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TONBRIDGE & MALLING BOROUGH COUNCIL

EXECUTIVE SERVICES

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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

8 January 2021

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, 18th January, 2021 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

Members in any doubt about such declarations are advised to contact Legal or Democratic Services in advance of the meeting

3. Minutes 9 - 12

To confirm as a correct record the Minutes of the meeting of Audit Committee held on 28 September 2020

Matters for Recommendation to the Cabinet

4. Risk Management 13 - 50

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

5. Treasury Management Update and Treasury Management and Annual Investment Strategy for 2021/22 51 - 104

The report provides details of investments undertaken and return achieved in the first nine months of the current financial year and an introduction to the 2021/22 Treasury Management and Annual Investment Strategy. Members are invited to recommend adoption of the Strategy.

Decisions to be taken under Delegated Powers

6. Accounting Policies 105 - 118

This report presents the Accounting Policies proposed for the 2020/21 Financial Statements for consideration and endorsement.

7. Annual Review of Anti-Fraud, Bribery and Corruption Policy and Whistleblowing Policy 119 - 146

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

8. Annual Review of Anti-Money Laundering Policy 147 - 168

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

Matters submitted for Information

9. Internal Audit and Counter Fraud Update 169 - 190

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

10. Grant Thornton Audit Progress Report and Sector Update 191 - 204

This report presents an Audit Progress Report and Sector Update from the external auditors on emerging national issues and developments.

11. Annual Audit Letter 205 - 224

This informs Members of the receipt of the Annual Audit Letter for the year ended 31 March 2020.

12. Urgent Items 225 - 226

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

Matters for consideration in Private

13. Exclusion of Press and Public 227 - 228

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

PART 2 - PRIVATE

14. Urgent Items 229 - 230

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

MEMBERSHIP

Cllr V M C Branson (Chairman)
Cllr 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

Apologies for absence

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Declarations of interest

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TONBRIDGE AND MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 28th September, 2020

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

Grant Thornton, External Auditors: Mr P Dossett

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

An apology for absence was received from Councillor N Foyle

PART 1 - PUBLIC

AU 20/29 DECLARATIONS OF INTEREST

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

AU 20/30 MINUTES

RESOLVED: That, subject to the amendment of the final paragraph of Minute AU 20/15 to read that 'At the end of May, 91% had been distributed' when referring to the £18.7M Government funding, the Minutes of the meeting of the Audit Committee held on 27 July 2020 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE CABINET

AU 20/31 TREASURY MANAGEMENT UPDATE AND MID-YEAR REVIEW

The report of the Director of Finance and Transformation provided an update on treasury management activity undertaken during April to August of the current financial year within the context of the national economy. A mid-term review of the Treasury Management and Annual Investment Strategy for 2020/21 was also presented.

The report provided a commentary on investments derived from cash flow surpluses, core cash balances and other long term cash balances and the additional pressure placed on the Council's finances by the pandemic was noted. A full list of investments held on 31 August 2020 was set out at Annex 1 to the report.

RECOMMENDED: That the following be commended to the Council:

(1) the action taken by officers in respect of treasury management activity for April to August 2020 be endorsed; and

(2) the existing parameters intended to limit the Council's exposure to investment risks be retained.

***Referred to Cabinet**

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

AU 20/32 RISK MANAGEMENT

The report of the Management Team provided an update on the risk management process and the Strategic Risk Register. Members were reminded that a number of risks on the Strategic Risk Register had been re-categorised as RED as a result of the Covid-19 pandemic and noted that, while work to assess and determine how the Council might best address the increased risk, it would be some time before the full extent of the impact would be understood.

RESOLVED: That the updates to the Strategic Risk Register be noted.

AU 20/33 STATEMENT OF ACCOUNTS 2019/20 AND EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF ACCOUNTS

The report of the Director of Finance and Transformation presented an audited set of Accounts for 2019/20 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom.

The Committee was reminded that responsibility for approval of the Statement of Accounts was delegated to the Audit Committee under the Council's constitutional arrangements and advised that the external auditor's report on the outcome of the audit of Accounts had been circulated as a supplemental report together with the proposed Letter of Representation to be countersigned by the Chairman.

RESOLVED: That

(1) the audited set of Accounts for 2019/20, as set out at Annex 1, be received and the Chairman of the Audit Committee be authorised to sign the Accounts in the appropriate place;

(2) the Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2019/20 be approved; and

(3) the Chairman of the Audit Committee and the Director of Finance and Transformation be granted delegated authority to countersign

the Letter of Representation when Grant Thornton issue their opinion.

MATTERS SUBMITTED FOR INFORMATION

AU 20/34 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

The report of the Chief Audit Executive provided an update on the work of the Internal Audit and Counter Fraud functions for the period April to August 2020.

RESOLVED: That the report be received and noted.

AU 20/35 GRANT THORNTON PROGRESS REPORT AND SECTOR UPDATE

The report of the Director of Finance and Transformation introduced the Audit Progress Report and Sector Update prepared by Grant Thornton on emerging national issues and developments relevant to the Borough Council. Mr Paul Dossett, Engagement Lead, presented the reports and answered questions raised by Members.

RESOLVED: That the report be received and noted.

AU 20/36 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 20/37 INSURANCE CLAIMS HISTORY

(LGA 1972 Sch 12A Paragraph 3 – Financial of 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 period April 2020 to August 2020.

RESOLVED: That the report be received and noted.

The meeting ended at 8.46 pm
having commenced at 7.33 pm

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

18 January 2021

Report of the Management Team

Part 1- Public

Matters for Recommendation to Cabinet

1 RISK MANAGEMENT

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

1.1 Introduction

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

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

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

1.2 Review of the Risk Management Strategy

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

1.2.2 This latest review of the Risk Management Strategy and the accompanying Risk Management Guidance found that no changes were required at this time.

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

1.3 Risk Management Escalation Process

1.3.1 Effectively risks are assessed/scored in terms of their likelihood/impact.

1.3.2 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.

1.3.3 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.

1.4 Strategic Risk Register

1.4.1 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 3]**.

1.4.2 As reported in July and September 2020 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.

1.4.3 Members will also be aware that since the last report in September, we have also seen further national lockdowns, the introduction of the English 'tiering' system (with Kent places in the highest tier), the impact within Kent of French border closures following the emergence of the variant strain of the virus; and finally of course Day 1 of EU Transition. These matters have all impacted on the management of risk.

1.4.4 As Members are aware, in May elections for County Council and Police and Crime Commissioner are due to take place and the Borough Council is responsible for administering and delivering these elections. Given the current climate, Management Team are of the view that the delivery of these elections should be escalated to RED risk at the present time.

1.4.5 In addition, with regard to the Local Plan, Members are also aware of the recent Inspector's detailed letter explaining their concerns with Legal Compliance. The Inspector's final decision will not be made until the Council has had the opportunity to respond and take its own legal advice, but given the heightened risk this poses the Local Plan has also been escalated to RED risk for the time being.

1.4.6 For clarity, the risks now categorised as Red are:

1) Financial position/budget deficit

2) Brexit/EU Transition Impact and Economic uncertainty (severely impacted by Coronavirus Pandemic)

3) Corporate Strategy and Savings and Transformation Strategy

4) Waste Services

5) Elections

6) Local Plan

1.4.7 Work continues 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.

1.4.8 Members are asked to note the updates in red font since the last iteration of the Register.

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

1.5.1 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.

1.5.2 A schedule of ongoing risks and risks identified by Service Management Teams and Management Team since the last report to this Committee in September is appended at **[Annex 4]**.

1.6 Legal Implications

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

1.6.2 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.

1.7 Financial and Value for Money Considerations

1.7.1 Financial issues may arise in mitigating risk which will be managed within existing budget resources or reported to Members if this is not possible.

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

1.8 Risk Assessment

1.8.1 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.

1.9 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 Policy Considerations

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

1.11 Recommendations

1.11.1 Members are asked to:

1) **REVIEW** the Risk Management Strategy and accompanying Risk Management Guidance and, subject to any amendments required, **RECOMMEND** to Cabinet its adoption by Full Council.

2) **NOTE** the updates to the Strategic Risk Register since the last iteration with particular emphasis on the escalation to **RED** of the risks set out in paragraph 1.4.6.

Background papers: contact: Sharon Shelton

Nil

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

RISK MANAGEMENT STRATEGY

January 2021

1. Introduction

1.1. The risk management strategy of Tonbridge and Malling Borough Council (the Council) is to adopt best practices in the identification, evaluation, and cost-effective control of risks. This is intended to ensure that risks are reduced to an acceptable level or, where reasonable eliminated, thereby safeguarding the Council's assets, employees and customers and the delivery of services to the local community.

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

2. Mandate and commitment

2.1. This strategy is supported and endorsed by the Management Team and Members of the Audit Committee who will ensure that:

- The risk management objectives are aligned with the objectives and strategies of the Council
- The Council's culture and risk management strategy are aligned
- The necessary resources are allocated to risk management
- There is a commitment to embedding risk management throughout the organisation, making it a part of everyday service delivery and decision making
- The framework for managing risk continues to remain appropriate

3. Applicability

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

4. Objectives

4.1. The risk management objectives of the Council are to:

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

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

4.2. The delivery of this strategy is the collective responsibility of officers, Service Management Teams, Management Team, the Council's partners and Members, with delivery being assured by the Management Team.

5. Roles and responsibilities

5.1. Responsibility for risk management runs throughout the Council; everyone has a role to play. Managers and staff that are accountable for achieving an objective are accountable for managing the risks to achieving it. To ensure that risk management is successful, the roles and responsibilities of key groups and individuals must be clearly identified, see table at 5.3 below.

5.2. Other officer groups' deal with related risk specialisms such as Health and Safety; Treasury Management; Emergency Resilience and Business Continuity; Insurance; Information Security; Anti-fraud, bribery and corruption, etc. These groups are linked into the governance arrangements of the Council so that their work is co-ordinated within the Council's overall risk management framework.

5.3. In order to support Members and Officers with their responsibilities, risk management guidance is available.

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

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

All elected Members and staff	Identify risks and contribute to their management as appropriate. Report inefficient, unnecessary or unworkable controls. Report loss events or near-miss incidents to management.

6. Review of this strategy

6.1. It is the responsibility of the Audit Committee to: 'On behalf of the Council ensure that Risk Management and Internal Control systems are in place that are adequate for purpose, and are effectively and efficiently operated.' Internal Audit will support their role in assuring its effectiveness and adequacy.

6.2. Information from Internal Audit and from other sources will be used to inform recommended changes to the strategy and framework at least annually. Any changes will be presented to the Audit Committee for approval before publication. The Strategy was last reviewed in January 2021 and will be reviewed next in January 2022.

7. Approval

Signed: Print Name: Nicolas Heslop

Date: 16 February 2021 Position: Leader of the Council

Signed: Print Name: Julie Beilby

Date: 16 February 2021 Position: Chief Executive

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TONBRIDGE AND MALLING BOROUGH COUNCIL

RISK MANAGEMENT GUIDANCE

CONTENTS **PAGE NUMBER**

1. Introduction

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

2. Achieving strategy objectives

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

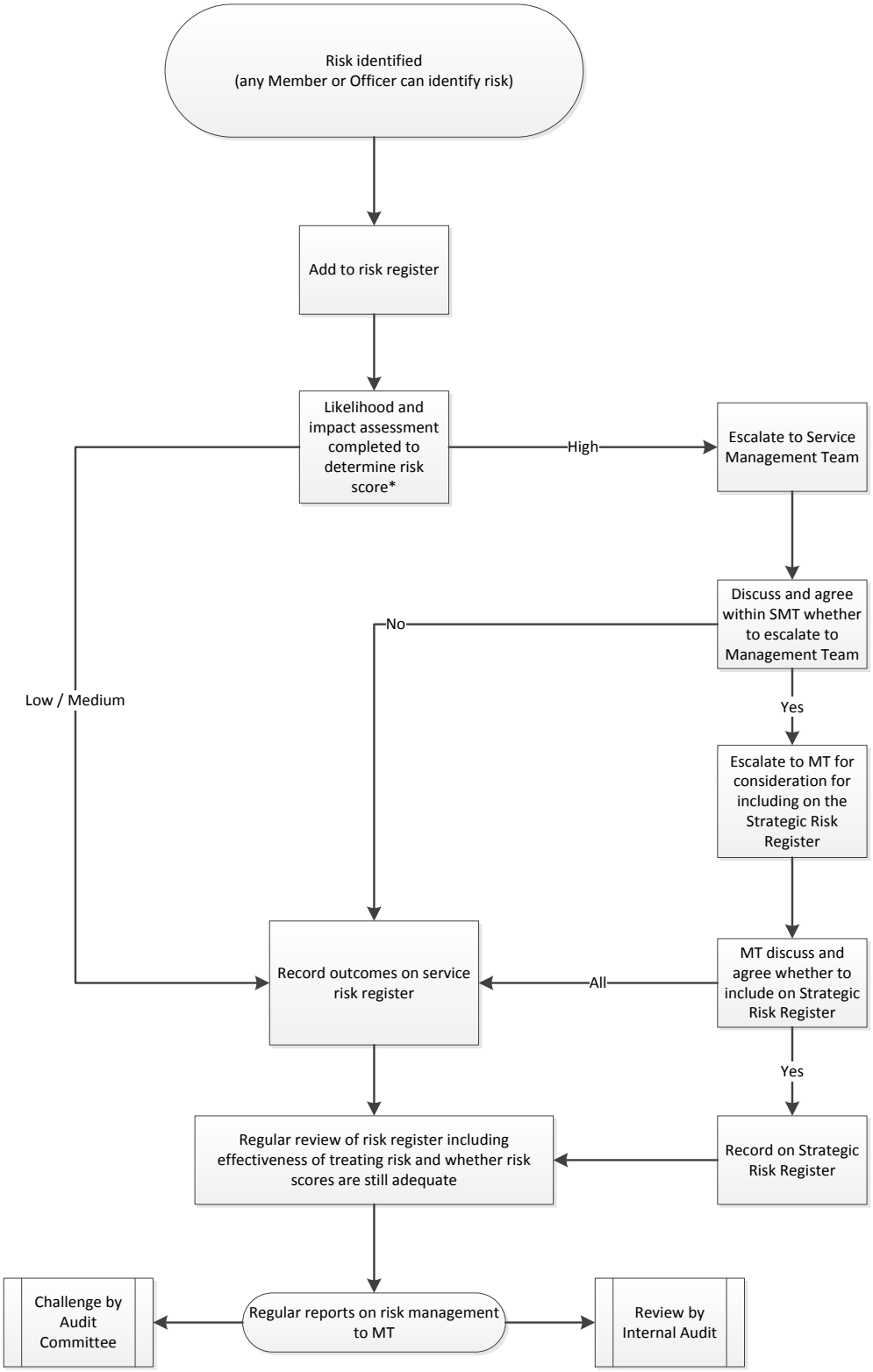
- Integrating effective risk management practices into the Council's management, decision making and planning activities.
- Maintaining common links between business planning, performance and risk management.
- Maintaining the frequency and effectiveness of monitoring of key risks.
- Providing a mix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

3. Risk management at a glance

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

TONBRIDGE AND MALLING BOROUGH COUNCIL

RISK MANAGEMENT GUIDANCE



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

4. Identifying risks

4.1. Risk is something that might happen, which if it materialises will affect us in some way or other. A risk is a combination of 'likelihood' and 'impact', that is; how likely the risk is to happen and if it did how much would it affect us. As soon as a risk is identified it should be recorded on the Risk Register, see Appendix A. This Register should be continually updated to demonstrate assessment, evaluation, treatment and ongoing review.

4.2. Before we can evaluate the level of risk associated with an activity we have to determine what is most likely to trigger the risk or initiate its occurrence and assess what the consequences may be if it did occur, i.e. identify the risk event.

4.3. Risk assessment looks to determine the key triggers and causes and the likely consequences and impact. Once these are established we can use the assessment to gauge the likelihood of occurrence and impact of the consequences to determine the severity or level of risk.

5. Assessing risks

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

LOW	MEDIUM	HIGH
1 – 4	**5 – 12**	**15 – 24**

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

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

5.3. Each risk identified and recorded may be broken down into its component parts using a Risk Assessment Form – see Appendix B.

