds system purchased and in implementation phase. Timing has been impacted by pandemic in that priorities have needed to be reassessed. Report to FIPAB 16 Sept. Health check undertaken	IT Strategy	Director of Finance and Transformation	Jan-21

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10	IT Infrastructure	F, R	Failure to adequately invest resulting in inability to keep pace with technological change, leading to systems that are not fit for purpose to meet organisational need.	01/04/2017		3	4	12				New IT Strategy for period 2018-22 with linkage to MTFS and Savings and Transformation Strategy. Development of virtualisation project to enable efficient and effective ways of working. Review of data quality to ensure improvement and efficiency can be achieved. Ipads and required software rolled out the Councillors, MT Members and Senior Management Staff. New IT Strategy approved with specific emphasis to improve website functionality, website work commissioned following FIPAB approval in January 2019. New Head of IT appointed April 2019 with significant experience of implementing digital strategies in Local Authorities Officer and Member Groups established to consider implementation of digital agenda and changes to the Website format and content. Website capital plan evaluation to FIPAB 18 September 2019. total Mobile purchased and being rolled out. Website software in procurement completed and contract offered. Numerous digital projects underway. Report to FIPAB 22 July on digital strategy progress Report to FIPAB 16 Sept on IT Strategy update. Recommended purchase of enterprise Document Management system. Health check completed. New website underway.	IT Strategy	Director of Finance and Transformation	Jan-21	
11	Elections	R	Failure to comply with legislation, miscounts and significant reputational impact. Police & Crime Commissioner elections deferred until May 21 as a result of Coronavirus pandemic Boundary Commission Review announced - see report to Cabinet 30 June. Full council briefing scheduled for September	01/04/2017		2	4	8	Ensure experienced staff are in place, corporate team reviewing activity and monitoring progress.			Broadening of staff skills and experience to build resilience. Borough Council Election and European Election delivered successfully. MT horizon scanning on any increased chance of snap General Election. RO and DRO's assessing risks. Update 12/09/19. Risks continue to be evaluated with enhance risks if election is post "no deal" Brexit due to potential congestion and disruption issues Election held on 12 Dec 2019. NO issues arising due to detailed planning. Officer time will need to be directed to work with Boundary Commission	Statutory requirement	Chief Executive	Oct-20	
12	Business Continuity and Emergency Planning	F, R, S	Failure to provide statutory service or meet residents' needs resulting in additional costs, risk of harm and reputational impact. Impact/pressures on services and resources. Failure to ensure proper safeguards to prevent or to respond adequately to a significant disaster/event e.g. terrorist attack at a large scale public event or fire.	01/04/2017		3	4	12	The Council has in place; Business Continuity Plan. Corporate Business Continuity Risk Register Disaster Recovery Plans Inter-Authority Agreements Mutual Aid Agreement Partnership agreement with Kent Resilience Team. Emergency Planning Support Officer. Duty Emergency Coordinator System and Duty Officer System introduced to provide greater resilience.				Emergency planning documentation undergoing constant review and key aspects exercised on an annual basis. Training organised by Kent Resilience Team training. Business Continuity working group established to review and update existing Plan. Updated plan to be considered by Management Team and tested by a training exercise. New Duty Officer rota in place to support Duty Emergency Coordinators out of hours. Now fully trained. Out of Hours Manual reviewed and updated. DSSLTS sits on Kent Resilience Forum Board Actions taken in response to the Covid 19 pandemic will be reviewed and lessons learnt for Annual Emergency planning review to be reported to Management Team. Pandemic response dealt with as emergency through Kent Resilience Forum. Reports presented to Cabinet which cover Review Reorientation and Recovery. More detailed reports to be presented to relevant Advisory Boards.	Business continuity underpins the delivery of the Council's essential services	Director of Street Scene, Leisure & Technical Services	Jan-21
13	Devolution	F, R, S	Uncertainty about future operating models and changes / opportunities in responsibilities or service provision leading to financial pressures, impact on quality of services, reputational damage.	01/04/2017		3	3	9	Continual scanning of national / regional and Kent wide agenda by CE / Corporate Services manager. Participation in county wide debate via Joint Kent Chief Execs and Kent Leaders meetings. Update DEC 18 - County wide devolution discussions have been formally ceased. Horizon scanning and continued participation in Kent Leaders and CE meetings is ongoing.				White Paper on Devolution is to be published in the Autumn. Analysis of this will be a priority action.	External risk/national issue	Chief Executive	As required

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14	Partnerships inc. shared services	F, R, S	<p>Reliance on partners to deliver key services, including private sector companies. Could include specific partnership or shared service models such as the Leisure Trust and risks around service delivery and impact on staff morale / retention if base moves from TMBC . Potential resistance to shared services / partnerships impacting on ability to deliver Savings & Transformation Strategy. Private sector partnerships failing having consequences for service delivery.</p> <p>Coronavirus pandemic has significant economic implications for the Council, businesses and residents.</p>	01/04/2017		3	3	9				<p>Regular liaison meetings with partners. Partnership Agreements in place and reviewed as appropriate.</p> <p>Good communication with staff.</p> <p>In the light of the Carillion situation (which does not affect TMBC directly) maintain awareness of issues relating to private sector partners and plans formulated for service delivery in the event of failure via business continuity.</p> <p>Contractors and partners are impacted by the pandemic. The Council is liaising and supporting major partners to ensure that key services can continue. Discussions with TMLT on a weekly basis. Budget established to support during lockdown and reopening under social distancing/covid conditions.</p>		3	3	9	<p>FIPAB Jan 2018 updated on GBC's decision to pull out of progressing shared service for Revs and Bens. Review of Revs and Bens being conducted to ensure service continuity.</p> <p>New Waste Services Contract in partnership with Urbaser, TWBC and KCC commenced 1st March 2019. Formal Inter Authority Agreement and Partnership Agreement in place.</p> <p>Ground Maintenance Contract extended in light of good performance of contractor.</p> <p>Arrangements with Gravesham Borough Council on shared management arrangement for revenue and benefits management ceased September 30 2019. Staffing structure amended and approved by GP to have all management in-house.</p> <p>The Council is working within guidance issued by Cabinet Office "Guidance on responsible contractual behaviour in the performance and enforcement of contracts impacted by the Covid-19 emergency " and Procurement Policy Notes to support contractors and suppliers.</p> <p>Continuing discussion with major partners regarding impact of COVID.</p> <p>Consideration being given to whether TMBC should continue in Business Rate Retention Pool for 21/22 given that the Council is only just above baseline and impacts of COVID could start to impact in 21/22. Risks of staying in pool may outweigh benefits - assessment being carried out and report will be made to Cabinet in October.</p>	Savings and Transformation Strategy	Chief Executive	As required