5.4. The source/cause, risk event and consequences should be listed, together with any controls or actions and their owners. Such controls and actions are used to mitigate the risk level and should be described in a clear and specific manner to enable stakeholders to gain sufficient understanding of them.

5.5. Risk assessments should be used to assess the level of risk associated with the objective and inform the process for refreshing risk registers. In some cases, where the details of risks are clear, key risk information can be entered straight onto risk registers.

5.6. Key project and partnership risks should be included within this process as they will have their sources of origin in business objectives.

6. Evaluating risks

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

For example:

- A risk with an “unlikely” likelihood (3) and “critical” impact (4) would equate to a “Medium” risk level with a score of 12 (3 x 4).
- A risk that is judged to be “likely” (4) and have a “negligible” impact (1) would equate to a “Low” risk level with a score of 4 (4 x 1).

6.2. When determining the risk rating, bear in mind that it is not an exact science. Without significant historical data or mathematical prediction it is, for the most part, a subjective but important estimate. Appendix C provides a couple of guides to help you to estimate likelihood and impact.

6.3. For reference, the initial result of an evaluation is known as the ‘inherent risk’, which refers to the exposure arising from a specific risk *before* any action has been taken to manage it. Due to the fact that determining the inherent risk can seem a rather theoretical exercise, there is not a requirement to include this as part of the risk assessment process. The focus is instead on assessing the current level of risk, taking controls in place into account, and setting a realistic target level of risk that you would wish to manage the risk down to.

7. Escalating risks

7.1. It is not uncommon for risks to have knock-on effects for other activities across a risk perspective or in another risk perspective, for example a risk in one operational (perspective) area may be a source of risk to another; similarly a high level risk in a project perspective may need to be highlighted and considered at a strategic perspective.

7.2. It is essential that we understand risks and their potential to have knock-on effects. It is equally important that we set out clear rules for escalation of risks.

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

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

7.5. Where 'High' risks are identified in Project and Programme Risk Registers the Project / Programme Manager must check its impact on the relevant division or directorate risk registers.

7.6. The target residual rating for a risk is expected to be 'Medium' or lower. In the event that this is not deemed realistic in the short to medium term, this shall be discussed as part of the escalation process, and this position regularly reviewed with the ultimate aim of bringing the level of risk to a tolerable level.

7.7. There may be rare occasions where a risk is deemed to be well within risk appetite and therefore could be seen as over-controlled. In this instance a target level of risk could be set that is higher than the current level, as long as it remains within risk appetite.

8. Proximity of risk

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

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

8.2. Proximity may be categorised as follows:

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

9. Summary risk profile

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

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

9.3. Example - Completed Summary Risk Profile

Likelihood ☞					
Almost inevitable	6		7	1	5
Very likely	5		8	2, 6	3
Likely	4	8	1		
Unlikely	3	7	2, 6	4	
Very Unlikely	2			3	
Almost impossible	1	4		5	
		1	2	3	4
Impact ☞		Negligible	Marginal	Significant	Critical

○ Current Risk Level ■ Target Risk Level

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

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

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

10. Allocating risks and determining actions

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

- High Risk – Service Management Team / Management Team
- Medium Risk – Service Management Team
- Low Risk – Service Manager

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

11. Monitoring Risks

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

Appendix A - Risk Register

Area _____

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

Appendix B - Risk Assessment Form

SECTION 1 – RISK		
Risk Owner:	**Service:**	**Directorate**:
Risk Event:	**Source/ cause:**	**Consequences**:

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

Likelihood score:

Impact score:

Overall risk score:

Accepted?*

* If yes, provide rationale.
* If no, go to Section 2.

SECTION 2 – CONTROLS/ MITIGATING ACTIONS (copy this section for each control/ action)		
Control/ Action Owner:	**Service:**	**Directorate**:
Control/ Action:	**Dependencies**:	**Key Dates**: • Implementation: • Review date: • Reporting intervals:

Appendix C - Determining Likelihood and Impact

	Likelihood	Example – winter weather
Almost Inevitable	• Is expected to happen	• Rain
Very Likely	• More likely to happen than not	• Strong winds
Likely	• Strong possibility it will happen	• Snow
Unlikely	• This could happen	• Flooding
Very Unlikely	• There is a remote possibility this could happen	• Hurricane
Almost Impossible	• Once in a lifetime occurrence	• Thames freezes over

	Impact*	Example
Critical	• Unacceptable level of loss or damage	• Significant material financial loss e.g. impacts statutory service delivery/going concern status • Loss of life or permanent/ debilitating damage • National media coverage, judicial review, government intervention
Significant	• Considerable level of loss or damage	• Material financial loss e.g. impacts non-statutory service delivery, risk of redundancies • Major injury • Local media coverage, government interest
Marginal	• Limited loss or damage	• Some financial loss but manageable impact on service delivery • Minor injury • Limited social media interest
Negligible	• Tolerable level of loss or damage	• No or very minimal financial loss • Minor ‘trips and slips’ • No media interest

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

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STRATEGIC RISK REGISTER - CURRENT **06/01/2021** ANNEX 3

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 further lockdowns and/or tighter restrictions.	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

STRATEGIC RISK REGISTER - CURRENT **06/01/2021** ANNEX 3

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
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	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. 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 but announcement recently to say this will extend into 21/22. . 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. National Leisure compensation claim being completed in liaison with Trust. Provisional Settlement received and new Covid allocation into 21/22. Sales, fees and charges claim also extending into 21/22. Draft Budget for 2021/22 prepared and being presented to FIPAB on 6/1/21 and O&S 19/1/21. Cabinet budget meeting 11/2/21 will receive updated MTFS.	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 / EU Transition has been delayed. This has now been further delayed due to COVID. 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 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. Update to FIPAB 16 Sept taking on board current mitigations and funding. More detailed report being prepared for Cabinet 14 Oct to cover MTFS update and STS. . Essential spend being monitored by MT and believe this has now been achieved. Budget process to approve Budget and Council Tax going forward will be critical. Funding gap now likely to be circa £475k i.e. need to identify 475k of new savings initiatives. Cannot forgot that another £500k of savings need has been identified but not yet delivered.	Vision- to be a financially sustainable Council. Taking a business like approach.	Director of Finance and Transformation	Feb-21

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
3	Brexit / EU Transition 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 April 21 has 'stabilised' economic impact of Covid to some extent. Various business grant schemes being paid out weekly by TMBC on behalf of government. TMBC also paying Self Isolation Payments (Test and Trace) to those residents who qualify.	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 in 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 end April 21, likely to be a greater demand on Council services and signposting. Staff preparing for this eventuality. Business grants will continue to be paid, and new schemes will now apply as we are in National Lockdown.	N/A - external risk.	Chief Executive / Director of Finance and Transformation/ Management Team	Feb-21

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
4	Corporate Strategy and Savings and Transformation Strategy	F, R, S	Failure to meet objectives and/or make savings, including those arising from the planned West Kent Waste Partnership. Impact on quality of service, budget overspends, salami slicing, etc. staff motivation impacted and increased risk of fraud or error. Coronavirus pandemic has significant economic implications for the Council, businesses and residents.	01/04/2017	4	4	16	STS reviewed and updated in line with review of MTFS. With regular reports to update MT and Members Corporate Strategy reviewed - report to O&S January 2020 Plans underway to reassess implications of pandemic - report to Cabinet 3 June 2020 Commitment to review and update MTFS and STS 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. STS to be reviewed and updated by MT and back to Cabinet in Autumn Corporate Strategy addendum approved by Cabinet. Items being considered by Boards STS was reviewed and reported to Cabinet in Autumn 2020. A further review will take place alongside Budget Setting Feb 21.	3	3	9	Areas of potential savings to be formally identified and prioritised, with commitment to delivery of those selected. Commissioning of in service reviews via MT to identify potential areas of transformation and savings. Strategic asset management review to deliver new income . O&S programme to be supported in order to deliver savings to contribute to STS. MTFS and STS updated by Members Feb 2019, and further report to Cabinet June 2019. MTFS report to go to Cabinet 16 October 2019 Numbers of decisions and recommendations to contribute to funding gap being progressed. Update of MTFS following setting of 20/21 Budget shows need for £320k savings to be delivered in 3- 4 years through STS MTFS and STS will need to be reviewed and updated as a priority once we have sufficient information to make informed estimates which can form the basis of plans. Impact will be significant in MTFS looking forward. General Revenue Reserves will be impacted in short term. Report on MTFS to Cabinet 30 June 2020. Potential for £7m to £10m from reserves and balances. Since then further government funding announced but detail still awaited. STS will be updated by MT and reported back to cabinet in Autumn. 1 year Addendum to corporate strategy to guide Review, Re-orientation and Recovery. Regular monitoring by Cabinet with reports to various Advisory Boards and Committees Further review of MTFS and STS alongside Budget Setting Feb 21	Vision- to be a financially sustainable Council focusing on ensuring good value for money, continuously reviewing how our services are provided and funded, focusing our available resources where they will have most beneficial impact, and maximising commercial opportunities. Taking a business like approach.	Chief Executive / Director of Finance and Transformation/ Management Team	Feb-21

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
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	4	4	16	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. Hearings opened for three days staring 6th October 2020 to consider Legal Compliance matters. Inspectors wrote to Council on 22.10.20 postponing November sessions while they consider concerns with Legal Compliance. Exploring ways Hearings could take place under current restrictions. Subsequently agreed with PINS to use MS Teams. 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). Inspector's detailed letter explaining their concerns with Legal Compliance received 15.12.20. Inspector's final decision will not be made until Council has opportunity to respond. Legal advice being sought for possible legal challenge.	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	Jan-21
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	May-21

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
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	May-21
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 update 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. Scrutiny Review of protocol commenced by Overview & Scrutiny Committee on 3 Dec 2020. Information Governance OSG considered risks of Brexit for transfer of personal data between EU and UK post 31 December 2020	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	May-21
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 Solar winds 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 Review of IT Strategy presented to FIPAB Jan 21 for approval	IT Strategy	Director of Finance and Transformation	Feb-21

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
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	IT Strategy and action plans reviewed and updated. Invest to save opportunities and funding identified. Digital Strategy - Updated and approved by Members in July 2019. Replacement of legacy business systems and greater use of digital alternatives (cloud based) ongoing Disaster Recovery solution (cloud based) implemented Staff able to work remotely - additional laptops purchased.	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. Review of IT Strategy presented to FIPAB Jan 21 for approval	IT Strategy	Director of Finance and Transformation	Feb-21
11	Elections	R	Failure to comply with legislation, miscounts and significant reputational impact. Government cancelled all elections due May 2020 due to pandemic. Elections in May 2021, will be more complex due to combined County and PCC elections and any other elections that are called. Concern over lack of staff to run elections, due to sickness or self isolation, for core team and election staff. Local Boundary Commission Review announced - see report to Cabinet 30 June. Full council briefing scheduled for September Parliamentary Review initiated by Boundary Commission January 2021	01/04/2017 updated January 2021	4	4	16	Ensure experienced staff are in place, corporate team reviewing activity and monitoring progress. Increase in staff database ongoing. Good practice and mitigation plans being discussed at a National level with AEA,,EC and Cabinet Office. Ensure adequate PPE in place to protect staff. Try to minimise contact between staff before Election day. Undertake online training for elections staff. Core team working more remotely and not together in the offices to ensure that whole team do not all become ill together. Concerns have been raised via Kent Chief Executives to AEA, DCN and LGA regarding the risks and questioning whether elections should be rescheduled to , say, September 2021 when the roll out of the vaccine programme will have had greater effect.	3	4	12	Broadening of staff skills and experience to build resilience. Increase of staff database ongoing Officer time will need to be directed to work with Boundary Commission Maintain contact with potential polling and count staff to assess any ongoing issues. Continue to promote 'separation' within core team to avoid whole team being absent at once due to illness. Continue to liaise with other bodies regarding the risks and lobby where appropriate. Promote postal voting to minimise contacts within polling venues.	Statutory requirement	Chief Executive	May-21

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
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.	updated January	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. Covid Secure rest centre plan has been developed	3	4	12	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 the future. Any approved changes will be reflected in the Corporate Business Continuity Plan. 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. Training courses are being delivered in a Covid safe manner for roles within the emergency plan. Recruitment into roles in the Emergency Plan is on-going. Virtual Emergency Management systems are being developed to allow a virtualised Emergency Control Room and data handling.	Business continuity underpins the delivery of the Council's essential services	Director of Street Scene, Leisure & Technical Services	Jun-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.	3	3	9	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

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
14	Partnerships inc. shared services	F, R, S	Reliance on partners to deliver key services, including private sector companies. Could include specific partnership or shared service models such as the Leisure Trust and risks around service delivery and impact on staff morale / retention if base moves from TMBC . Potential resistance to shared services / partnerships impacting on ability to deliver Savings & Transformation Strategy. Private sector partnerships failing having consequences for service delivery. Coronavirus pandemic has significant economic implications for the Council, businesses and residents.	01/04/2017	3	3	9	Regular liaison meetings with partners. Partnership Agreements in place and reviewed as appropriate. Good communication with staff. In the light of the Carillion situation (which does not affect TMBC directly) maintain awareness of issues relating to private sector partners and plans formulated for service delivery in the event of failure via business continuity. 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. Partnership work and liaison with key voluntary sector groups will continue via the Local Strategic Partnership meetings and community development meetings in priority wards.	3	3	9	FIPAB Jan 2018 updated on GBC's decision to pull out of progressing shared service for Revs and Bens. Review of Revs and Bens being conducted to ensure service continuity. New Waste Services Contract in partnership with Urbaser, TWBC and KCC commenced 1st March 2019. Formal Inter Authority Agreement and Partnership Agreement in place. Ground Maintenance Contract extended in light of good performance of contractor. 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. 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. Continuing discussion with major partners regarding impact of COVID. 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. TMBC will leave Kent Business Rates pool from 2021/22. Sevenoaks DC have withdrawn from Building Control Partnership. Proposals for retuning this in-house will be reported to members in New Year The Council will continue to administer the grants to key voluntary sector bodies, with progress to be reported annually to CHAB. Additional Government grants as a result of the response to the pandemic (Emergency Assistance Grant and Covid Winter Grant) will be promoted to local voluntary sector organisations and applications for funding will be agreed via FIPAB.	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	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. Coronavirus pandemic has significant economic implications for the Council, businesses and residents.	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 and properties to be converted. 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 New housing panel in place to work alongside RPs in considering best use of available properties. TMBC joined British Red Cross as a partner for severe hardship cases	3	3	9	Prepare for impact of further roll our of Universal Credit by learning from other areas earlier in the programme. Consideration of review of housing service to meet the needs following Housing legislative changes. Temporary Accommodation purchased. Member training from DWP provided re UC Nov 2018. Continue to facilitate Welfare Reform group and widen participation from external partners so as to ensure best support for those affected by welfare reforms in T&M. UPDATE: July 2019 Further review of staffing within housing underway in response to nationally recognised increased demand as a result of impact of HRA. 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. Report to FIPAB 18 September with capital plan scheme for purchase of additional Temporary Accommodation. Report to FIPAB 18 September confirming launch of consultation on CTR Scheme. New CTR scheme proposed - FIPAB Jan 20. Rollout of national hardship fund underway New temporary accommodation purchased - refit needed to make fit for purpose. This to be accelerated in next few months. Improved working with TA providers leading to more guarantees of available accommodation and working towards a procurement exercise to improve value for money. 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. Pay out grants on local emergency scheme following FIPAB. Monitor impact of furlough unwind, although this now extended until April 2021 . FIPAB on 6/1/21 to recommend to Cabinet payments on Winter Grant scheme	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	Feb-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	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. Close liaison with Leader, Deputy Leader and Cabinet in developing the Savings & Transformation Strategy. Clear and comprehensive reports to support Members in making appropriate decisions to support the S&TS.	3	3	9	Member briefings and training sessions. UPDATE JULY 2019- series of induction and training sessions delivered to Members following local elections in May 2019	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 / EU Transition implications including Strategic Coordinating Group. Council Officers dial into Severe Weather Advisory Group meetings. Regular attendance at KRF training sessions. Ongoing support for Tonbridge Flood Group.	Emergency Plan Civil 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 now complete with a final report/risk assessment by contractors delivered 3/11/2020. Medium/Low risk, with no immediate further action required other than ongoing in house monitoring, but some recommendations made. Currently being considered by Scientific Officer in EP Team, with report into Members due early 2021.	Contaminated Land Strategy	Director of Planning Housing and Environmental Health	Mar-21
19	Waste/ Recycling Contract	F, R, S	Failure to provide new service and deliver described outcomes in accordance with contract timescales and health and safety obligations. 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. Waste services have been affected by pandemic, and health & safety requirements. Agreed with contractor to cease collection of garden waste and bulky waste booking system for a period of time to allow focus on recycling and general waste. Garden waste collection recommenced 11 May, and bulky waste booking started up just prior to that. Residents will have subscriptions extended to compensate. New subscriptions now available. Saturday freighter service also suspended. Street cleansing was not suspended but has been impacted as other services have taken priority. Full roll out of service to flats postponed with trial taking place in January 2021 following Member approval. Joint Task and Finish Group established with Tunbridge Wells following fatality on the TW's side of the contract. Group set to review both Urbasers response to the incident and TW's and TMBC's implementation and monitoring of H&S protocols and procedures. Notes of the meeting to be fed in to MT.	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. Uptake of garden waste subscription has been positive and exceeded 30% initial target. Reports on progress submitted to meeting of SS&EAB and Member Liaison Group in place. Contract performance improved. Garden waste collection and new subscriptions recommenced. Consideration of date for roll out of new service to flats and subsequent reduction in bring bank sites to be reviewed.	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

Chief Executive and Central Services	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	We have had a further set of samples that have come back clear, but given the impact of the pandemic upon leisure centre activities it is appropriate to leave as a risk for the time being.
Finance and Transformation	EU Transition	Impact on resources identified within service	Removed	As most staff within service now working from home, little or no risk on movement to staff.
	Coco Compliance	Review of IT Infrastructure identified several areas of weakness for IT standards compliance	Ongoing	Number of risks removed, expected that remaining risks, once removed, will allow full compliance.
	Subsidy Audit	Deadline for completion auditted return, 31st Jan 2021, could be at risk due to external resourcing of Grant Thornton	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.	Resolved	Support now extended to June 2021.
	Covid-19	Pandemic issues surrounding Council Finances	Ongoing	Part of Strategic Risk Register.
	Equipment Failure	Folding Machine used for Revenues and Benefits correspondence is now out of maintenance contract. New single folding machine procurement has been delayed due to Covid-19 lockdown.	Ongoing	New Folding machine has been ordered and will be in place for the main billing run in late February. Due for delivery early January, risk is that this could be effected by Tier 4 categorisation.
	Statement of Accounts	Due to remote working the work undertaken by our External Auditors required additional time, specifically in the area of asset valuation. The potential delays resulting in the possibility of not having the accounts signed by the November deadline.	Resolved	Information passed to Auditors resulting in changes to Statement on Asset Valuations and an unqualified audit opinion.
	Supported Accommodation	Change in KCC approach for care need could have impact on ability to recover Housing Benefit Subsidy	Superceded	Costs now reflected within Council Budgetary Framework.

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

Planning, Housing and Environmental Health	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	Volume and complexity of applications coming forward in parallel with local plan progression and given current uncertainties in timescales for adoption.
	Local Kent Tracing Partnership work	T&M from end November 2020 are part of the Local Kent Tracing Partnership which involves Officers visiting the properties of Covid positive residents to complete close contact information with them.	Ongoing	High risk activity - fully risk assessed and measures implemented to reduce risk as much as possible but requires continuous monitoring and review.
	Local Plan	Due to rising Covid-19 infection rates and the increase of other infections during winter there is an increased risk of illness having a detrimental impact on the Council's Team.	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.	Removed	Use of Microsoft Teams has resolved issues and is working well.

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

Street Scene, Leisure and Technical Services	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) for 2nd tier Officers undertaken March 2019. Remote access capabilities reviewed, and meeting held with contractors to discuss implications/contingencies. Ongoing attendance at Strategic/Tactical Coordinating Group meetings.
	TSP Outdoor pool	Significant water leak identified at outdoor pool. Risk of long delay to opening outdoor pool and associated loss of income/adverse customer reaction	Removed	Whilst exact cause of leak was not able to be determined the issue was resolved in liaison with Property Services and the Leisure Trust
	Out of Hours Guidance	Guidance provided to Duty Officers in OOH document for dealing with hazardous waste spillages not adequate following incident	Removed	Updated guidance now contained in OOH Manual.
	Legionella	Problem identified in LLC Dry change showers.	Ongoing	See Larkfield Leisure Centre above.
	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 recommended removal of all trees on motte to protect ancient monument from future damage. External tree consultant employed with works subsequently undertaken to address health and safety issues.	Removed	Health and safety concerns addressed. Trees will be inspected regularly as part of Tree Safety Strategy.
	Bridge inspections	Bridges on Council owned land identified as service risk. Internal Officer Group established and bridge audit progressed. Identified as Service Pressure Aspiration. Revenue budget approved to inspect and repair bridges over 2 years and annual inspections to be progressed.	Ongoing	Second year programme of work currently being progressed.
	Leybourne Lakes Country Park	Anti-social behaviour increased on site during peak summer months which became unmanageable for on site staff. External security staff appointed and extended during Covid due to increase in users.	Ongoing	Problem will need to be addressed annually during peak summer months.

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

	Waste Contract	Following a previous Road Traffic Accident and recent fatality on the contract a joint Task and Finish Group has been established with TWBC to undertaken a fundamental review of the Partnerships internal operating procedures in regard to health and safety application and monitoring. Group to include (from TMBC) Director, Head of Service, Partnership Manager, H&S Officer, Legal and operational staff.	Ongoing	First meeting to be held on 15 December 2020
	Moss clearance on paths at Tonbridge Cemetery	Identified as part of Health & Safety inspection	Removed	Immediate works progressed and annual clearance added to ground maintenance contract.

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

18 January 2021

Report of the Director of Finance & Transformation

Part 1- Public

Matters for Recommendation to Cabinet - Council Decision

1 TREASURY MANAGEMENT UPDATE AND TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2021/22

The report provides details of investments undertaken and return achieved in the first nine months of the current financial year and an introduction to the 2021/22 Treasury Management and Annual Investment Strategy. Members are invited to recommend adoption of the Strategy to Cabinet.

1.1 Introduction

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

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

1.2 Interest Rate Forecast

1.2.1 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.

1.2.2 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 to combat the economic impact of Covid-19 is historic in magnitude. The Bank of England cut bank rate from 0.75% to 0.1% in

March 2020 and introduced a series of measures including Quantitate Easing (QE) to inject liquidity to bolster economic growth.

1.2.3 Link's latest Bank Rate forecast, updated in November 2020, is included in **[Annex 5]** and anticipates the current 0.1% Bank Rate will be retained for the next 3 years to March 2024.

1.2.4 The March 2020 cut in Bank Rate had an immediate downward impact on bank deposit offers. In January 2020 offers from banks on the Council's lending list averaged 0.83% for 12 month deposits. Those offers have fallen to just 0.07% mid-December 2020. The average for three month deposits has fallen from 0.54% in January 2020 to 0.04% now. A number of banks have been excluded from the December averages where either negative returns are now being quoted or short term deposits are no longer being taken.

1.3 Investment Performance

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

1.3.2 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 £21.6m.

1.3.3 The Authority also has £19m 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.

1.3.4 Cash flow and core cash balances also includes some £10m to meet business rate appeals of which £3m are expected to be resolved in 2020/21 and the remainder in future years.

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

1.3.6 A full list of investments held on 31 December 2020 is provided at **[Annex 1]** and a copy of our lending list of 29 December 2020 is provided at **[Annex 2]**. The table below provides a summary of funds invested and income earned at the end of December.

	Funds invested at 31 Dec 2020 £m	Average duration to maturity Days	Weighted average rate of return %	Interest / dividends earned to 31 Dec 2020 £	Annualised return %	LIBID benchmark (average from 1 April) %
Cash flow	27.3	17	0.06	34,300	0.16	(0.06) 7Day
Core cash	19.0	110	0.44	73,700	0.57	0.05 3Month
Sub-total	**46.3**	**55**	**0.22**	**108,000**	**0.31**	**(0.02) Ave**
Long term	5.0		3.48	79,800	3.19	
Total	**51.3**		**0.54**	**187,800**	**0.61**	

Property funds pay dividends quarterly. The return quoted above is based on dividends received for the period April to September 2020 and on the return achieved since inception.

1.3.7 **Cash flow and core cash investments**. Whilst the authority outperformed the LIBID benchmark by 34 basis points, Interest earned of £108,000 to the end of December is £128,500 below the original estimate for the same period. The fall in income is due to the impact the March 2020 emergency cuts in Bank Rate have had on investment opportunities.

1.3.8 Audit Committee were made aware at their July and September meetings of the potential shortfall in income for the year as a whole if bank offers persisted at ultra-low levels throughout 2020/21. The shortfall of £182,000 mentioned in those earlier reports has now been incorporated in the 2020/21 revised estimates.

1.3.9 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 September 2020 the Council's return at 0.28% (purple diamond) was just below the local authority average of 0.34%. 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.

1.3.10 Only cash flow and core cash returns form part on the benchmarking data. The additional return the Council makes from its property fund investments is not included. The data also excludes are any short term borrowing costs authorities may have incurred to meet payment obligations. To address the cash flow uncertainties that Covid-19 has generated this Council has maintained much higher levels of daily liquidity than would otherwise have been the case. As a consequence no borrowing costs have been incurred to date and none are anticipate during the remainder of 2020/21.

1.3.11 **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.

1.3.12 £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 could be made in the future as resources become available from asset disposals and other windfalls.

1.3.13 During the period 1 April 2020 to 30 September 2020 the £5m investment in property funds generated dividends of £79,800 which represents an annualised return of 3.19% (3.48% in 2019/20). Covid-19 has resulted in a proportion of rents due to be collected in June and September 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. That shortfall is reflected in the 2020/21 revised estimates.

1.3.14 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.

1.3.15 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. During spring and summer 2020 the Covid-19 impact on the economy saw commercial property values decline at a faster rate.

1.3.16 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 attributed "uncertainty" to their monthly valuations during the summer. 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 was welcomed. Trading of shares has now resumed.

1.3.17 Sale values at the end of November vs initial purchase prices 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 Nov 2020 c £	30 Nov 2020 sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	901,100	(98,900)
Lothbury (Primary, July 2017)	1,000,000	927,700	925,700	(74,300)
Hermes (Secondary, Oct 2017)	1,000,000	939,000	954,800	(45,200)
LAPF (Primary, June 2018)	1,000,000	922,200	864,000	(136,000)
Lothbury (Secondary, July 2018)	1,000,000	973,000	907,850	(92,150)
Total change in principal	5,000,000	4,684,100	4,553,450	**(446,550)**
Total dividends received to September 2020				**492,500**
Net benefit since inception				**45,950**

1.3.18 Since inception, the Council has received dividends from its property fund investments totalling £492,500. Taking the current £446,550 deficit on sale values into account the net gain to the Council is £45,950 (was a net gain of £173,800 to the end of December 2019). Fund values fell £258,300 in the first six months of 2020 due to the Covid-19 impact on the economy and commercial property values. All property fund investments have recorded some capital growth in more recent months. The deficit in sales value is expected to be recouped overtime as the economy recovers.

1.3.19 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.

1.3.20 **Treasury management function**. Income and expenditure estimates attributed to the Treasury Management function are provided at **[Annex 4]**. This shows the aggregate staff resource applied to treasury management is less than one full time equivalent and that income exceeds costs by a significant margin. Income in future years forms part of the Council's medium term financial strategy and is expected to increase as Bank Rate rises. Expenditure is expected to rise in-line with inflation.

1.4 Annual Investment Strategy for 2021/22

1.4.1 The Council's treasury advisor anticipates bank rate remaining at its current level of 0.1% for a number of years in order to support the economy recover from the

impact of Covid-19. The ultra-low bank rate has resulted in offers for deposits falling to extraordinarily low levels (paragraph 1.2.4) which makes generating a worthwhile return from our traditional term deposits with bank and building societies unrealistic at the present time. Bank offers may improve a little following the recent agreement on a free trade deal with the EU and the approval of a second vaccine for use in the UK. Nevertheless any improvement is likely to amount to no more than a few basis points which will add little to overall earnings. Going forward earnings are anticipated to be but a fraction of those generated in recent years. There is a risk that Bank Rate will be cut further in response the resurgence of the virus and the majority of English households now being placed under Tier 4 restrictions.

1.4.2 The returns on our **property fund investments**, though representing only 14% of 2021/22 investment portfolio, are likely to generate some 68% of next years' income. The property fund investments are long term (10 year) investments. As a consequence of the high entry / exit costs (circa 8%) and potential for significant volatility in capital values, our strategy limits exposure property funds from existing resources to 20% of expected long term balances, circa £3m. There are other types of investment available which have a shorter time frame but nevertheless offer the potential to generate above inflation returns. Both diversified income (multi-asset) and short dated bond funds warrant consideration.

1.4.3 The use of **diversified income funds** was included in our 2018/19 and subsequent strategies. The covering report to Audit Committee 22 January 2018, included the following text.

Diversified income (multi-asset) funds are pooled vehicles investing in a broad range of asset classes including cash, bonds, property and equity. Risk is diversified via the spread of investments across the different asset classes and portfolios actively managed to reflect the changing economic environment. Funds typically achieve a return of 3 to 4% per annum and combine this with the potential for capital growth over time. Purchase and redemption of units is generally effected within 3 days. Buy / sell prices are subject to a spread, similar to property funds, but the spread is much lower are circa 1.5%. Dividends are paid quarterly and annual management fees range for 0.75% to 1.5% per annum.

The Council's treasury advisor, Link Asset Services, comment 'that where long term cash is concerned the diversification into multi-asset income funds is appropriate if the risk factors identified are acceptable to the Authority and due diligence is evidenced in the fund manager appointment processes'.

1.4.4 Diversified income fund investment typically implies a 5 year commitment to negate volatility in capital values over the life of the investment.

1.4.5 **Short dated bond funds** are an alternative to diversified income funds and typically imply a 3 year investment duration. Like diversified income and property funds, short dated bond funds will be unrated. The funds focus on a single asset

class – bonds. Bonds are debt instruments used by governments, banks and other corporates to raise cash. Funds will typically invest in sterling denominated investment grade debt securities issued by government and corporates with an expected remaining time to maturity of up to 5 years. Annual management fees range from 0.15 to 0.45% depending on how the fund is managed (passive or active). Investment can typically be redeemed with 2 or 3 days' notice. Bond prices have an inverse relationship with interest rates such that when interest rates rise, underlying values fall and vice versa. The return on short dated bonds is linked to interest rate expectations whilst long dated bond returns are linked to inflation rate expectations. Risk of issuer default is minimised by diversification across a broad range of issuers, sectors and geographic regions. One fund of interest, pays dividends biannually and has distributed income of 2 - 3% per annum over each of the last 5 years. Shares in the fund also recorded capital appreciation over the last 12 months despite Covid-19.

1.4.6 Short dated bond funds have been added to the 2021/22 strategy as a substitute for or to be used in combination with diversified income funds. Exposure is limited to 20% (£3m) of long term balances applied to either type of fund or spread across both types. The choice between the two types of fund or combination of both will be explored further with our treasury advisor. Link would also be engaged to assist with the detailed work required to ensure the choice between the two options and that the particular fund or funds chosen strikes an appropriate balance between risk and return.

1.4.7 Other proposed changes to the 2021/22 strategy are aimed at increasing the availability of counterparties for our traditional overnight and short term bank and building society investment where security of capital and liquidity are critical to ensure spending commitments can be met. **Ultra-short dated bond funds** have been added as an alternative to the use of enhanced cash funds and government liquidity funds. These funds generally have a low risk profile attributed to them and will be credit rated. A maximum exposure of 10% of the investment portfolio can be applied to any one fund or 20% to a combination of the three types of fund. Investment with a credit rated **housing association** has also been added as an option with a maximum duration of 2 years. Exposure is limited to 10% of the investment portfolio in any one housing association and 20% for all housing association investment.

1.4.8 **Risk parameters**. The Strategy sets out the parameters that limit the Council's exposure to investment risks by requiring overnight and term deposits to be placed with highly credit rated institutions and that those investments are diversified across a range of counterparties. Except where indicated by bold italic text, the 2020/21 Annual Investment Strategy **[Annex 5]** adopts the same risk parameters as currently approved. In summary these are:

- 100% of funds can be invested in the UK. Exposure to non-UK institutions is restricted to no more than 20% of funds per sovereign.