No	Risk Title	Risk Type	Consequences	Date identified	Likelihood Score	Impact score	Overall risk score	Current Mitigation	Desired Likelihood Score	Desired Impact score	Desired risk score	Actions required to ensure mitigation remains	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Review Date	
15	Welfare reform inc. Housing need	F, R, S	<p>Safeguarding impact on TMBC residents due to reduction in benefits, introduction of UC and increase in applications for DHP, etc. Failure to adequately understand and meet housing needs and return unsuitable properties to use leading to increase in homelessness or occupation of unsuitable homes. Financial impact of increased emergency accommodation and failure to maximise new homes bonus.</p> <p>Coronavirus pandemic has significant economic implications for the Council, businesses and residents.</p>	01/04/2017		4	3	12	Cross sector working (e.g. welfare reform group) to identify issues and solution. Providing advice to residents on welfare and housing issues, or signposting to relevant providers. Working with partners to identify land and funding opportunities. Working with Registered Provider Partners to ensure needs of residents are being met. Working with owners to bring long term empty properties back into use. New initiatives for Temporary Accommodation, including purchase of flats. Review implications for new Homeless Reduction Act requirements. Concessionary charges for key services. EQIA assessment of key decisions included in all Board reports. HRA implications assessed and GPC agreed new posts to deliver service which have been recruited to. Universal Credit rolled out Nov 18 for Tonbridge & Maidstone Job Centres. Signposting now to UC rather than HB for new working age claimants. New CTR Scheme approved and comes into effect 1 April 2020. Chancellor announced hardship fund to assist with coronavirus impacts - details yet to be seen. Council tax and business rates instalments being deferred if requested by residents impacted by furlough schemes etc. Chancellor's hardship funds (up to £150 for working age people with council tax support) credited to council tax accounts as appropriate. Community hub set up to help those who are shielded or otherwise vulnerable. Signposting for help by telephone or website. Local Emergency grant scheme with funding passported from KCC to FIPAB 16 Sept	3	3	9	<p>Prepare for impact of further roll out of Universal Credit by learning from other areas earlier in the programme.</p> <p>Consideration of review of housing service to meet the needs following Housing legislative changes.</p> <p>Temporary Accommodation purchased.</p> <p>Member training from DWP provided re UC Nov 2018.</p> <p>Continue to facilitate Welfare Reform group and widen participation from external partners so as to ensure best support for those affected by welfare reforms in T&M.</p> <p>UPDATE: July 2019 Further review of staffing within housing underway in response to nationally recognised increased demand as a result of impact of HRA.</p> <p>Consultation on the Council Tax Reduction Scheme to be launched in September 19 following report to FIPAB July 2019. Intention to move to an income banded scheme.</p> <p>Report to FIPAB 18 September with capital plan scheme for purchase of additional Temporary Accommodation.</p> <p>Report to FIPAB 18 September confirming launch of consultation on CTR Scheme.</p> <p>New CTR scheme proposed - FIPAB Jan 20.</p> <p>Rollout of national hardship fund underway</p> <p>New temporary accommodation purchased - refit needed to make fit for purpose. This to be accelerated in next few months.</p> <p>Improved working with TA providers leading to more guarantees of available accommodation and working towards a procurement exercise to improve value for money.</p> <p>Improved working with main housing provider to identify trends/specific cases across borough to jointly agree approach to preventing homelessness using housing provider mechanisms, DHP payments and homeless prevention funding where needed.</p> <p>Pay out grants on local emergency scheme following FIPAB. Monitor impact of furlough unwind</p>	Promoting Fairness - acting transparently at all times and being accountable for what we do, and promoting equality of opportunities. Embracing Effective Partnership Working - achieving more by working and engaging effectively with a wide range of local partners from the private, public, voluntary and community sectors.	Director of Finance and Transformation/ Director of Planning, Housing and Environmental Health	Jan-21
16	Political factors including stability of political leadership and decision making	F, R	Decisions required to achieve objectives including corporate strategy and savings and transformation may not be made and therefore required savings not achieved.	01/04/2017	3	3	9	<p>Significant focus on rough sleepers during Covid-19 pandemic to ensure "all in" and work continues to secure long term accommodation. Significant focus on temporary accommodation and in borough provision as well as framework agreement with private providers.</p> <p>Close liaison with Leader, Deputy Leader and Cabinet in developing the Savings & Transformation Strategy.</p> <p>Clear and comprehensive reports to support Members in making appropriate decisions to support the S&TS.</p>	3	3	9	<p>Member briefings and training sessions.</p> <p>UPDATE JULY 2019- series of induction and training sessions delivered to Members following local elections in May 2019</p>	Underpins delivery of overall strategy and Savings and Transformation.	Chief Executive	As required	