- Non-UK counterparties must be regulated by a sovereign rated AA- or higher as recognised by each of the three main rating agencies (Fitch, Moody's or Standard & Poor's).

- Investment in UK institutions is subject to the UK sovereign being rated A- or higher by each of the three main rating agencies. The UK currently receives a rating of AA- from Fitch and Moody's and AA from Standard and Poor's.

- Exposure to individual counterparties / groups of related counterparty must not exceed 20% of funds or ***10% of funds if a housing association***.

- In selecting suitable counterparties for overnight deposits and deposits up to 2 years in duration (3 years with a local authority), the Council has adopted Link's credit worthiness methodology. The methodology combines the output from all three credit rating agencies including credit watches / outlooks and credit default swap data to assign a durational band to a financial institution (100 days, 6 months, 1 year, 5 years, etc.). At the time of placing an investment the financial institution must be assigned a durational band of at least 100 days (based on credit ratings alone). Other than for UK nationalised institutions this broadly equates to a minimum long term credit rating of Fitch A- (high) and a short term credit rating of Fitch F1 (highest).

- Investment in UK nationalised banks is subject to the bank having a minimum long term credit rating of Fitch BBB (good) and a short term credit rating of Fitch F2 (good*).* The Royal Bank of Scotland and National Westminster Bank are currently rated Fitch A+, F1.

- The duration of an investment in a foreign bank must not exceed Link's post CDS recommendation. For UK financial institutions Link's duration recommendation can be enhanced by up to 6 months subject to the combined duration (Link recommendation plus the enhancement) not exceeding 12 months. The Council's Treasury Management Practices have been modified to ensure that where duration is being enhanced by more than 3 months the bank's CDS must be below the average for all other banks at the time the investment is placed.

- Money Market funds will be AAA rated and exposure limited to no more that 20% per fund. LVNAV (low volatility) or VNAV (variable net asset value) funds may be used as an alternative to CNAV (constant net asset value) funds.

- Enhanced cash and Government liquidity funds will be AAA rated and ***ultra-short duration bond funds rated AA or higher***. Exposure is limited to no more than 10% of investment balances per fund and 20% to all such funds.

- Exposure to non-credit rated property funds is limited to no more than 20% (£3m) of expected long term cash balances. No limit applies where invested funds are derived from or in anticipation of new resources e.g. proceeds from selling existing property.

- Exposure to non-credit rated diversified income (multi-asset) funds ***and or short dated bond funds*** is limited to no more than 20% (£3m) of expected long term cash balances per fund and across all such funds.

- The strategy also limits the type of instrument (e.g. fixed term deposits, certificates of deposit, commercial paper, floating rate notes, treasury bills, etc.) that can be used and establishes a maximum investment duration for Gilts of 5 years, 3 years for deposits with local authorities and 2 years for all other types of investment other than investment in property funds, diversified income funds and ***short dated bond funds***.

- The strategy includes prudential indicators for borrowing. Whilst there is no expectation that the Council will need to borrow to fund its capital expenditure proposals prior to 2027/28, borrowing on a temporary basis may be required to meet payment obligations. Borrowing limits are expressed as the operational limit (£4m) and authorised limit (£7m). Our largest monthly outflows relate to business rates and precept payments circa £5m each. Whilst those payments tend to fall on different days of the month that is not always the case. The limits are a precautionary measure to allow borrowing on a short term basis should the need arise. In recent years the Council's cash flows have been managed in such a way that no overdraft fees or temporary borrowing costs have arisen.

1.4.9 The 2021/22 Strategy **[Annex 5]** reflects the current economic environment, Link Asset Services' latest interest rate forecast and incorporates the risk parameters summarised in paragraph 1.4.8.

1.5 Non-treasury Management Practices

1.5.1 The authority is currently debt free and no borrowing is forecast to meet the Council's capital expenditure proposals prior to 2027/28. This does not however, preclude a decision to borrow in order to fund in full or in part an investment opportunity that meets the Council's strategic priorities and objectives, achieves value for money and delivers a financial return. Each such opportunity to be considered on a case by case basis as appropriate.

1.5.2 At present the Council has no material non-treasury investments e.g. expenditure on loans or the acquisition of non-financial assets (property) intended to generate a profit. The report to Audit Committee 20 January 2020 made reference to procedures that would need to be adopted to ensure compliance with the Chartered Institute of Public Finance & Accountancy's Treasury Management and Prudential Codes of Practice 2017 and the 2018 Statutory Guidance on Local Government Investments relating to non-treasury investments. The required practices and procedures have been drawn up by your officers and accordingly a 'practice note' is set out at **[Annex 6]**. The practice note is not specific to any one investment opportunity but should be applied to any assessment of a non-treasury investment and its subsequent management. Members are **RECOMMENDED** to endorse the Practice Note.

1.6 Legal Implications

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

1.6.2 This report fulfils the requirements of the Chartered Institute of Public Finance & Accountancy's Treasury Management and Prudential Codes of Practice 2017 and the 2018 Statutory Guidance on Local Government Investments.

1.7 Financial and Value for Money Considerations

1.7.1 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 (November 2020) anticipates Bank Rate remaining at 0.1% for the next three years to March 2024.

1.7.2 Following the March 2020 cuts in Bank Rate, investment income at the end of December 2020 (month nine of the financial year) from cash flow surpluses and core cash investments is £182,000 below budget for the same period. Income from property funds at the end of September is below budget by £10,200. Investment income for the year as a whole is expected to underperform against budget by £237,000 and has been reflected in the revised estimated for 2020/21.

1.7.3 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.

1.7.4 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 crystalizing a loss and as a consequence the investment's duration cannot be determined with certainty.

1.7.5 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.

1.7.6 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 12 months. Funds will seek to minimise their own cash balances in favour of holding property and therefore manage redemption requests for the benefit of all fund participants. The Council

is only likely to seek redemption to pursue a higher yielding income opportunity should one be identified.

1.7.7 Diversified income funds aim to limit risk by spreading investment across a broad range of asset classes (equities, bonds, property and cash). Nevertheless, the principal sum invested may fall as a consequence of adverse economic or market events.

1.7.8 Short term bond values are linked to interest rate expectations and long term bond values are linked to inflation expectations. Funds aim to minimise the risk of issuer default by investing in a broad spread of issuers and across different sectors and geographic regions. Nevertheless, the principal sum invested may fall as a consequence of adverse economic or market events.

1.8 Risk Assessment

1.8.1 Link Asset Services are employed to provide advice on the content of the Treasury Management and Annual Investment Strategy and this, coupled with a regular audit of treasury activities ensures that the requirements of the Strategy and the Treasury Policy Statement adopted by this Council are complied with.

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

1.8.3 In the light of these safeguards and stringent Treasury Management Procedures it is considered that any risks to the authority implicit in the 2021/22 Strategy have been minimised.

1.9 Equality Impact Assessment

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

1.10 Recommendations

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

1) Note the treasury management position as at 31 December 2020 and the reduced level of income incorporated in the 2020/21 revised estimates;

2) Adopts the Treasury Management and Annual Investment Strategy for 2021/22 set out at **[Annex 5)**.

3) Endorse the practice note set out at **[Annex 6]** to be applied to the assessment and management of a non-treasury investment.

Background papers: contact: Mike Withey

Link Asset Services: Interest rate forecast (November 2020), economic commentary and benchmarking data.

Sharon Shelton
Director of Finance & Transformation

Tonbridge and Malling Borough Council - Investment summary 31 December 2020

Counterparty / type of investment	Sovereign	Fitch long term	Fitch short term	Link suggested post CDS duration limit	Investment: Start date	Investment: End date	Investment: Duration at start	Investment: Amount invested £	Investment: Return %	Investment: Proportion of total %	Cash Flow surpluses £	Core Cash balances £	Long term investment balances £
Banks, Building Societies & Other Financials													
Barclays Bank :	UK	A+	F1	6 months				**6,000,000**		11.69%			
95 day notice account					20/06/2019	TBD	95 Days	1,000,000	0.30			1,000,000	
95 day notice account					23/07/2019	TBD	95 Days	3,000,000	0.30			3,000,000	
Certificate of deposit					28/07/2020	11/06/2021	11 months	2,000,000	0.61			2,000,000	
Close Brothers :	UK	A-	F2	6 months				**2,000,000**		3.90%		2,000,000	
Fixed term deposit					21/10/2020	21/07/2021	9 Months	2,000,000	0.50				
Coventry Building Society :	UK	A-	F1	6 months				**3,000,000**		5.84%		3,000,000	
Fixed term deposit					15/12/2020	15/03/2021	3 Months	3,000,000	0.04				
HSBC Bank :	UK	AA-	F1+	1 year				**5,000,000**		9.74%			
31 day notice account					02/12/2019	TBD	31 Days	3,000,000	0.25		3,000,000		
31 day notice account					03/08/2020	TBD	31 Days	2,000,000	0.25		2,000,000		
National Westminster Bank :	UK	A+	F1	1 year				**5,897,000**		11.49%			
Certificate of deposit					06/07/2020	05/07/2021	1 year	2,000,000	0.42			2,000,000	
Deposit account					31/12/2020	02/01/2021	Overnight	3,897,000	0.01		3,897,000		
Santander UK Bank :	UK	A+	F1	6 months				**7,000,000**		13.63%			
Fixed term deposit					05/06/2020	05/03/2021	9 Months	2,000,000	0.48			2,000,000	
Fixed term deposit					22/05/2020	22/02/2021	9 Months	2,000,000	0.48			2,000,000	
Fixed term deposit					23/07/2020	22/04/2021	9 Months	2,000,000	0.45			2,000,000	
Fixed term deposit					07/08/2020	08/02/2021	6 Months	1,000,000	0.40			1,000,000	
Standard Chartered :	UK	A+	F1	6 months				**2,000,000**					
Fixed term deposit					21/05/2020	22/02/2021	9 Months	2,000,000	0.48	3.90%		2,000,000	
Money Market Funds													
Blackrock MMF - shares/units held	N/A	AAA	mmf (Eq)	5 years	31/12/2020	02/01/2021	Overnight	**50,000**	0.00	0.10%	50,000		
BNP Paribas MMF - shares/units held	N/A	AAA	mmf (Eq)	5 years	31/12/2020	02/01/2021	Overnight	**4,000,000**	0.06	7.79%	4,000,000		
DWS Deutsche MMF - shares/units held	N/A	AAA	mmf	5 years	31/12/2020	02/01/2021	Overnight	**3,119,000**	0.01	6.07%	3,119,000		
Federated MMF - shares/units held	N/A	AAA	mmf	5 years	31/12/2020	02/01/2021	Overnight	**5,158,000**	0.01	10.05%	5,158,000		
Morgan Stanley MMF - shares/units held	N/A	AAA	mmf	5 years	31/12/2020	02/01/2021	Overnight	**3,119,000**	0.00	6.07%	3,119,000		
Property Funds													
Hermes Property Unit Trust :	N/A	N/A	N/A	N/A				**1,000,000**		1.95%			
Property fund units					29/09/2017	N/A	N/A	1,000,000	3.43				1,000,000
Local Authorities' Property Fund :	N/A	N/A	N/A	N/A				**2,000,000**		3.90%			
Property fund units					29/06/2017	N/A	N/A	1,000,000	4.21				1,000,000
Property fund units					30/05/2018	N/A	N/A	1,000,000	3.94				1,000,000
Lothbury Property Trust :	N/A	N/A	N/A	N/A				**2,000,000**		3.90%			
Property fund units					06/07/2017	N/A	N/A	1,000,000	2.97				1,000,000
Property fund units					02/07/2018	N/A	N/A	1,000,000	2.86				1,000,000
					Total invested			**51,343,000**		**100.00%**	**24,343,000**	**22,000,000**	**5,000,000**

Number of investments	24	**Average investment value £**	2,139,000
Number of counter parties	15	**Average counter party investment £**	3,423,000

Group exposures:	**Core £**	**Cash £**	**Combined £**	**%**
Royal Bank of Scotland + National Westminster (UK Nationalised MAX 20%)	2,000,000	3,897,000	5,897,000	11.49
Bank of Scotland + Lloyds (MAX 20%)	-	-	-	-
			£	**%**
Property Funds Total			5,000,000	9.74

Total non-specified investments should be less than 60% of Investment balances	9.74%

Notes:

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

End date for notice accounts to be determined

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Tonbridge and Malling Borough Council Lending List

Checked against Link's "Suggested Credit List" dated 24/12/20
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	6 months	6 months
Barclays Bank (Group Limit Barclays and Barclays UK £7m)	UK	AA-	A+	F1	Non-RF	£7m	6 months	6 months
Barclays Bank UK (Group Limit Barclays and Barclays UK £7m)	UK	AA-	A+	F1	Ring-fenced	£7m	6 months	6 months
Close Brothers Ltd	UK	AA-	A-	F2	Exempt	£7m	6 months	6 months
Goldman Sachs International Bank	UK	AA-	A+	F1	Exempt	£7m	6 months	6 Months
Handelsbanken Plc (Group Limit with Svenska Handelsbanken AB £7m)	UK	AA-	AA	F1+	Exempt	£7m	1 year	1 year
HSBC UK Bank	UK	AA-	AA-	F1+	Ring-fenced	£7m	1 year	1 year
Lloyds Bank (Group limit BOS & Lloyds £7m)	UK	AA-	A+	F1	Ring-fenced	£7m	6 months	6 months
Santander UK	UK	AA-	A+	F1	Ring-fenced	£7m	6 months	6 months
Standard Chartered Bank	UK	AA-	A+	F1	Exempt	£7m	6 months	6 months
Coventry Building Society	UK	AA-	A-	F1	Exempt	£7m	6 months	6 months
Leeds Building Society	UK	AA-	A-	F1	Exempt	£7m	100 days	100 days
Nationwide Building Society	UK	AA-	A	F1	Exempt	£7m	6 months	6 months
Skipton Building Society	UK	AA-	A-	F1	Exempt	£7m	100 days	100 days
Yorkshire Building Society	UK	AA-	A-	F1	Exempt	£7m	100 days	100 days
National Westminster Bank (Group limit Nat West and RBS £7m). UK Nationalised.	UK	AA-	A+	F1	Ring-fenced	£7m	1 year	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	1 year
UK Debt Management Office including Treasury Bills	UK	AA-	n/a	n/a	n/a	No limit	5 years	5 years
UK Treasury Sovereign Bonds (Gilts)	UK	AA-	n/a	n/a	n/a	£16m/£8m	5 years	5 years
UK Local Authority (per authority)	UK	AA-	n/a	n/a	n/a	£7m	5 years	5 years
Non-UK Banks :								
Bank of Montreal	Canada	AA+	AA-	F1+	n/a	£7m	1 year	1 year
Toronto Dominion Bank	Canada	AA+	AA-	F1+	n/a	£7m	1 year	1 year
Nordea Bank Abp	Finland	AA+	AA-	F1+	n/a	£7m	1 year	1 year
Rabobank (Cooperatieve Rabobank U.A.)	Netherlands	AAA	A+	F1	n/a	£7m	1 year	1 year
ING Bank	Netherlands	AAA	AA-	F1+	n/a	£7m	1 year	1 year
Svenska Handelsbanken AB (Group Limit with Handelsbanken Plc £7m)	Sweden	AAA	AA	F1+	n/a	£7m	1 year	1 year

[1] Reflects the lowest of the three rating agencies views (Fitch, Moody's and Standard and Poor's). Strategy requires non-UK sovereigns to be rated at least AA- and the UK rated at least A-. 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 £8m)	-	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 £8m)	-	AAA	AA+	3.5m	5 years