No	Risk Title	Risk Type	Consequences	Date identified	Likelihood Score	Impact score	Overall risk score	Current Mitigation	Desired Likelihood Score	Desired Impact score	Desired risk score	Actions required to ensure mitigation remains	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Review Date
17	Flooding	F, R, S	Impact on resources to support emergency planning, financial impact due to damage, loss of resources, etc. Residents and staff put at risk of harm. Impact on key flood risk areas - Tonbridge, Hildenborough, East Peckham and Aylesford.	01/04/2017	3	4	12	Working with partners (EA/KCC/LEP) to secure funding and implement flood defence schemes which will reduce risk of future flooding. Assistance provided to Parish/Town Council's to help develop local Flood Plans. Team of Volunteer Flood Wardens in place.	3	4	12	Work with partner organisations via Kent Resilience Forum continuing. Council represented on key County Partnership Groups overseeing Brexit implications including Strategic Coordinating Group. Council Officers dial into Severe Weather Advisory Group meetings. Regular attendance at KRF training sessions. Aylesford Community Flood Plan completed/launched and training taken place. Ongoing support for Tonbridge Flood Group.	Emergency Plan Contingencies Act 2004 Kent Emergency Response Framework West Kent Partnership and Medway Catchment Partnership	Director of Street Scene, Leisure & Technical Services	Mar-21
18	Contaminated Land	F, R, S	Impact on homes, public health. Residents put at risk of harm.	01/01/2018	3	4	12	Working with partners (EA and other) and specialist consultants to monitor potential sites and assess risk to inform action as is needed.	3	3	9	Priory Wood, Tonbridge Appointment of contractor to monitor emissions made in June 2019. Initial report shows no cause for concern at this stage. Detailed investigation is ongoing with a final report/risk assessment expected around September 2020.	Contaminated Land Strategy	Director of Planning Housing and Environmental Health	Oct-20
19	Implementation of Waste/ Recycling Contract	F, R, S	Failure to provide new service and deliver described outcomes in accordance with contract timescales. Significant reputational risk. Risk of challenge from tenderers. Failure to achieve financial targets for garden waste scheme. Coronavirus pandemic has significant economic implications for businesses and residents.	01/07/2018	4	4	16	Partnership arrangement with TWBC, with allocation of key tasks. Internal Project Group reporting regularly to MT, Members, including a separate Member Working Group. External advice sought from specialists on key decisions. Detailed project plan, risk register and marketing plan in place. New inter authority agreement with KCC encourages improved recycling performance and shares risks and rewards. IT, Communications and Operations identified as crucial work streams and individual working groups established to manage and implement these work areas.	3	3	9	New contractor (Urbaser) appointed with commencement in March 2019. New service delivery arrangements, including opt in garden waste collections commenced 30th September 2019. Operational and Marketing plan approved by members in Feb 2019. Contractor Annual Service plan to be monitored by Partnership Manager. Garden Waste charges set to encourage uptake Government consultation on new Waste & Resources Strategy including greater consistency of collection arrangements across local authorities. Response sent on new Government Strategy in liaison with Kent Resource Partnership. Contract performance, following new service delivery arrangements, has been unsatisfactory in terms of missed collections and uncompleted rounds. Focus is now on ensuring the contractor delivers the contract in accordance with the specification across the whole borough.	Delivery of cost effective service to meet customer needs.	Director of Street Scene, Leisure & Technical Services	Mar-21

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Ongoing Risks and Risks Identified by Service Management Teams and Management Team

	Risk Identified	Background	Removed or ongoing	Reason for removal / ongoing
Chief Executive and Central Services Finance and Transformation	COVID-19	Impact on resources within service	Ongoing	Part of Strategic Risk Register.
	Larkfield Leisure Centre	All showers are currently closed due to COVID-19. Last set of samples in August came back all clear, but the biocide is running at 100ppm in order to achieve that. If next 2 samples come back clear then trust will move to quarterly sampling, but in the meantime we will be scoping/ costing independent water system to feed dry change area. We will only need this if samples go the wrong way, but the cost of such a system is unbudgeted.	Ongoing	
	Brexit	Impact on resources identified within service	Ongoing	
	Coco Compliance	Review of IT Infrastructure identified several areas of weakness for IT standards compliance	Ongoing	Number of risk removed, expected that remaining risks, once removed, will allow full compliance
	Subsidy Audit	Software error requiring investigation and reconciliation for Subsidy Audit	Ongoing	
	Council Website	Implementation of new Council Website for transitional arrangements.	Ongoing	
	IT infrastructure	Procurement and implementation of IT infrastructure for production environment. Current equipment goes out of support in December 2020.	Ongoing	In order to mitigate the immediate risk IT services are currently looking at options to extend the support for existing equipment past December 2020 with the current service provider.
	Covid 19	Pandemic issues surrounding Council Finances	Ongoing	Part of Strategic Risk Register.
	Equipment Failure	Folding Machine used for Revenues and Benefits correspondance is now out of maintenance contract. New single folding machine procurement has been delayed due to Covid lockdown.	Ongoing	
	Supported Accommodation	Change in KCC approach for care need could have impact on ability to recover Housing Benefit Subsidy	Ongoing	Meetings arranged to assess full impact to district councils

Ongoing Risks and Risks Identified by Service Management Teams and Management Team

	Risk Identified	Background	Removed or ongoing	Reason for removal / ongoing
Planning, Housing and Environmental Health Leisure and Technical Services	Temporary Accommodation (TA)	Increasing use of TA (backdrop of Homeless Reduction Act implementation/access to affordable PRS etc.) resulting in increasing cost to Council	Ongoing	Work at a strategic level to respond to increasing demand is ongoing however will take time to come to fruition and have impact on numbers. Also important to note that numbers are not static and increases are expected.
	Temporary Accommodation (TA)	Personal injury claims	Ongoing	During the Covid-19 crisis we do not have the same property inspection regime and people are spending more time at home.
	Food & Safety	Increased risk of food complaints/poisoning	Ongoing	During the Covid-19 crisis the ceasing/reduction in the food hygiene inspection regime may result in food safety issues.
	Increased number of planning appeals/inquiries	Identified in service and in the knowledge of associated costs to resource them effectively	Ongoing	Complexity of applications coming forward in parallel with local plan progression
	Local Plan	Due to rising Covid-19 infection rates and the onset of winter there is an increased risk of illness having a detrimental impact on the Council's ability to perform at the Hearings in October/November	Ongoing	Key Members of Staff, Counsel, Consultants Falling ill before or during the Hearings (e.g. contracting Covid).
	Local Plan	The Inspectorate have raised some issues with the Council's version of MS Teams for conducting the virtual Hearings following a trial run on 10.9.20. Solutions are being investigated with IT, but this remains a risk.	Ongoing	Technical issues with virtual hearing platforms Resulting in Hearings being postponed (If the Inspectors are unsatisfied with MST as a platform).
	Operation Fennel	Impact of no deal Brexit on road network linked to Eurotunnel/Dover port. Particular focus for TMBC on M20 and M26. Risks relate to business continuity, media & comms and staff resourcing .	Ongoing	Brexit exercise (Loki III) will be undertaken September 2020. Remote access capabilities are now well established, and implications for Council's key Services reviewed by Management Team. Developing impact of the EU Exit and Op Fennel will be ongoing
	Legionella	Problem identified in LLC Dry change showers.	Removed	Following action taken in accordance with HSE guidance. Issue addressed through ongoing dosing and showers now reopened to public. Regular sampling ongoing and advice received from external consultant.

Ongoing Risks and Risks Identified by Service Management Teams and Management Team

	Risk Identified	Background	Removed or ongoing	Reason for removal / ongoing
Street Scene	Castle Motte Trees	Following high winds a tree fell and caused significant damage. Tree removed and pathway repaired. Path closed to public until works complete. Historic England consulted and have recommended removal of all trees on motte to protect ancient monument from future damage.	Removed	Recommended tree work complete and residual trees being monitored and inspected in accordance with the Council's adopted Tree Safety Policy.