Approved by Director of Finance and Transformation

29 December 2020

No change

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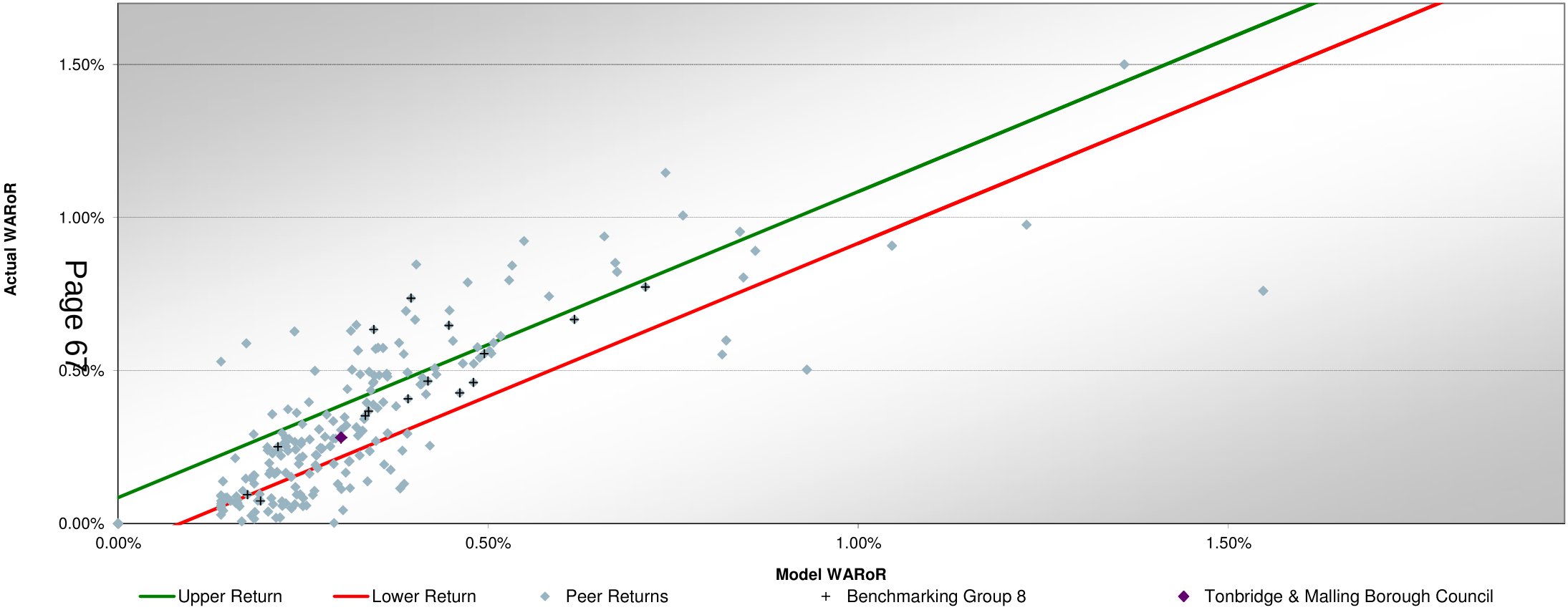
Tonbridge & Malling Borough Council

Population Returns against Model Returns September 2020



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge & Malling Borough Council	0.28%	0.30%	-0.02%	0.22%	0.39%	Inline

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Extract from FIPAB estimates presentation - 6 January 2021. Costs attributed to banking arrangements and transfers in lieu of interest are excluded.

DIRECTOR OF FINANCE & TRANSFORMATION

	2020/21 ORIGINAL ESTIMATE £	2020/21 REVISED ESTIMATE £	2021/22 ESTIMATE £
TREASURY MANAGEMENT			
Employees			
Salaries	31,100	31,000	31,800
Supplies & Services			
Treasury Advisor & Dealing Fees	10,900	10,000	11,000
	42,000	41,000	42,800
Less Income			
Interest on:			
Cash Flow Investments	(105,000)	(42,000) **a)**	(31,000) **b)**
Core Cash Investments	(209,000)	(90,000) **a)**	(49,000) **b)**
Long Term Investments	(211,000)	(156,000) **c)**	(170,000) **c)**
	(525,000)	(288,000)	(250,000)
Sub-total	(483,000)	(247,000)	(207,200)
Central, Departmental & Technical Support Services			
Central Salaries & Administration	2,650	2,600	2,750
Information Technology Expenses	350	200	150
Departmental Administrative Expenses	14,700	14,850	15,850
TO SUMMARY	**(465,300)**	**(229,350)**	**(188,450)**
Full Time Equivalent Number of Staff (including Support Service Staff)	0.85	0.86	0.92

a) Reflects the cut in Bank Rate from 0.75% to 0.10% in March 2020.

b) Combination of the lower 0.10% Bank Rate which is expected to continue throughout 2021/22 and reducing cash balances available for investment.

c) Reflects the delay in the receipt of proceeds from the sale of River Walk offices which were due to be applied to new property fund investments and a small reduction in dividends anticipated from existing property fund investments due to Covid-19 impacts.

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Treasury Management and Annual Investment Strategy 2021/22

1 Introduction

1.1 Treasury management is defined as:

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

1.2 The strategy covers:

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

2 Statutory and regulatory requirements

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

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

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

2.3 The Ministry for Housing, Communities and Local Government (MHCLG) issued revised Statutory Guidance on Local Government Investments (2018 Edition). CIPFA also amended the Prudential Code for Capital Finance in Local Authorities (2017 Edition) and the Treasury Management in the Public Services: Code of Practice and Cross Sectorial Guidance Notes (2017 Edition). The MHCLG and CIPFA Codes came into effect on 1st April 2018.

2.4 Historically the scope of the statutory guidance and CIPFA codes was limited to the investment of an authority's cash surpluses and the management of borrowing undertaken to support its capital expenditure plans. The updated statutory guidance and codes broaden that scope to include expenditure on loans and the acquisition of non-financial assets (property) intended to generate a profit. The Council has not engaged in any commercial investments and has no material non-treasury investments.

2.5 The Council formally adopted the revised CIPFA Treasury Management Code of Practice (2017 Edition) on 30 October 2018. The primary requirements of the Code are as follows:

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

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

3 Balanced budget requirement

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

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

4 Prudential and treasury indicators

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

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

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

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

5 Borrowing requirement

5.1 Other than for cash flow purposes and then within the limits set out at **[Appendix 2]** borrowing will not be necessary. All capital expenditure prior to 2027/28 is expected to be funded from the Revenue Reserve for Capital Schemes, grants, developer contributions and capital receipts arising from the sale of assets. This does not however,

preclude a decision to borrow in order to fund in full or in part a capital investment opportunity that meets the Council's strategic priorities and objectives, achieves value for money and delivers a financial return. Each such opportunity to be considered on a case by case basis as appropriate.

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

6 Current treasury position

6.1 The Council is debt free and as such the overall treasury position at 31 December 2020 comprised only investments. On that date the Council's cash flow and core fund investments totaled £46m and was invested in a mix of money market funds, bank notice accounts and time deposits with banks and building societies. The average duration to maturity of the portfolio was 55 days with a weighted average rate of return 0.22%. Returns in future years are expected to improve as Bank Rate rises. Income from investments forms part of the Council's ten year medium term financial strategy (MTFS). An updated MTFS will be presented to Council in February 2021.

6.2 The Council also held £5m in externally managed property fund investments at 31 December 2020. The property funds are expected to generate income of 3.1% in 2020/21 rising to 4% in future years. Overtime, the rise in the value of each property funds' assets (capital appreciation) is expected to negate fund entry and exit costs.

6.3 At present the Council has no material non-treasury investments (e.g. directly owned commercial property, shares in subsidiaries or loans to third parties). The procedures, practices and governance arrangements to enable the Council to meet the requirements of the Chartered Institute of Public Finance & Accountancy's Treasury Management and Prudential Codes of Practice 2017 and the 2018 Statutory Guidance on Local Government Investments relating to non-treasury investments are referred to in the reports to Audit Committee 1 October 2018 and 20 January 2020. The Audit Committee report of 18 January 2021 seeks endorsement by Council of appropriate Non-treasury Management Practices.

7 Prospects for interest rates

7.1 The Council has appointed Link Asset Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. Link's current interest rate forecast is provided

at **[Appendix 3]**. Link's expectation for Bank Rate, for each financial year ending March, are:

- 2021/ 2022 0.10%
- 2022/ 2023 0.10%
- 2023/ 2024 0.10%

7.2 The above forecast anticipated a trade deal would be agreed with the EU. The forecast may be overly optimistic (downside risks) dependent on:

- Further national lockdowns or sever regional restriction in major conurbations during 2021.
- Government takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than currently anticipated.

7.3 The forecast may be overly pessimistic (upside risk) dependent on:

- Inflationary pressures rise faster than expected caused by a stronger than currently expected economic recovery following a programme of vaccination.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

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

8 Investment policy

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

8.2 In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly

creditworthy counterparties. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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

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

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

9 Creditworthiness policy

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

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

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

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

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

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

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

- If a downgrade results in the counterparty no longer meeting the Council's minimum criteria its use for new investment is withdrawn immediately.
- In addition to the use of credit ratings the Council is advised of movements in Credit Default Swap data against the iTraxx European Financials benchmark and other market data on a daily basis. Extreme market movements may result in a scaling back of the duration assessment or removal from the Councils lending list altogether.

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

10 Country, counterparty and group exposure limits

10.1 The Council has determined that it will only use approved counterparties from the UK subject to a minimum sovereign credit rating of A- and from other countries subject to a minimum sovereign

credit rating of AA-. The minimum will be the lowest rating determined by Fitch, Moody's and Standard and Poor's. The list of countries that qualify using this credit criteria as at the date of this report are shown in **[Appendix 6]**. The list will be amended in accordance with this policy should ratings change.

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

Country, Counterparty and Group exposure	**Maximum Proportion of Portfolio**
UK regulated institutions subject to UK Sovereign rating of A- or higher and the institution limits detailed below.	100%
Non-UK regulated institutions as an amount per sovereign rated AA- or higher and subject to the institution limits detailed below.	20%
Group of related institutions.	20%
Each financial institution rated Fitch A-, F1 or higher (green excluding CDS using Link's credit methodology) ***or each local authority***.	20%
Each UK nationalised bank rated Fitch BBB, F2 or higher (green excluding CDS using Link's credit methodology).	20%
Each AAA rated multilateral / supranational bank.	20%
Each AAA rated CNAV, LVNAV or VNAV money market fund.	20%
Each ***AA*** or higher rated enhanced cash fund / government liquidity fund / gilt fund / ***ultra-short dated bond*** fund subject to a maximum 20% exposure to all such funds.	10%
Each housing association rated Fitch A- or higher and 20% for all housing association investment	***10%***
Non-specified investments over 1 year duration.	60%
Each non-rated property fund used for long term investment subject to a maximum £3m (20% of expected long term balances) per fund and across all such funds. No cash limit applies to new resources made available from, or in anticipation of, the sale of existing property assets or other windfalls.	N/A
Each non-rated diversified income (multi-asset) fund ***and or short dated bond fund*** used for medium term investment subject to a maximum £3m (20% of expected long term balances) per fund and across all such funds.	N/A

10.3 Cash flow balances vary depending on the timing of receipts and payments during the month and from month to month. The investment limits identified in paragraph 10.2 will be based on an estimate of the expected average daily cash flow balance at the start of the financial year augmented by core cash and other balances. Counterparty investments will be managed to ensure compliance with the limits at the start and end of each financial year when balances available for investment will be at a low point.

11 Cash flow and core fund investment

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

11.2 **Cash flow investments**. The average daily cash flow balance throughout 2021/22 is expected to be £15.5m with a proportion available for longer than three months. Cash flow investments will be made with reference to cash flow requirements (liquidity) and the outlook for short-term interest rates i.e. rates for investments up to 12 months. Liquidity will be maintained by using bank deposit accounts and money markets funds. Where duration can be tolerated, additional yield will be generated by utilising term deposits with banks and building societies and enhanced cash and government liquidity funds. Investment in ultra-short dated bond funds will also be considered. Cash balances available for more than 3 months may be transferred to the core fund portfolio if a better overall return for the Council can be achieved by doing so.

11.3 In compiling the Council's estimates for 2021/22 a return on cash flow investments of 0.20% has been assumed.

11.4 **Core fund investments**. Historically the Council's core funds have been managed by an external fund manager. All core funds were returned to the Council for in-house management during 2014/15. The core fund balance is diminishing as a proportion is consumed each

year (approximately £2m per annum) to support the Council's revenue budget and capital expenditure plans. The average core fund balance during 2021/22 is expected to be £14m.

11.5 The Council will avoid locking into longer term deals while investment rates continue their current low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and are within the risk parameters set by the Council.

11.6 In compiling the Council's estimates for 2021/22 a return on core fund investments of 0.35% has been assumed. Subject to the credit quality and exposure limits outlined in paragraph 10.2, liquidity and yield will be achieved by a mix of investments using predominantly fixed term deposits and certificates of deposit. Notice accounts, enhanced cash and government liquidity funds and ultra-short dated bond funds will also be used if these offer favourable returns relative to term deposits. Investment with housing associations and other local authorities will also be considered.

12 Medium and long term investment.

12.1 The strategy includes provision (paragraph 10.2 and detailed in Appendix 5) to undertake medium term investment in either short dated bond funds and or diversified income funds (a mix of cash, bonds, equity and property) through externally managed collective investment schemes. Investment in such schemes typically implies a three to five year commitment to recoup entry and exit fees and mitigate the potential for a fall in the value of assets under management.

12.2 A detailed evaluation of a funds asset quality, market risk, redemption constraints, management and governance arrangements will be undertaken in advance of any investment taking place. Support to identify and select the most appropriate fund(s) will be sought from the Council's treasury advisor. Any sums invested will be reported at regular intervals with income received and changes in capital value separately identified. The strategy places an upper limit on exposure to such funds of 20% of expected long term cash balances, circa £3m.

12.3 The strategy includes provision (paragraph 10.2 and detailed in Appendix 5) to undertake long term investment in property through an externally managed collective investment scheme (fund). Investment in such schemes typically implies a 10 year commitment to recoup entry and exit fees. To mitigate the risk that capital values may fall due to changes in economic activity, investment duration cannot be determined with certainty at the time the investment commences. As a

consequence any cash balances applied to such an investment must be available for the long term and there must be flexibility over the timing of redemption(s) in the future. Sums invested will be reported at regular intervals with income received and changes in capital value separately identified. The strategy places an upper limit on exposure to such funds from existing resources of 20% of expected long term cash balances, circa £3m. No limit applies to new resources made available from the sale of existing assets or other windfalls.

13 Year end investment report

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

14 Policy on the use of external service providers

14.1 The Council uses Link Asset Services as its external treasury management advisors.

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

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

Financial Services
January 2021

Appendices

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

Appendix 1 Treasury management scheme of delegation

Full Council

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

Cabinet

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

Audit Committee

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

Finance, Innovation and Property Advisory Board

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

The S151 (responsible) officer

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

Appendix 2 Prudential and treasury indicators

The prudential indicators relating to capital expenditure cannot be set until the capital programme is finally determined and will as a consequence be reported as part of the Setting the Budget for 2021/22 report that is to be submitted to Cabinet on 11 February 2021.

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

TREASURY MANAGEMENT INDICATORS	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt :					
borrowing	nil	7,000	7,000	7,000	7,000
other long term liabilities	nil	nil	nil	nil	nil
TOTAL	nil	7,000	7,000	7,000	7,000
Operational Boundary for external debt:-					
borrowing	nil	4,000	4,000	4,000	4,000
other long term liabilities	nil	nil	nil	nil	nil
TOTAL	nil	4,000	4,000	4,000	4,000
Actual external debt	nil	nil	nil	nil	nil
Upper limit for fixed interest rate exposure > 1 year at year end	nil	It is anticipated that exposure will range between 0% to 60%			
Upper limit for variable rate exposure < 1 year at year end	19,610 (49.5%)	It is anticipated that exposure will range between 40% to 100%			
Upper limit for total principal sums invested for over 365 days at year end	5,000 (12.6%)	60% of funds			

Maturity structure of fixed rate borrowing during 2020/21 - 2023/24	upper limit	lower limit
under 12 months	100 %	0 %
Over 12 months	0 %	0 %

Appendix 3 Interest rate forecasts – November 2020

Link Group Interest Rate View 9.11.20 (The Capital Economics forecasts were done 11.11.20)

These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Bank Rate														
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
5yr PWLB Rate														
Link	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-
10yr PWLB Rate														
Link	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-
25yr PWLB Rate														
Link	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-
50yr PWLB Rate														
Link	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-

Appendix 4 Economic background based on text provided by Link Asset Services

1 **UK**. The Bank of England's Monetary Policy Committee kept **Bank Rate** unchanged on 5th November. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".

2 Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:

- The economy would recover to reach its pre-pandemic level in Q1 2022
- The Bank also expects there to be excess demand in the economy by Q4 2022.
- CPI inflation is therefore projected to be above the 2% target by the start of 2023 and the "inflation risks were judged to be balanced".

3 Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.

4 One key addition to the **Bank's forward guidance** in August was a new phrase in the policy statement, namely that "it 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% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase through to quarter 1 2024 but there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly. **Inflation** is unlikely to pose a threat requiring increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. It is expected to briefly peak at around 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.

5 However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2nd December, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31st March will limit the degree of damage done.

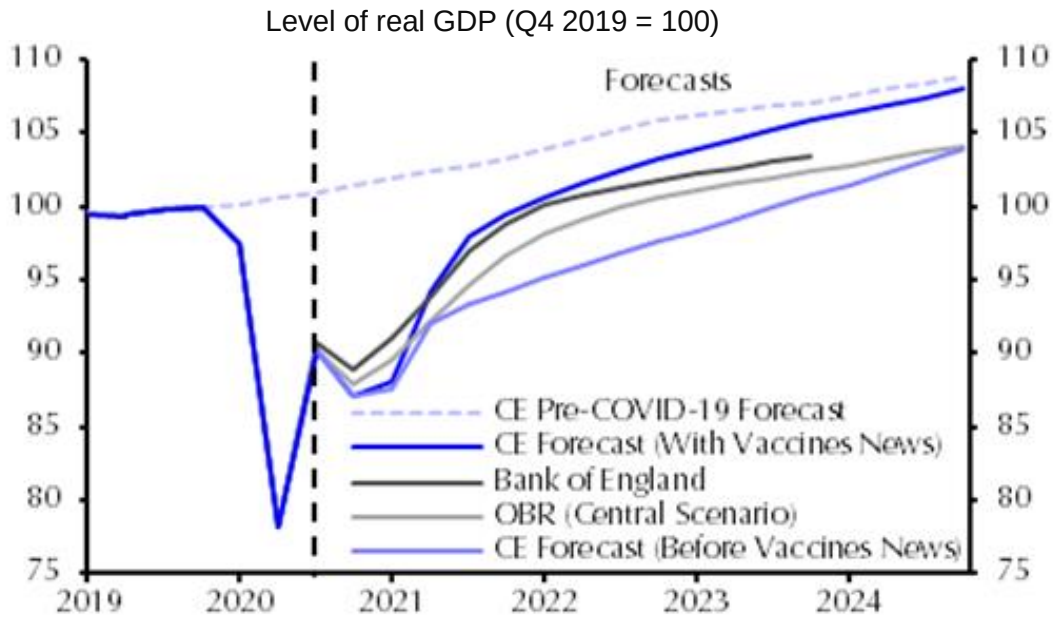
6 As for **upside risks**, we have been waiting expectantly for news that various **Covid-19 vaccines** would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, their phase three trials are still only two-thirds complete. More data needs to be collected to make sure there are no serious side effects. We don't know exactly how long immunity will last or whether it is effective across all age groups. The Pfizer vaccine specifically also has demanding cold storage requirements of minus 70C that might make it more difficult to roll out. However, the logistics of production and deployment can surely be worked out over the next few months.

7 However, there has been even further encouraging news since then with another two vaccines announcing high success rates. Together, these three announcements have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021, once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would still remain some years away. There is also a potential question as to whether the relatively optimistic outlook of the Monetary Policy Report was swayed by

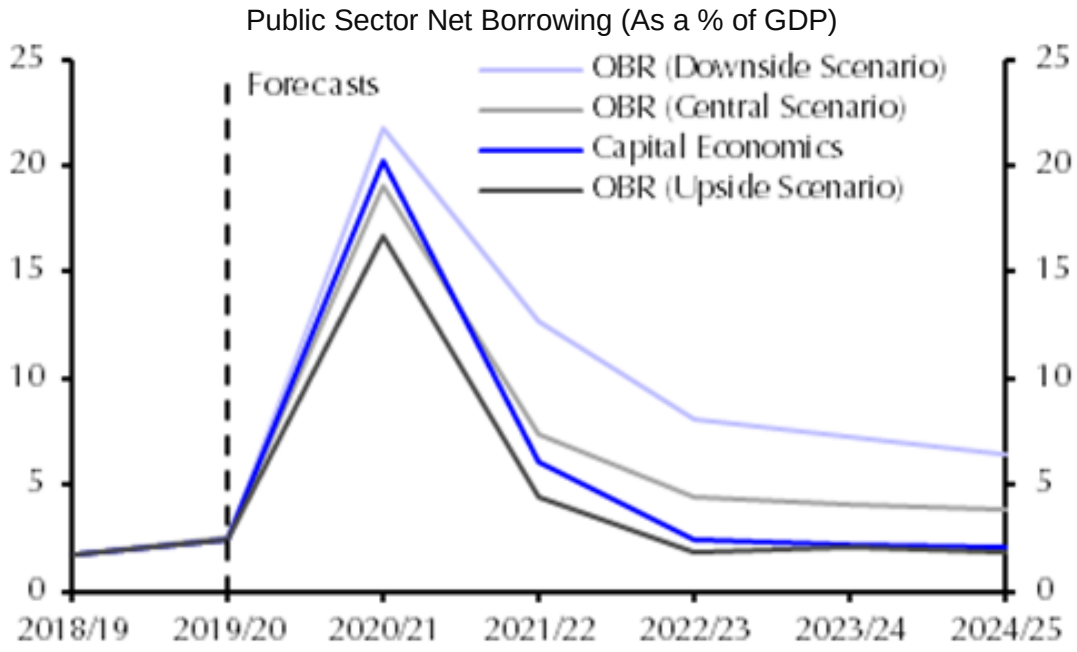
making positive assumptions around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.

8 **Public borrowing** is now forecast by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

9 Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. However, the second national lockdown starting on 5th November for one month is expected to depress GDP by 8% in November while the rebound in December is likely to be muted and vulnerable to the previously mentioned downside risks. It was expected that the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, the graph below shows what Capital Economics forecast will happen now that there is high confidence that successful vaccines will be widely administered in the UK in the first half of 2021; this would cause a much quicker recovery than in their previous forecasts.



10 This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to 2% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assume that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, perversely, depress economic growth and recovery.



11 Capital Economics have not revised their forecasts for Bank Rate or gilt yields after this major revision of their forecasts for the speed of recovery of economic growth, as they are also forecasting that inflation is unlikely to be a significant threat and so gilt yields are unlikely to rise significantly from current levels.

12 There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

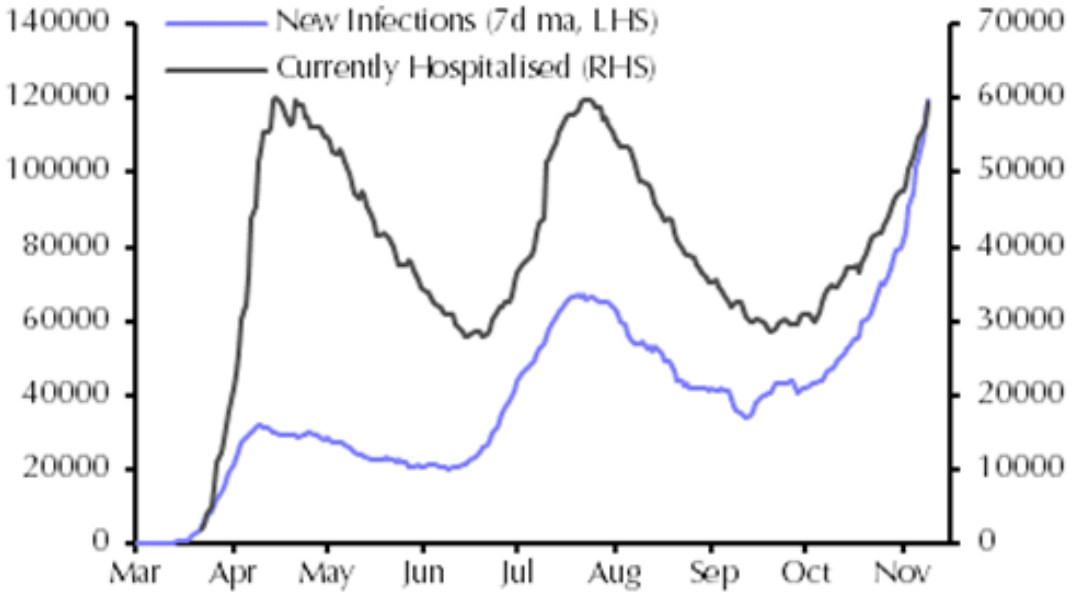
13 The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

14 **US**. The result of **the November elections** means that while the Democrats have gained the presidency and a majority in the House of Representatives, it looks as if the Republicans will retain their slim majority in the Senate. This means that the Democrats will not be able to do a massive fiscal stimulus, as they had been hoping to do after the elections, as they will have to get agreement from the Republicans. That would have resulted in another surge of debt issuance and could have put particular upward pressure on debt yields – which could then have also put upward pressure on gilt yields. On the other hand, equity prices leapt up on 9th November on the first news of a successful vaccine and have risen further during November as more vaccines announced successful results. This could cause a big shift in investor sentiment i.e. a swing to sell out of government debt to buy into equities which would normally be expected to cause debt prices to fall and yields to rise. However, the rise in yields has been quite muted so far and it is too early to say whether the Fed would feel it necessary to take action to suppress any further rise in debt yields. It is likely that the next two years, and possibly four years in the US, could be a political stalemate where neither party can do anything radical.

15 The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the **pandemic** with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a third wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the latest wave has been driven by a growing outbreak in the Midwest. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter

term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

Covid-19 New infections & hospitalisations



16 However, with the likelihood that highly effective vaccines are going to become progressively widely administered during 2021, this should mean that life will start to return to normal during quarter 2 of 2021. Consequently, there should be a sharp pick-up in growth during that quarter and a rapid return to the pre-pandemic level of growth by the end of the year.

17 After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that "it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time." This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year

or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal. The Fed's meeting on 5 November was unremarkable - but at a politically sensitive time around the elections.

18 **EU**. The economy was recovering well towards the end of Q2 and into Q3 after a sharp drop in GDP caused by the virus, (e.g. France 18.9%, Italy 17.6%). However, growth is likely to stagnate during Q4, and Q1 of 2021, as a second wave of the virus has affected many countries, and is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the worst affected countries. With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. It is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support from governments. The current PEPP scheme of €1,350bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, the PEPP scheme is regarded as being a temporary measure during this crisis so it may need to be increased once the first PEPP runs out during early 2021. It could also decide to focus on using the Asset Purchase Programme to make more monthly purchases, rather than the PEPP scheme, and it does have other monetary policy options.

19 However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle during the closing and opening quarters of this year and next year respectively before it finally breaks through into strong growth in quarters 2 and 3. The ECB will now have to review whether more monetary support will be required to help recovery in the shorter term or to help individual countries more badly impacted by the pandemic.

20 **China**. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

21 However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this

same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

22 **Japan**. Japan's success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. While the second wave of the virus has been abating, the economy has been continuing to recover at a reasonable pace from its earlier total contraction of 8.5% in GDP. However, there now appears to be the early stages of the start of a third wave. It has also been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. There has also been little progress on fundamental reform of the economy. The change of Prime Minister is not expected to result in any significant change in economic policy.

23 **World growth**. While Latin America and India have, until recently, been hotspots for virus infections, infection rates have begun to stabilise. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

24 Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

25 Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer.

Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

26 If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

Link Asset Services
01 December 2020

Appendix 5 Credit and counterparty risk management (TMP1)

All specified and non-specified Investments will be:

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

Subject to the duration limit ***where applicable*** suggested by Link (+6 months for UK 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 Gov't)	AAA
Money market funds (CNAV, LVNAV or VNAV)	AAA
Enhanced cash / Government liquidity / ***Ultra-short dated bond funds***	***AA***

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
Term deposits – housing associations	***UK Sovereign A- Counterparty A-***	***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 ***and or short dated bond*** funds	N/A	N/A

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

Appendix 6 Approved countries for investments

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

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

As of 31 December 2020 sovereigns meeting the above requirement which also (except for Hong Kong, Norway and Luxembourg) have banks operating in sterling markets with credit ratings of green or above on the Link Asset Services' Credit Worthiness List were:

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

At 31 December 2020 the UK received a credit rating of AA- from Fitch and Moody's and AA from Standard and Poor's.

Non-treasury Management Practices

1 Introduction

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

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

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

1.4 The Council recognises that many of the principles underlying treasury management practices will apply to non-treasury investments as they do to treasury investments. However, some aspects are likely to differ significantly.

1.5 It is recognised that the Council may make investments for policy reasons outside of normal treasury activity, and these may include:

- Service investments – these are held clearly and explicitly in the course of the provision, and for the purposes of, operational services, including regeneration
- Commercial investments – these are undertaken for mainly financial reasons. They may include:
  - Investments as part of business structures, such as loans to and shares in subsidiaries.
  - Investments explicitly taken out with the aim of making a financial surplus for the council and include commercial properties

1.6 The investment practices for non-treasury investments detailed below will be complied with by all officers and agencies responsible for such investments. These practices will evolve over time and will be subject to annual review.

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2 Risk management (NTMP 1)

2.1 Investment of the Council's cash surpluses and reserves is governed by the CIPFA Treasury Management Code of practice and MHCLG Statutory Guidance. These require authorities to prioritise security and liquidity over yield. Compliance, aims to protect the value of sums invested and ensure funds are available to spend as spending commitments arise. Investment in equity, bonds or property are likely to fail the security and liquidity tests and are therefore considered inappropriate for short term cash surplus and reserve fund management purposes.

2.2 Commercial property covers a broad range of property uses and types including, retail outlets, office accommodation, warehouses, industrial units and residential accommodation.

2.3 Risks associated with commercial property ownership include:

- Close correlation between value and changes in **GDP**. Values fall significantly in a downturn. Values rise when the economy is growing.
- Property is **illiquid** both in terms of transaction times and price transparency.
- **Tenant covenant strength** will impact on ability to meet rental payments, lease renewal, exercise break clauses and CVA.
- **Valuations** are not a guarantee of sale price and may be subject to investor confidence / sentiment.
- **Stock, sector and geographic** risk will all impact on the value of a particular property.
- Subject to **environmental risk** such as flooding and land contamination.
- **Interest rate** changes not only affect the cost of borrowing but also bond / equity prices which may impact on the relative attractiveness of property.
- Changes in **legislation and regulation** e.g. energy efficiency may involve additional cost to the investor.
- Changes in **taxation** (stamp duty / SDLT) may affect value.

2.4 Risks will be explored in the property acquisition business case and through regular monitoring of the property market post acquisition. Nevertheless, risk will persist.

2.5 A risk assessment is provided at **[Appendix 1]**.

3 Decision making, governance and organisation (NTMP 2)

3.1 Any new commercial property investment will be subject to a business case that meets HM Treasury Green Book standards. The report seeking Capital Plan budget provision will follow the normal budget approval process (FIPAB, Cabinet and Council).

3.2 Day to day management of commercial property investments is delegated to the Central Services Director (CSD). The CSD will undertake that management using in-house resources or appoint specialist external agents where appropriate. Functions include:

- Collection of rent & service charges.
- Establishing lease terms
- Advertising vacant units
- Negotiating tenant lease agreements
- Monitoring the commercial property market
- Undertaking annual property revaluations

3.3 New lease agreements will be certified, without delegation, by the CSD. Any rent free periods and other tenant inducements will be reported under the reporting arrangements detailed in NTMP 4.

3.4 The Director of Finance and Transformation will undertake a periodic reconciliation of income and expenditure. Internal audit, subject to a risk assessment, will review commercial property activity.

4 Performance management (NTMP 3)

4.1 Baseline performance requirements for commercial properties will be drawn from the business case submitted as part of property purchase approval. Gross income, service costs and tenant arrears will be monitored against baseline on a quarterly basis. Variation from a pre-determined tolerance level will trigger a report to the Council's Management Team and, if appropriate, will be escalated in accordance with NTMP 4.

4.2 Performance of the Council's commercial property function and that of any associated external support will be monitored and reviewed annually to ensure best practice and value for money are being achieved.