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Agenda Item 6

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

28 September 2020

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 STATEMENT OF ACCOUNTS 2019/20 AND EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF THE ACCOUNTS

This report presents the current set of Accounts for 2019/20 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom. Members are invited to endorse and approve both the Statement of Accounts and supplemental Audit Findings Report. The external auditors report is to be approved prior to the Engagement Lead signing off the Accounts. The Engagement Lead and or their representative will be at the meeting to present the report and to answer questions.

1.1 Introduction

1.1.1 An audited set of Accounts must be approved by the Council or a Committee of the Council by 31 July (for the 2019/20 Accounts the date has been moved to the 30 November in response to the Covid-19 pandemic). Approval of the Statement of Accounts is delegated to this Committee.

1.2 Statement of Accounts

1.2.1 The Accounts are to be prepared in accordance with International Financial Reporting Standards. The Code of Practice on Local Authority Accounting in the United Kingdom is issued by the Chartered Institute of Public Finance and Accountancy and is reviewed and as appropriate updated at least annually. There have been no material changes to the presentation of the Accounts for 2019/20.

Covid-19 Pandemic

1.2.2 There will be numerous issues that will impact on local authorities as a result of the Covid-19 pandemic. Specific areas within the financial statements include:

- Valuation uncertainty in respect of property, plant and equipment, investment property and heritage assets. The impact that the Covid-19 pandemic has had on valuations has been discussed with our external valuers and their response is set out at Note 7.

- Property investment funds where valuers include a statement of ‘material valuation uncertainty’ declaration in their reporting and advice. The impact that the Covid-19 pandemic has had on valuations is set out at Note 10.
- Pension Fund Assets and Liabilities – The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Further information relating to the pension scheme can be found in Note 11.
- Collectability of debt – It is prudent to establish a provision (impairment allowance) for non-payment of debt. Further details relating to the impairment allowance and the potential adverse impact of the Covid-19 pandemic on collectability of debt can be found in Note 17.

1.2.3 An audited set of Accounts for 2019/20 [**Annex 1**] is enclosed with this agenda. It consists of the following individual financial statements and associated notes.

- 1) Comprehensive Income and Expenditure Statement – this Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The taxation position is shown in the Movement in Reserves Statement.
- 2) Movement in Reserves Statement – this Statement shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (those that can be applied to fund expenditure and or reduce local taxation) and other reserves (those that the Council is not able to use to provide services, for example, the revaluation reserve).
- 3) Balance Sheet – sets out the financial position of the Council at 31 March 2020. It shows the value of the Council’s assets and liabilities, and its balances and reserves.
- 4) Cash Flow Statement – this summarises the inflows and outflows of cash and cash equivalents for both revenue and capital purposes.
- 5) Notes to the financial statements.
- 6) Collection Fund and Associated Notes – shows the total local taxation transactions in relation to council tax and business rates.

1.2.4 Members will note in accordance with the Accounts and Audit Regulations and in my role as the Council’s responsible financial officer, I have certified that the Statement of Accounts present a “true and fair view” of the financial position of the local authority at the end of the year and its income and expenditure for the year.

1.2.5 The Statement of Accounts is subject to external audit.

1.3 Accounts and Audit Regulations

1.3.1 The Accounts and Audit Regulations require:

- The Council's responsible financial officer to certify an unaudited set of accounts for issue that present a "true and fair view" of the financial position of the Council as at 31 March 2020 and its income and expenditure for the year ended 31 March 2020 by no later than 31 May (for the 2019/20 Accounts the date was moved to the 31 August in response to the Covid-19 pandemic).
- The responsible financial officer and Members to certify / approve an audited set of accounts for publication by no later than 31 July (for the 2019/20 Accounts the date has been moved to the 30 November in response to the Covid-19 pandemic) and that following approval both the responsible financial officer and Chairman of the receiving Committee sign and date the Statement of Accounts.
- Authorities to have in place a sound system of corporate governance and that an Annual Governance Statement is to accompany, but is not part of the Accounts.

1.4 Audit Findings Report

- 1.4.1 Our external auditor (Grant Thornton UK LLP) is required to issue a report to those charged with governance covering, amongst other things, the outcome of the audit of the Accounts, and for this to be endorsed and approved before the Accounts are signed off. It is this Committee that is charged with governance for this purpose.
- 1.4.2 In accordance with this requirement, the Audit Findings Report on the outcome of the audit of the Statement of Accounts 2019/20 is to be published as a supplementary paper to the agenda in due course. Members will note that the Engagement Lead anticipates being able to issue an unqualified audit opinion on the financial statements and value for money conclusion following this meeting.
- 1.4.3 The Engagement Lead and or their representative will be at the meeting to present the report and to answer questions.
- 1.4.4 At the time of writing there has been one financial change made to the unaudited set of Accounts presented to the Committee in July in respect of an increase in the value attributed to Larkfield Leisure Centre in the sum of £700,000. A number of textual changes have also been made at the request of the Auditors to strengthen the commentary on the potential impact of Covid-19 on asset and other valuations. Any further material changes required to be brought to the attention of Members at the meeting.

1.5 Letter of Representation

- 1.5.1 For completeness and in accordance with best practice it is recommended that the Chairman countersign the Letter of Representation. The Letter of Representation is to be published as a supplementary paper to the agenda in due course and ask that delegated authority be granted to the Chairman and Director of Finance and Transformation to sign the Letter of Representation when Grant Thornton issue their opinion.

1.6 Legal Implications

- 1.6.1 Compliance with the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting in the United Kingdom is a statutory requirement. There are a number of legislative requirements to consider in the preparation and publication of the Statement of Accounts which will be addressed as we move through the closedown process.

1.7 Financial and Value for Money Considerations

- 1.7.1 As set out in the report and accompanying documents.
- 1.7.2 The fee has increased from that originally set by Public Sector Audit Appointments Limited (PSAA) from £35,248 to £42,748 following changes to the scope and depth of audit work required.

1.8 Risk Assessment

- 1.8.1 The Statement of Accounts is a statutory document and, therefore, failure to prepare and publish the Accounts in accordance with proper accounting practice and within the statutory timescales could adversely affect the Council.

1.9 Equality Impact Assessment

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

1.10 Recommendations

- 1.10.1 Members are **RECOMMENDED** to:

- 1) Receive and approve the enclosed audited set of Accounts for 2019/20 **[Annex 1]** and request that the Chairman sign the Accounts in the appropriate place.
- 2) Approve the Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2019/20.

- 3) Agree that delegated authority be granted to the Chairman and Director of Finance and Transformation to sign the Letter of Representation when Grant Thornton issue their opinion.