5 Reporting and management information (NTMP 4)

5.1 An information report setting out the performance of the Council's commercial property investments will be prepared by the Director of

Central Services and submitted to each meeting of the Finance, Innovation and Property Advisory Board. Reports will be subject to prior consideration by the Council's Management Team.

5.2 Reports will include:

- A commentary on commercial property market conditions
- Gross income against budget
- Income performance against benchmark
- Operating costs
- Changes in occupancy
- Changes to existing lease agreements / new lease agreements
- Tenant arrears
- Market value (to be reported annually).

5.3 Commercial property investment performance against budget will also be incorporated in the financial planning & control reports submitted to the May, July and September meetings of FIPAB.

5.3 Any extraordinary issues that are likely to generate a change in budget requirement will be subject to endorsement by Cabinet and approval by Council.

6 Training and qualifications (NTMP 5)

6.1 Members and officers involved in the property investments decision making process need to have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific property investment.

6.2 The Councils employs qualified property, legal and finance officers to manage activity and provide advice within their respective disciplines. Specialist external advisors will be engaged where appropriate. Member training will be provided in-house or by external agents when required.

Property Investment – Risk Register

Risk	Risk Areas	Likelihood 1(low) 6(High)	Impact 1(low) 4(High)	Total Score	Controls
Downturn in property market	Capital value and income potential reduce for purchased assets.	4	4	16	Continued monitoring of markets. Sale of Assets at a benchmarked threshold. Annual Valuation.
Upturn in property market	Purchase cost of potential assets increases.	4	3	12	Continued monitoring of markets. Adjusting purchase criteria to reflect market movement. Consider sales of assets for capital gain. Annual Valuation.
Increase in interest rates (borrowing)	Cost of borrowing where adopted increases with detrimental impact on income.	4	3	12	Ensure most competitive rate achieved if borrowing, fixed term if possible. Consider increased use of reserves to ensure loan to value ratios are acceptable.
Increase in interest rates (investment)	Lower rate of return when compared to other potential investments	4	3	12	Consider revising income return criteria upwards. Consider disposal of assets for re-investment.
Available opportunities	Market opportunities meeting investment criteria not available.	4	3	12	Identify opportunities early and move swiftly to acquire.
Changes in Tenant demand	Certain types of property may become less favorable with tenants.	3	3	9	Consider alternative use at acquisition. Construct a varied portfolio by use.

Risk	Risk Areas	Likelihood 1(low) 6(High)	Impact 1(low) 4(High)	Total Score	Controls
Obsolescence of Asset	Physical obsolesce in terms of building fabric and fit out.	3	3	9	Ensure full repairing and insuring leases are in place via pre-purchase due diligence. Have building surveys undertaken to establish condition of building.
Tenant default	Loss of rental income, increased costs incurred.	3	3	9	Undertake financial due diligence of tenants pre-purchase, obtain the best possible tenant covenants. Look for guarantors or cash deposits where covenants are considered weak. Consider multi-tenanted properties in order to diversify risk. Ensure robust credit control procedures in place. Monitor tenant company performance.
Void periods	Loss of rental income, holding costs incurred – rates, utilities etc. Costs of re-letting.	3	3	9	Monitoring tenancies as described above. Move quickly to appoint letting agents should a “void” period appear likely. Act expediently in concluding legal process of letting.
Government Legislation - Energy Performance (Minimum Energy Efficiency Standards, MEES)	From 1 April 2018 it is illegal for a landlord to grant a new letting of a commercial property that has an EPC of below E.	4	3	12	Undertake appropriate pre purchase due diligence to establish what the EPC rating of a property is and purchase accordingly. Identify if opportunities exist to increase the EPC rating appropriately.
Illiquidity of Property Assets	Asset identified for disposal to raise capital receipt or for reinvestment.	4	4	16	Ensure that assets are kept “sale ready” in terms of documentation and information.

Risk	Risk Areas	Likelihood 1(low) 6(High)	Impact 1(low) 4(High)	Total Score	Controls
Staff Resources	Lack of suitably professionally qualified staff.	3	3	9	Ensure that appropriately professionally qualified staff, with experience in Property Investment, are available to act on the Council's behalf.
Residential Properties – generally all of the above plus greater landlord input, more management intensive	Residential Properties generally require a more active landlord involvement, maintaining the structure and services of a property – maintenance costs and management costs are therefore higher.	4	3	12	Ensure that increased holding costs are factored into purchase valuations. Appoint external professionals to manage landlord and tenant processes. Ensure that tenant deposits are taken.

Assessing risks

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

LOW	MEDIUM	HIGH
1 – 4	**5 – 12**	**15 – 24**

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

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

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

18 January 2021

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 ACCOUNTING POLICIES

This report presents the Accounting Policies proposed for the 2020/21 Financial Statements for consideration and endorsement.

1.1 Introduction

1.1.1 The Accounting Policies to be used in the preparation of the 2020/21 Financial Statements are attached at **[Annex 1]** for Members' consideration and endorsement.

1.1.2 Our external auditor following the audit of the 2019/20 Financial Statements commented on the accounting policy in respect of investment property as set out below and recommended that the wording of this policy is reviewed:

The Council's accounting policy, note 2(r) states that "Properties are subject to revaluation on an annual basis in accordance with market conditions at the year-end. However, due to the nature and size of the portfolio held full valuation reviews are carried out once every five years or earlier where there is a material change in value is considered". The reference to periodic "full valuation reviews" in addition to the annual market reviews is confusing.

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

"Investment properties are subject to revaluation on an annual basis in accordance with market conditions at the year-end".

1.1.4 In addition, the words, 'which will normally be its insured value' have been added to the sentence, Heritage assets where the Council holds information on their cost or value are to be recognised on the Balance Sheet which will normally be its insured value. The authorised for issue date(s) is also the subject of confirmation.

1.1.5 This latest review found that no other changes were required to the Accounting Policies to be adopted for the 2020/21 Financial Statements.

1.2 Legal Implications

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

1.3 Financial and Value for Money Considerations

1.3.1 As set out in the Accounting Policies.

1.4 Risk Assessment

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

1.5 Equality Impact Assessment

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

1.6 Recommendations

1.6.1 Members are asked to **consider** and, subject to any required amendments, **endorse** the Accounting Policies to be used in the preparation of the 2020/21 Financial Statements as set out at **[Annex 1]**.

Background papers: contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

1. ACCOUNTING POLICIES

a) General

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year-end. The Accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20*. The Code is based on levels of approved accounting standards:

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

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

b) Qualitative Characteristics of Financial Information

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

c) Accounting Concepts

- Going concern – it is assumed that the Council will continue in operational existence for the foreseeable future and accordingly the Accounts have been prepared on a going concern basis.

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

d) Accruals and Revenue Recognition

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

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

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

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

e) Assets Held for Sale

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

f) Cash and Cash Equivalents

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

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

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

Similarly, the Council acts as an agent for the Government, Kent County Council and Kent Fire and Rescue in respect of Business Rates and as such the Accounts show the amount owed by and to taxpayers in respect of our proportion of the Business Rates and the other bodies covered by the Business Rates Retention scheme as a net debtor or creditor. The Council is a member of the Kent Business Rates Pool as approved by the Secretary of State in December 2015 where payments to Kent County Council and Kent Fire and Rescue are made via the administering authority, Maidstone Borough Council and for the year 2018/19 only the Kent & Medway Business Rates pilot. As a member of the Business Rates Pool where the business rates income exceeds our baseline funding level the levy payable to central government is less than it would otherwise be, and where a safety net payment is due this is to be met by the Pool rather than central government.

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

h) Contingent Assets and Liabilities

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

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

i) Debt Write-Off

The Director of Finance and Transformation approves and or recommends the write-off of debt where efforts to collect the sums have failed and any further action would be uneconomic or

impractical or in the opinion of the Director of Finance and Transformation there is a valid reason for not pursuing the debt. In order to mitigate the financial impact of write-offs the Director of Finance and Transformation makes an impairment allowance taking into account the size and age of the debt outstanding and the likelihood of recovery.

j) Employee Benefits

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

Benefits Payable during Employment

This covers:

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

Termination Benefits

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

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

Post-Employment Benefits

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

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

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The most recent actuarial valuation to determine contributions was on 31 March 2019.

k) Events After the Balance Sheet Date

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

The authorised for issue date is:

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

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

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

l) Exceptional Items and Prior Period Adjustments

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

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

m) Financial Instruments

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

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

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

Investments are broken down in two ways. Firstly, by maturity, in that any investment with a maturity date of more than 364 days after the Balance Sheet date will be classed as long-term

and less than as short-term; and secondly by class of asset such as amortised cost or fair value through profit and loss.

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

Assets classified as fair value through profit and loss have a quoted active market price and do not have fixed or determinable payments. These are measured and carried on the Balance Sheet at fair value through profit and loss.

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

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

n) Foreign Currency Transactions

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

o) Government Grants and Other Contributions

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

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

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

p) Inventories

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

q) Leases

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

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

Finance Leases

The Council currently has no finance lease arrangements where it is the lessor or where it is a lessee.

Operating Leases

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

r) Non-Current Assets

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

Property, Plant and Equipment

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

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

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

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

Land and Buildings

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

Asset Category	**Year of Valuation**	
Council Offices	2015/16	Completed
Car Parks	2016/17	Completed
Leisure Premises	2017/18	Completed
Properties for Community Use	2018/19	Completed
Public Conveniences	2019/20	Completed
Council Offices	2020/21	Completed

In addition to the valuation of the asset category above the Code requires the Council to consider material changes in other assets not due for revaluation in year under the five year rolling programme. The Council's external valuers will undertake interim valuations in respect of our major assets, i.e. council offices, leisure premises and car parks where appropriate. Where the interim valuation shows a movement of £100,000 or more the Balance Sheet values will be updated accordingly. The Council's external valuers will also advise annually on any further work required to identify material changes in asset valuations.

The valuations reviews are carried out by a qualified surveyor in accordance with the latest guidance issued by the Royal Institution of Chartered Surveyors (RICS) and based on the market value for existing use or where a market value cannot be determined as the property is of a

specialist nature the depreciated replacement cost. The method used on the current year's valuation will be explained in the notes to the Accounts. Items of plant that are integral to the operation of a building are included in the valuation for that building.

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

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

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

Vehicles, Plant and Equipment

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

Infrastructure Assets

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

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

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

Community Assets

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

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

Assets under Construction

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

Heritage Assets

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

Heritage assets where the Council holds information on their cost or value are to be recognised on the Balance Sheet which will normally be its insured value. Where the Council does not hold

information on the cost or value and it is considered that the cost of obtaining this information outweighs the benefit to the reader of the accounts such details as the Council holds are to be included in the notes to the financial statements.

Heritage assets are not subject to depreciation.

Investment Property

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

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

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

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

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

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

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

Investment properties are not subject to depreciation.

Intangible Assets

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

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

Impairment of Non-Current Assets

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

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

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

Gains or Losses on Disposal of Non-Current Assets

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

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

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

s) Overheads

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

t) Provisions

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

- the Council has a present obligation (legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

u) Reserves

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

Statement, this is then offset by a reserve appropriation within the Movement in Reserves Statement.

v) Revenue Expenditure Funded from Capital Under Statute

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

w) Value Added Tax (VAT)

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

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

18 January 2021

Joint Report of the Director of Finance and Transformation and Director of Central Services

Part 1- Public

Delegated

1 ANNUAL REVIEW OF ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY AND WHISTLEBLOWING POLICY

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

1.1 Introduction

1.1.1 The Anti-Fraud, Bribery and Corruption Policy is used to provide structure to the combating of fraud, bribery and corruption, which the Council may be subject to.

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

1.2 Anti-Fraud, Bribery and Corruption Policy

1.2.1 The Anti-Fraud, Bribery and Corruption Policy was last reviewed by the Committee in January 2020. This latest review has resulted in enhancements in the policy to align with the Fighting Fraud and Corruption Locally Strategy produced by local government for local government. The main enhancements include:

- Updates on the estimated fraud losses within Local Government;
- Brings in the five 'pillars' of activity that local authorities should concentrate efforts on;
- Outlines the current threats facing TMBC;
- Provides a more comprehensive outline of roles and responsibilities across TMBC;
- Requirement for those charged with governance to ensure there are robust and holistic measures on anti-fraud, bribery and corruption. This has seen

additional requirements placed on the roles and responsibilities for Senior Stakeholders; and

- The need for management to assess the risk of fraud and consult with Counter Fraud Specialists on new policies, strategies and initiatives.

1.2.2 A copy of the Anti-Fraud, Bribery and Corruption Policy, is attached at **[Annex 1]**.

1.3 Whistleblowing Policy

1.3.1 The Whistleblowing Policy was last reviewed by the Committee in January 2020. This latest review found that no changes were required at this time.

1.3.2 However the owner of the policy is being moved from the Director of Finance and Transformation to the Director for Central Services and Deputy Chief Executive as director responsible for personnel and Human Resources to align with best practice.

1.3.3 A copy of the Whistleblowing Policy is attached at **[Annex 2]**.

1.4 Action Following Approval of the Policies

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

1.5 Legal Implications

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

1.6 Financial and Value for Money Considerations

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

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

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

1.7 Risk Assessment

1.7.1 The policies reflect best practice and the culture of the Council and aimed at minimising the risk of fraud, bribery and corruption. The policies are supported by

the internal control mechanisms in place and form part of the overall control environment of the Council.

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

1.8 Equality Impact Assessment

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

1.9 Policy Considerations

1.9.1 Crime & Disorder Reduction

1.10 Recommendations

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

1.10.2 Members are asked to review and, subject to any required amendments, **recommend** that the Whistleblowing Policy attached at **[Annex 2]** is approved by the next General Purposes Committee.

Background papers: contact: James Flannery

Fighting Fraud and Corruption Locally Strategy 2021

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ANTI-FRAUD, BRIBERY & CORRUPTION POLICY

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January 2021

Contents

Anti-Fraud, Bribery & Corruption Policy

1 INTRODUCTION

1.1. Fraud against Local Government is estimated to cost £7.8[1] billion per year. The Government's Economic Crime Plan states the numbers of fraud offences rose by 12% during 2018 to 3.6m constituting a third of all crimes in UK. This is a significant loss and threat to the public purse.

1.2. Tonbridge & Malling Borough Council is opposed to all forms of fraud and corruption, including bribery, and is determined to protect itself from such actions whether attempted from within the Council or by an outside individual, group or organisation.

1.3. The Council recognises that fraud, bribery and corruption undermine the standards of public service, which it promotes, and reduces the resources available for the good of the whole community. Such activity may therefore impact on the ability of the Council to achieve its corporate objectives, as set out in its Corporate Strategy. In response to this, the Anti-Fraud, Bribery & Corruption Policy is designed to align with The Local Government Fraud Strategy: Fighting Fraud Locally which means the council will:

- **Govern** the anti-fraud, bribery and corruption measures to ensure they are robust and holistic;
- **Acknowledge** the threat of fraud and the opportunities for savings that exist;
- **Prevent** and detect all forms of fraud;
- **Pursue** appropriate sanctions and recover any losses;
- **Protect** itself and the community against serious and organized crime, protecting the organisation from becoming a victim of fraud.

2 DEFINITION OF FRAUD

2.1. The Council defines fraud as 'any activity where deception is used for personal gain or to cause loss to another.' Fraud can be committed in one of three ways:

- **Fraud by false representation** – Examples include providing false information on a grant or when applying for a Single Person Discount,

[1] CIPFA Fraud and Corruption Tracker Summary Report 2019

staff claiming to be sick when they are in fact fit and well, or submitting time sheets or expenses with exaggerated or entirely false hours and/or expenses;

- **Fraud by failing to disclose information** – Examples include failing to disclose a financial interest in a company the Council is trading with, or failing to disclose a personal relationship with someone who is applying for a job at the council;

- **Fraud by abuse of position –** Examples include staff who order goods and services through the Council's accounts for their own use.

2.2. While fraud is often seen as a complex financial crime, in its simplest form, fraud is lying. Someone will lie, or withhold information, or generally abuse their position to try to trick someone else into believing something that is not true. Acts such as misappropriation or petty theft will therefore also be considered by the Council as fraud and treated under the arrangements within this Policy.