Background papers: contact: Paul Worden

Investment information provided by King & Shaxson
Pension information provided by Barnett Waddingham
Valuation/Impairment information provided by BPS
Chartered Surveyors and J A Warner Ltd.

Sharon Shelton
Director of Finance and Transformation

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

28 September 2020

Report of the Chief Audit Executive

Part 1- Public

Matters for Information

1 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

This report provides Members with an update on the work of both the Internal Audit function and the Counter Fraud function for the period April to August 2020.

Internal Audit Update

1.1 Introduction

- 1.1.1 The Accounts and Audit Regulations require the Council to *undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.*
- 1.1.2 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.* For TMBC, the "Board" is considered to be the Audit Committee.

1.2 Progress against the 2020/21 Plan

- 1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2020/21 was approved by Members of the Audit Committee on 27 July 2020. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2020/21 against the Plan. The Plan reflects all work to be undertaken by the team during the financial year, containing both assurance work and consultancy work. The Plan this year is weighted towards assurance, with 20 assurance and 1 consultancy pieces of work.
- 1.2.2 Progress against the 2020/21 Internal Audit Plan is broadly equivalent to the position this time last year, but is still slightly behind target. The reason for this is largely due to the 2020/21 Audit Plan not being approved by Audit Committee until July. The plan would have usually been approved in April, subsequently this led to a delay starting audit engagements. There are, however, sufficient resources

to complete the 2020/21 Plan (through a mixture of permanent, seconded and contracted staff).

- 1.2.3 We have issued one final audit report so far this year; this received ‘Substantial’ assurance and there are no significant risks arising. We have also issued a management letter as part of the Health and Safety audit which reviewed the Council’s measures put in place to protect staff and visitors in relation to Covid-19. This too did not identify any significant risks.
- 1.2.4 A further audit is at draft report stage with 1 at quality assurance stage. There are another 6 reviews in planning. A summary of the current status of all audits on the 2020/21 Plan, including a summary of findings where finalised, is attached to this report at [Annex 1]. Definitions of Audit Opinions are provided at [Annex 2].

1.3 Completion of 2019/20 Internal Audit Plan

- 1.3.1 Members may recall that at the July Audit Committee meeting, we reported that there was 1 substantive audit that had not been finalised. At the time of compiling this current report, the audit is at draft report stage and we are awaiting responses to recommendations raised in the report. The findings of these pieces of work do not affect Internal Audit’s overall opinion on systems of risk management, governance and control that was provided as part of the Annual Report. The Committee will be updated further at the next meeting.

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

- 1.4.1 As referenced in Paragraph 1.1.1, PSIAS are mandatory for Internal Audit practice in the public sector. As part of the PSIAS, Internal Audit is required to maintain a Quality Assurance and Improvement Programme (QAIP), which is overseen by the Audit Committee. The QAIP summarises all of the measures in place to enable an evaluation of the internal audit activity’s conformance with the Public Sector Internal Audit Standards (PSIAS) including the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement and learning for the team. Oversight of the QAIP enables the Audit Committee to discharge its duty to ensure an adequate and effective internal audit function.
- 1.4.2 The QAIP must include periodic self-assessments of compliance against the PSIAS. “Periodic” is defined by most internal audit functions as “annual”. A self-assessment is currently being undertaken in order to inform a refreshed and revised action plan going forwards. The outcomes of this self-assessment, together with the resultant action plan, will be reported to this Committee in January.

Counter Fraud Update

1.5 Prevention and Detection of Fraud, Bribery and Corruption

- 1.5.1 This section of the report provides details of the Council's activity in preventing and detecting fraud, bribery and corruption in the year 2020/21 to date.
- 1.5.2 The Council proactively takes part in the National Fraud Initiative (NFI), a biennial nationwide data matching exercise comparing computer records held by the Council against those held by other councils and other bodies. The current biennial exercise commenced in October 2018 and required data sets were provided in line with set timescales. 1,018 matches were received with a further 1,010 received and to date 1657 have been closed with no further action and 157 have been closed with errors found, 50 have been opened to undertake further enquiries and 164 have yet to be reviewed.
- 1.5.3 Annual data matching is also undertaken through NFI between the Electoral Register and Council Tax Single Person Discount data; the most recent results were received in January 2020. There were 907 matches received (including referrals for Raising 18), 762 have been closed with no further action required and 22 have been closed with errors found. Of the remaining matches, 72 are subject to further enquiries and 51 have yet to be reviewed.
- 1.5.4 The Kent Intelligence Network continues to support Local Authorities in Kent in preventing and detecting fraud. The key focus area for 2020/21 has looked at fraud and error within Single Person Discounts, Small Business Rate Relief and unrated business premises. Data matches received through this route have been reviewed. The total income due as a result for 2020/21 to date was £23,401 with increased annual liability of £12,471 through the removal of Single Person Discounts.
- 1.5.5 In 2018, Kent Finance Officers Group agreed to fund the procurement of a software solution that focuses on data matching businesses in receipt of SBRR nationally, the cost contribution from Tonbridge and Malling was £1,000 and recently agreed to fund the software for a further year. The total identified additional business rates due to date in 2019/20 and 2020/21 as a result is £119,923 with increased annual liability of £249,072. The majority of this was in relation to two specific sites.
- 1.5.6 Funding from KCC continues to support the identification of council tax cases where information held elsewhere, including credit reference agencies, indicates a discount or exemption awarded may be erroneous. Reviews of high-risk Single Person Discount cases have been undertaken and this has identified a number of cases where they have removed the discount.
- 1.5.7 Where a match is found through any of the routes above it does not necessarily indicate fraud in all instances; it does however highlight an inconsistency in the

information held which requires further investigation and could be attributed to either fraud or error.

- 1.5.8 We continue to review areas of fraud risk and direct our work accordingly. This includes the progression of Service specific fraud, bribery and corruption risk assessments and briefings have been provided to each service management team along with a draft risk assessment for them to review and complete. This work is due to be completed in 2020/21. Fraud awareness training continues to be provided to services, targeted at those where risk of fraud is greatest.

1.6 Investigating Fraud, Bribery and Corruption

- 1.6.1 The Counter Fraud Team is responsible for investigating all allegations of fraud, bribery and corruption, whether this is through internal fraud, external stakeholders or customers, as well as assisting with disciplinary investigations as and when required. The Team works as and when required with a number of external agencies mainly the Department for Work and Pensions and other local authorities to progress investigations.
- 1.6.2 In 2020/21 in the period to the end of August, the Counter Fraud Team have closed 55 cases and received a total of 103 referrals, 58 of which relate to NFI; there are 9 ongoing investigations with a further 30 being investigated from previous years. The total amount of income due as a result of investigations to end of August is £12,223 with increased annual liability of £9,146. Civil penalties (net) in the amount of £630 were also applied. **[Annex 3]** summarises the results of investigations concluded in 2020/21.

1.7 Legal Implications

- 1.7.1 The Accounts and Audit Regulations place a statutory requirement on local authorities to undertake an adequate and effective internal audit of systems of risk management, governance and control in line with the PSIAS.
- 1.7.2 The Council has a legal duty under s151 of Local Government Act 1972 and the Accounts and Audit Regulations to ensure that there are appropriate systems in place to prevent and detect fraud.
- 1.7.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.8 Financial and Value for Money Considerations

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

1.8.2 Fraud prevention and detection is an area subject to central government focus with initiatives such as the National Fraud Initiative and Local Government Counter Fraud and Corruption Initiative. The message coming from these initiatives is that effective fraud prevention and detection releases resources and minimises losses to the Council through fraud.

1.9 Risk Assessment

- 1.9.1 This report, summarising the work of the Internal Audit function, provides a key source of assurance for the Council on the adequacy and effectiveness of its framework for governance, risk management and control.
- 1.9.2 Failing to have an efficient and effective Counter Fraud function could lead to an increased level of fraud. This report, summarising the work of the Counter Fraud function, provides a key source of assurance for the Council on the adequacy and effectiveness of its counter fraud arrangements.

Background papers:

contact: Richard Benjamin

Nil

Jonathan Idle
Chief Audit Executive

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Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Training	2	Planning		
Community Safety	3	Planning		
Customer Services Review	Ongoing			
Sickness Management	2	Planning		
Recruitment and Retention	1	Postponed to Q3/4		

Health and Safety	2	Part 1: Complete Part 2: Quality Assurance	TBC	<p>Testing has established that the Council has taken suitable measures to ensure the safety of staff working in the Gibson building on office duties, or working across the Borough on visits and inspections. Suitably detailed risk assessments are in place for all services.</p> <p>Review of the staff signing in and out register established that of the total number of attendees to the offices, only a small number of these remained at the offices all day, indicating that staff are complying with the corporate guidance to only attend the offices if absolutely necessary.</p> <p>Testing established that PPE and hand sanitiser is readily available to staff as required. Sufficient hand sanitiser stations are in place around the building and in corridors. Similarly, cleaning stations are well positioned and signposted in offices.</p> <p>Physical measures in place to protect staff that do attend the building were found to be appropriate for current daily occupancy rates. No significant points for concern were identified during a recent visit to the building, although management should remain mindful that as staff return to the building, other measures may need to be considered such as reducing the number of desks available for use in larger offices. Also maximum occupancy rates for meeting rooms should be introduced.</p> <p>Suitable measures such as floor markings and plastic screens have been put in place in the main reception area to protect visitors and staff.</p> <p>As part of the process for working at home rather than in offices, staff have been required to complete Home workstation Assessments. Suitable processes are in place to record completed assessments and ensure that all officers working from home have completed an assessment.</p>
Housing Allocation Scheme	1	On Hold		

S106 – Developer Contribution	4			
Local Plan	3			
Waste Contract	3			
Parking	1	Planning		
Business Continuity	3			
Tree Strategy	1	Draft Report		
IT Governance	4			
Council Tax Reduction Scheme	3			
Citizen Access System	3	Planning		

Housing Benefit Claims	1	Complete	Substantial	<p>The majority of the expected controls necessary for the accurate and timely assessment of claims were found to be in place, and working as expected. For the sample of claims received since the start of the Covid-19 the following controls were in place.</p> <ul style="list-style-type: none"> • The necessary evidence was held on file to identify the claimant and other persons on the claim. • All income calculations were correct and based on evidence held on the claim. • Housing Benefit claims all had evidence of the rent liability for the claimant. • Bank statements were held on file. Assessments of Capital held by the claimant were correct. • Claim start dates were correct. <p>Testing did however identify that only 2 from 15 claims tested had been date stamped to confirm the date of receipt of the claim form. Not date stamping claim forms, may result in incorrect start dates being applied to claims making the claim incorrect.</p>
General Ledger	2			
Corporate Credit Cards	2	Planning		
Risk Management	Ongoing			
Performance Management	Ongoing			

Definitions of Audit Opinions

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

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Investigations

Fraud Type	Cases Closed	No Evidence of Fraud	Customer Error or Incorrect Entitlement	Fraud Proven /Prevented	Reduction In Weekly Entitlement	Total Under /Overpayments	Increase In Liability	No of Penalty Charges	Total Penalty charge
NNDR	1	1							
SPD	51	34	17		£173.24	£10118.14	£9009.26	9	£630.00
CTR	2		2		£2.64	£2105.06	£137.28		
Housing Benefit	2	2							
Housing	1			1					
Parking									
Planning									
Licencing									
Other									
Total	57	37	19	1	£175.88	£12223.20	£9146.54		£630.00

Match type	Total Received	Closed NFA	Closed Error	Closed Fraud	Further enquiries	To be Opened	Underpayments	Comments
Council Tax to Electoral Register	860	754	22	0	72	12	£11525.95	**Includes underpayments reported within criminal investigations
Council Tax Rising 18's	47	8		0	0	39		
Council Tax to Other Datasets	1739	1729	8	0	2	0	£4201.92	** See above
Council Tax to HMRC Household Composition	2482	963	2	0	41	1476	£562.83	New release in August 2019
Waiting List to Housing Tenants	1	1	0	0	0	0	£0.00	
Biennial	2028	1657	157	0	50	164	£11044.91	
TOTAL	7157	5112	167	0	165	1691	£15809.66	

Agenda Item 8

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

28 September 2020

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT THORNTON PROGRESS REPORT AND SECTOR UPDATE

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

1.1 Introduction

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

- Progress in delivering our responsibilities as your external auditor.
- The Redmond Review on local authority audit.
- Covid-19 update

1.2 Legal Implications

1.2.1 As set out in the paper.

1.3 Financial and Value for Money Considerations

1.3.1 As set out in the paper.

1.4 Risk Assessment

1.4.1 As set out in the paper.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton
Director of Finance and Transformation

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Audit Progress Report and Sector Update

Tonbridge & Malling Borough Council
Year ending 31 March 2020

18 September 2020



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Progress at September 2020	4
Audit Deliverables	5
Sector Update	6

Introduction



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

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

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

Progress at September 2020

Financial Statements Audit

Our financial statements audit is now substantially complete. We will report on the outcomes from our work in our Audit Findings Report, which is included as a separate item on today's agenda.

We would like to thank officers for their assistance throughout our yearend accounts audit, including with the work to address issues associated with the current remote working environment.

Value for Money

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

The NAO guidance for 2019/20 confirms that the overall criterion remains that: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub-criteria which auditors consider in arriving at an overall conclusion are:

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

We will report on the outcomes from our value for money work in our Audit Findings Report, which is included as a separate item on today's agenda.

Other areas

Meetings

We have continued to meet regularly with officers using Teams and Skype.

Sector Update

Covid-19

An update on the impact of the current pandemic on local authorities is included from page 6.

Redmond review

The Redmond review on local authority audit was published on 8 September 2020. The report's recommendations include;

- a new regulator - the Office of Local Audit and Regulation will be created to manage, oversee and regulate local audit, replacing the roles of the FRC and PSAA
- the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- revisions to the current fee structure for local audit to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts
- recognition of the role of authorities in improving governance and reporting and
- development of audited and reconciled accounts summaries.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter This letter gives details of our audit fee for 2019/20.	April 2019	Complete
Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a conclusion on the Council's Value for Money arrangements.	January 2020	Complete
Audit Plan - Addendum An addendum to our audit plan has been issued which considers the impact of the Covid 19 pandemic on our audit.	July 2020	Complete
Audit Findings Report The Audit Findings Report is included as a separate item on today's agenda.	September 2020	Complete
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	October 2020	To be finalised
Annual Audit Letter This letter communicates the key issues arising from our work.	December 2020	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

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

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

Public Sector

Local
government

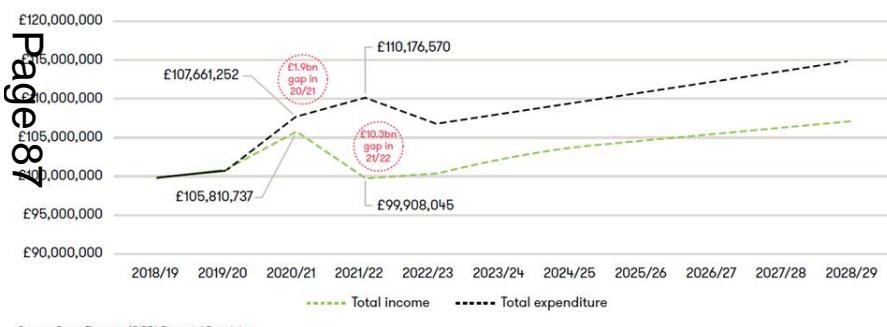
Covid-19 update

Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.

Local Authority Income and Expenditure (England) 2018/19 to 2028/29



Financial Foresight forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

and support the vulnerable, whatever scenarios play out in the medium term.

The uncertainty also impacts on future spending pressures and sales fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalizing footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part countervail the fall in demand elsewhere.

Covid-19 update (cont'd)

Lessons Learned (Cont'd)

Many councils have recognized the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritized scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organization. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

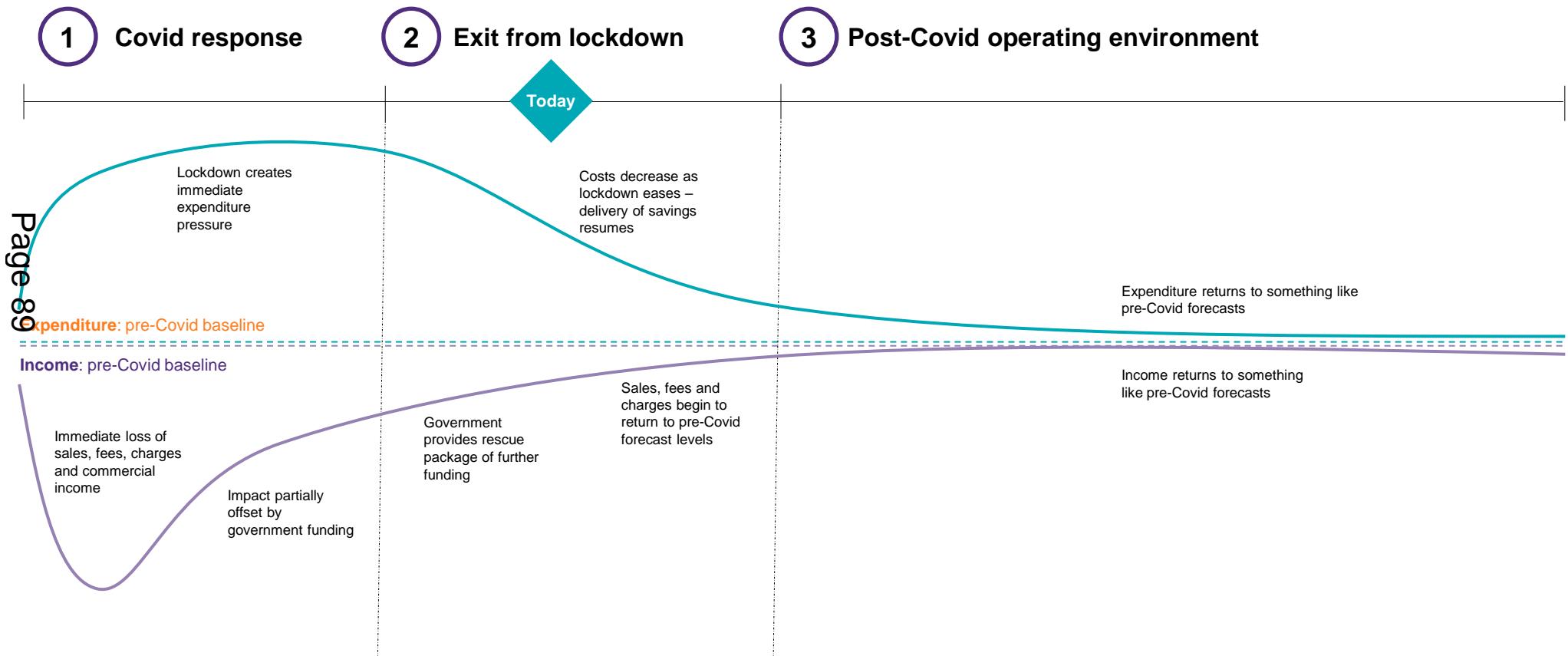
As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully been produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services

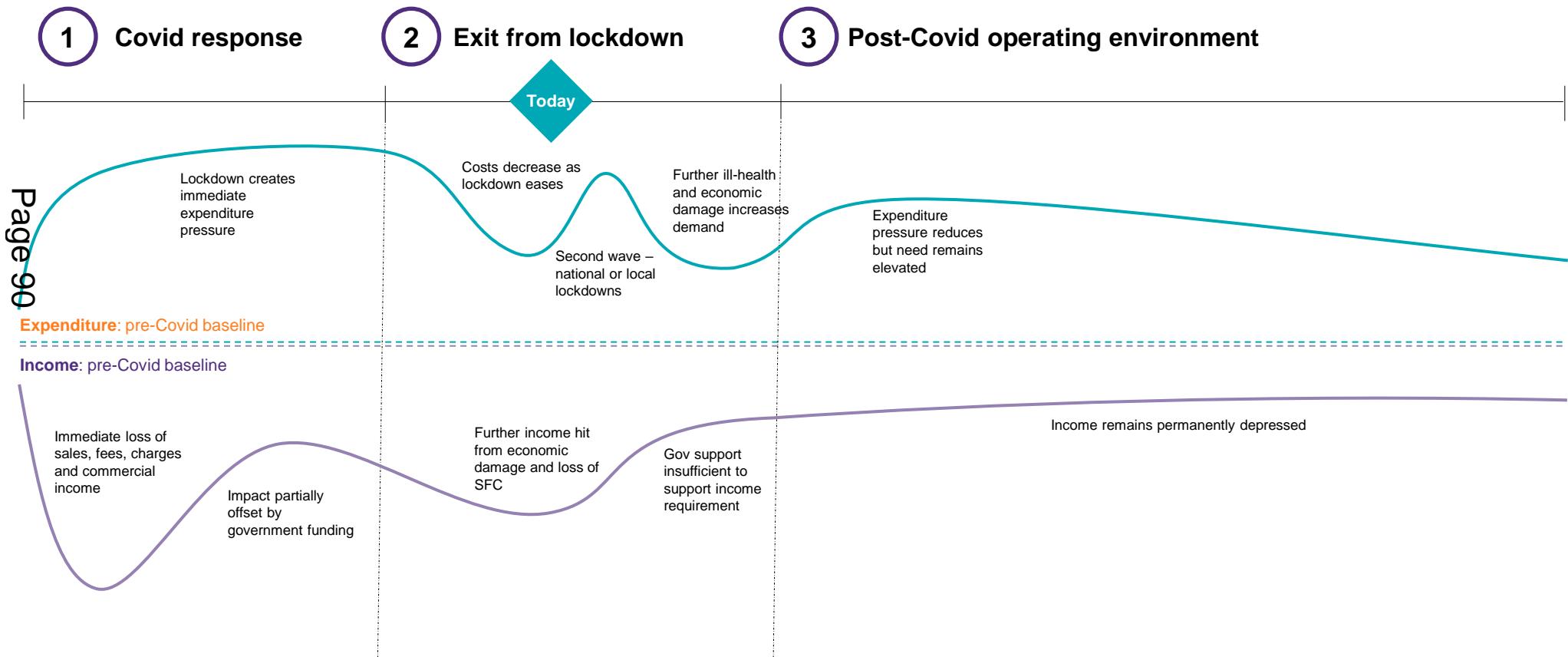
Example scenarios

Scenario 1 – swift return to normality



Example scenarios (Cont'd)

Scenario 2 – second wave and ongoing disruption



Scenarios and hypotheses

Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
People & community	 <ul style="list-style-type: none"> Multiple lockdowns and ongoing disruption Community dependency and expectation of sustained response Turbulence and activism within the VCS Socio-economic inequality is compounded Failure of leisure and cultural services 	<ul style="list-style-type: none"> Smooth exit from lockdown to a “new normal” Community mobilisation is channelled into ongoing resilience Strengthened VCS relationships and focus Systemic response to inequality is accelerated Leisure and cultural services adapted to social distancing
Business & economy	 <ul style="list-style-type: none"> 16% reduction in GVA for 2020 based on OBR reference scenario Slow / uneven economic recovery and “long tail” on unemployment Central gov / BEIS focus investment on areas furthest behind Loss of tourist & student spend causes unmitigated damage 'V' shaped recovery results in 2-3 year recovery period 	<ul style="list-style-type: none"> 5-10% reduction in GVA Rapid economic recovery with employment levels close behind Central government “back winners” with investment Adaptation allows resumption of tourist and student economy Business base is weighted towards growth sectors
Health & wellbeing	 <ul style="list-style-type: none"> Increased demand and escalating need due to fallout from lockdown Newly-vulnerable cohorts place strain on the system Unit costs increase further as markets deteriorate and providers fail SEND transport unable to adapt to social distancing Imposed disruption of care system 	<ul style="list-style-type: none"> Positive lifestyle changes and attitudes to care reduce demand Needs of newly vulnerable cohorts met through new service models New investment in prevention and market-shaping manage costs New ways of working leading to stronger staff retention Locally-led reform of health and care system
Political & regulatory	 <ul style="list-style-type: none"> Local government side-lined by a centralised national recovery effort Unfunded burdens (e.g. enforcement and contact-tracing) Councils in the firing line for mismanaging recovery 	<ul style="list-style-type: none"> Local government empowered as leaders of place-based recovery Devolution and empowerment of localities Councils at the forefront of civic and democratic renewal
Environment	 <ul style="list-style-type: none"> Opportunity missed to capture and sustain environmental benefits The end of the high street / town centres Emissions and air quality worsened by avoidance of public transport Capital programmes stuck 	<ul style="list-style-type: none"> Ability to invest in transport modal shift and green infrastructure Changed working patterns rejuvenate town centres Sustained impact on emissions due to new behaviours New, shovel-ready infrastructure programmes
Organisational	 <ul style="list-style-type: none"> Inadequate funding forces fiscal constraint Working practices return to status quo – increased operating costs Imposed structural change within the place Austerity 2 Commercial portfolio becomes a liability 	<ul style="list-style-type: none"> Adequate funding enables a programme of targeted investment Learning and adaptation to new operating environment Energised system-wide collaboration and reform Fiscal reform and civic renewal Commercial portfolio reshaped for economic and social gain

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Page 92

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

Steering towards the best case

Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

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Agenda Item 9

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

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Agenda Item 10

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

ANY REPORTS APPEARING AFTER THIS PAGE CONTAIN EXEMPT INFORMATION

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Agenda Item 11

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 12

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

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