3. DEFINITION OF BRIBERY AND CORRUPTION

3.1. The Council defines corruption as the abuse of entrusted power for private gain; involving the offering, giving or soliciting of an inducement or reward which may influence a person to perform a function or activity improperly. This may involve:

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

3.2. Other forms of corruption include:

- Cronyism or nepotism, where someone in public office exploits their authority to provide a job or favor to a friend, associate or family member;
- Collusion, where a secret agreement between parties, in the public and/ or private sector conspire to commit actions aimed to deceive or commit fraud;
- Conflict of interests, where someone in a public office faces a conflict between the duties and demands of one or more positions that they hold and their private lives;
- Gifts and Hospitality, the provisions of gifts, entertainment or other hospitality that could affect or perceived to affect the outcome of business transactions and are not reasonable and bona fide;

- Lobbying, any activity carried out by companies, associations, organisations and individuals to influence a government or institution's policies and decisions in favour, cause or outcome

4. CURRENT THREATS AND THEIR IMPACT

4.1. The Council faces a range of fraud and corruption threats and the impact can be significant causing financial loss, reputational damage and harm to service users and the residents of Tonbridge and Malling. In the last 12 months the most frequent types of fraud and similar crimes that have impacted the council are as follows:

- **Council Tax Discount / Exemption Fraud.** This type of fraud causes a financial loss to the council and the local economy, as well as undermines the public's confidence in the service that is provided. Council Tax fraud is committed where a customer provides false information or fails to declare a change in circumstances in order to receive a discount/exemption on their council tax.
- **Social Housing Fraud.** Social Housing is a valuable asset to the public and often a lifeline to the people it's meant for, given the desperate shortage of affordable homes. Social Housing Fraud is estimated to cost the tax payer £2bn a year. Fraud can be committed in several ways; some of the most common types of fraud include illegal subletting, non-occupancy, or submission of false information.
- **Parking Permit Fraud.** This type of fraud causes financial loss to the council and undermines the public's confidence in the Residential Parking Permit scheme and prevents genuine Residential Parking Permit uses accessing safe and convenient parking.
- **Business Rates / Exemption Fraud.** Small Business Rate Relief (SBRR) is provided to a number of businesses across England on the basis that they either only use one property or have a ratable value of less than £15,000. Fraud can occur when a business owner does not declare that they have a property elsewhere where their ratable value (RV) is considered over the threshold amount. SBRR Fraud is estimated to cost over £25 million in England alone.
- **Housing Benefit and Council Tax Reduction Fraud.** This type of fraud causes a financial loss to the council and the local economy, as well as undermines the public's confidence in the service provided. Fraud is committed either by supplying false information on an application form or by failing to declare a change of circumstances that would affect benefit entitlement. It is estimated that 2.2% of total benefit expenditure was overpaid due to fraud and error.

5. SETTING THE CULTURE – STANDARDS

5.1. Tonbridge and Malling Borough Council wishes to promote a culture of honesty and opposition to fraud and corruption based on the seven

principles of public life. The Council will ensure probity in local administration and governance and expects the following from all employees, agency workers, volunteers, suppliers and those providing services under a contract with TMBC.

- **Selflessness** - Act solely in terms of the public interest.

- **Integrity -** Avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

- **Objectivity** - Act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

- **Accountability** - Be accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

- **Openness** - Act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

- **Honesty -** Be truthful.

- **Leadership -** Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

6. ROLES AND RESPONSIBILITIES

The Role of Elected Members

6.1. As elected representatives, all Members of Tonbridge and Malling Borough Council have a duty to act in the public interest and to do whatever they can to ensure that the Council uses its resources in accordance with statute.

6.2. This is achieved through Members operating within the Constitution which includes the Code of Member Conduct, Financial Regulations and Spending the Council's Money.

The Role of Employees

6.3. Tonbridge and Malling Borough Council expects its employees to be alert to the possibility of fraud, bribery and corruption and to report any suspected fraud or other irregularities to the Head of Internal Audit.

6.4. Employees are expected to comply with appropriate Code of Conduct and the Council's policies and procedures.

6.5. Employees are responsible for complying with Tonbridge and Malling Borough Council's policies and procedures and it is their responsibility to ensure that they are aware of them. Where employees are also members of professional bodies they should also follow the standards of conduct laid down by them.

6.6. Employees are under a duty to property account for and safeguard the money and assets under their control/charge.

6.7. Employees are required to provide a written declaration of any financial and nonfinancial interests or commitments, which may conflict with TMBC's interests. Employees who have a direct or indirect financial interest in a contract shall not be supplied with, or given access to any tender documents, contracts or other information relating to them, without the authority of the senior manager.

6.8. Failure to disclose an interest or the acceptance, or offering of an inappropriate reward may result in disciplinary action or criminal liability. Staff must also ensure that they make appropriate disclosures of gifts and hospitality – both offered and accepted.

6.9. Managers at all levels are responsible for familiarizing themselves with the types of fraud that might occur with their directorates and the communication and implementation of this strategy.

6.10. Managers are expected to create an environment in which their staff feel able to approach them with any concerns that they may have about suspected fraud or any other financial irregularities.

6.11. Managers should recognise that training is a vital tool in ensuring that both officers and Members clearly understand their roles and responsibilities within the organisation and carry out these within the Council's framework of policies and procedures in order to minimise fraud.

The role of Chief Executive Officer

6.12. Ensuring that the authority is measuring itself against the checklist for Fighting Fraud and Corruption Locally and there are sufficient resources to manage the risk of fraud.

6.13. Ensure the Audit Committee receives regular reports on the work of those leading on fraud and the external auditor is aware of the reporting.

The role of the Director of Finance and Transformation

6.14. The Director of Finance and Transformation is responsible for developing, reviewing and maintaining an Anti-Fraud, Bribery and Corruption Strategy and for advising on effective systems of internal control to prevent, detect and pursue fraud and corruption; advising anti-fraud and anti-corruption strategies and measures; and, ensuring that effective procedures are in place to investigate any fraud and irregularity in a timely manner.

6.15. Ensuring the Head of Internal Audit is assessing its resources and capability at least annually against the current fraud risks and Counter Fraud staff have unfettered access to people and records to prevent and detect fraud.

The Role of the Monitoring Officer

6.16. Ensuring that Members, Governance & Audit Committee and Portfolio leads are aware of Counter Fraud Activity and provide training on Counter Fraud risks and approaches.

6.17. The Counter Fraud Team are independent of processes and reports to Governance & Audit Committee to ensure there is a Member scrutiny.

The Role of Personnel Services

6.18. Ensuring that effective steps are taken at the recruitment stage to verify the propriety and integrity of the previous records of potential employees, representatives of the local community and newly-elected Members of the organisation. Adhering to the guidance set out in the Recruitment and Selection Policy, Procedure and Guidance which requires a number of checks at recruitment stage, including the take up of written references and Disclosure and Barring Service checks for certain identified posts.

The role of the Audit Committee

6.19. The Audit Committee is responsible for ensuring that the Council has a

robust counter-fraud culture backed by well designed and implemented controls and procedures which define the roles of management and Internal Audit; and, that the Council monitors the implementation of the Anti-Fraud Bribery and Corruption policy to ensure that it is followed at all times.

6.20. Ensuring that the Portfolio lead is up to date and understands the activity being undertaken by Counter Fraud.

6.21. Provide challenge and support to the Counter Fraud Activity being undertaken across the council.

Tonbridge and Malling Borough Council's Commitment

6.22. Fraud, bribery and corruption are serious offences and employees and Members may face disciplinary action if there is evidence that they have been involved in these activities. Where criminal offences are suspected consideration will be given to pursuing criminal sanctions, which may involve referring the matter to the police.

6.23. In all cases where the Council has suffered a financial loss, appropriate action will be taken to recover the loss including the cost of the investigation whenever appropriate. Civil penalties will also be applied also whenever deemed appropriate in accordance to policy.

6.24. In order to make Members, employees, the general public and other organisations aware of the Council's continued commitment for taking action against fraud, bribery and corruption, details of completed investigations, including sanctions applied will be publicised where it is deemed appropriate and in the public interest. This will involve releasing press statements immediately after criminal convictions are secured. In addition, the council will promote an anti-fraud culture through fraud awareness campaigns, presentations, training and e-learning.

7. PREVENTION – CAPABILITY, COMPETENCE & CAPACITY

Responsibilities of Management

7.1 The primary responsibility for the prevention and detection of fraud is with management. Management must ensure that they promote an anti-fraud culture and assess the risk of fraud, bribery and corruption. They must ensure appropriate controls are in place to minimise the risk of fraud, for example, this could include establishing procedures, approving transactions or certain activities and segregating duties. Management must ensure the controls are operating as expected and are being complied with. They must ensure that adequate levels of checks are included in working practices,

particularly financial to reduce fraud and error occurring. It is important that duties are organised in such a way that no one person can carry out a complete transaction without some form of checking or intervention process being built into the system.

7.2. Management must ensure that the development of new policies, strategies and initiatives are fraud-proofed by engaging with the Counter Fraud Team to support the assessment of the fraud risks.

Internal Audit and Counter Fraud

7.3. The Head of Internal Audit and Counter Fraud is responsible for the independent review of controls within the council and assisting managers in the investigation of Fraud and Corruption.

7.4. The Internal Audit Function has a responsibility to objectively examine, evaluate and report on the adequacy of the control environment by evaluating its effectiveness in achieving the organisations objectives. The work of Internal Audit will include a review of the adequacy and effectiveness of the Council's internal control arrangements which gives due consideration to the risk of fraud, bribery and corruption in each audit that is conducted.

7.5. The Head of Internal Audit will establish performance measurements for counter fraud activity and will report progress against the performance measurements proactive counter fraud activity and on a quarterly basis to Audit Committee.

7.6. Internal Audit and the Counter Fraud Team provide advice and guidance on controls when implementing a new or significant change in process by providing a view of the current fraud risks and conducting pro-active audit work to provide assurance on the control framework in place. The Counter Fraud Team will also provide management with specialist support to assess the risk of fraud, bribery and corruption that is faces through the completion of risk assessments.

7.7. Through the completion of proactive and reactive work; recommendations will be made to management on how to strengthen the counter fraud culture and control framework to help prevent and detect fraud.

Working with others and sharing information - Collaboration

7.8. The Council is committed to working and co-operating with other organisations to prevent and detect fraud, bribery and corruption through undertaking specific initiatives and ensuring that arrangements are in place

to encourage the exchange of information between the council and other agencies. This will include:

- Coordinating our activity with the other teams across the Council, such as Revenues & Benefits, Housing and Parking to maximise our impact.
- Working closely with other neighboring council's to encourage the exchange of information between the council and other agencies through the Kent and Medway Information sharing agreement.
- Working with and supporting the Police and other enforcement agencies.
- Working with the Cabinet Office in the development and introduction of the Government Counter Fraud Profession.
- Jointly working with the Department and Working Pensions to investigate potential fraudulent Housing Benefit claims.

7.9. The Council may use personal information and data-matching techniques to detect and prevent fraud, and ensure public money is targeted and spent in the most appropriate and cost-effective way. In order to achieve this, information may be shared with other bodies responsible for auditing or administrating public funds including, but not limited to, the Cabinet Office, National Fraud Initiative, the Department of Work and Pensions, other local authorities, HM Revenue and Customs, and the Police.

National Fraud Initiative

7.10. Tonbridge and Malling Borough Council participates in the National Fraud Initiative (NFI). This requires public bodies to submit a number of data sets to the Cabinet Office, for example electoral roll, council tax, pension, and accounts payable (but not limited to these) which is then matched to data held between public and private sector bodies to prevent and detect fraud. Further enquiries are made into any positive matches (e.g. an individual on the electoral roll that has not been declared at the address when the account holder is in receipt of Single Person Discount).

Training and Awareness – Communication.

7.11. The prevention and detection of fraud is dependent on risk awareness, the effectiveness of training and the responsiveness of staff throughout the council.

7.12. Management will provide a thorough induction and ongoing training to staff, particularly those involved in financial processes and systems to

ensure that their duties and responsibilities are regularly highlighted and reinforced.

7.13. The Counter Fraud Team will provide fraud awareness training to risk areas and on request to highlight potential fraud that can occur in a specific service.

8. DETECTION AND INVESTIGATION

8.1. Tonbridge and Malling Borough Council have adopted a risk based approach to investigating all instances of actual, attempted and suspected fraud committed against the Council and the recovery of funds and assets lost through fraud.

8.2. Any Manager or officer with information about suspected fraud, bribery or corruption activity must report this immediately to the Internal Audit and Counter Fraud Team. Corporate Fraud will create an Intelligence Report which will be raised to the Corporate Fraud Manager who will decide on the appropriate course of action to ensure that any investigation is carried out in accordance with Council policy and procedures, key investigation legislation and best practice. This will ensure that investigations do not jeopardise any potential criminal or sanction action.

8.3. The Council has a formal procedure for conducting such investigations which allows for investigations to be carried out impartially and with complete confidentiality. As well as looking to confirm or refute allegations of fraud, bribery and corruption activity reported, investigatory work will also look to identify any improvements in internal control, training needs or other suitable solutions to prevent and deter the reported activity from occurring.

8.4. The Council's disciplinary procedures will be used where the outcome of an investigation indicates improper behavior by a Council employee.

8.5. Where financial impropriety is discovered or it appears that a criminal offence may have been committed, the Council's presumption is that the issue will be pursued. The matter may be referred to the Police or progressed by TMBC under its own powers within the Local Government Act. Any such decision will not be seen to prohibit and should not unnecessarily delay action under the disciplinary procedure.

8.6. When making decisions about sanctions, the Council will have regard to the Code for Crown Prosecutors issued by the Director of Public Prosecutions. It will also take into account the aggravating and mitigating factors of the case as detailed in the sentencing guidelines for the relevant offence issued by the Sentencing Council.

8.7. The Council will seek, where appropriate, to maximise the recovery of any loss to the Council, including any costs associated to the investigation and prosecution of an offence.

8.8. The investigation process must not be misused. The Council will treat any reporting of unfounded malicious allegations seriously. Where employees are concerned, any such finding from the investigation process may be treated as a disciplinary matter.

8.9. Members and employees will be given advice and support, where considered necessary, if they are the subject of any unfounded malicious allegation.

8.10. The responsibility for investigating potential fraud, corruption or other financial regularities within the Council lies mainly (although not exclusively) with Internal Audit and Counter Fraud. Officers involved in this work will therefore be appropriately trained, and this will be reflecting within training plans.

9. RESPONSES TO REPORTED CONCERNS AND SUSPICIONS

9.1. Any person or organisation reporting concerns or suspicions of fraud, bribery or corruption activity may request to be kept informed of the progress of any investigation or its outcome. The Council reserves the right to not fulfil this request where doing so may be to the detriment of the effectiveness and confidentiality of the investigation process.

9.2. Where people or organisations have raised a concern or suspicion about fraud, bribery or corruption activity but are not satisfied with the response they received, they may pursue the matter further by referring the issue through one of the following channels:

- the Council's complaints procedure
- A Member
- The External Auditor Grant Thornton LLP
- Public Concern at Work
- A relevant professional or regulatory body
- A solicitor or the Police

10. ACTION TO DETER FRAUD, BRIBERY & CORRUPTION

10.1. All anti-fraud, bribery and corruption activities undertaken by the Council, including the update of this Policy will be publicised in order to make employees, Members, the general public and stakeholders aware of the Council’s commitment to taking action on such activity, when it occurs.

10.2. The Council will endeavour to act robustly and decisively when fraud, bribery or corruption is suspected and proven. This will be demonstrated through disciplinary action, prosecution, simple caution or civil penalties (where applicable).

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

11. REVIEW AND APPROVAL OF THIS POLICY

11.1. This Policy is owned by the Director of Finance and Transformation and reviewed by the Audit and Assurance Manager on her behalf.

11.2. The Anti-Fraud, Bribery & Corruption Policy will be reviewed and endorsed at least annually by the Audit Committee at their January meeting. The most recent review was undertaken in January 2021 with the next review due January 2022.

12. ASSOCIATED COUNCIL POLICIES

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

- The Council's Constitution including Financial Procedure Rules
- The Code of Conduct for Staff and Members
- The Whistleblowing Policy
- The Anti-Money Laundering Policy
- Policies and procedures in relation to recruitment, personnel and finance processes.
- Data Protection Policy

WHISTLEBLOWING POLICY

Document Owner:	Adrian Stanfield Director of Central Services and Deputy Chief Executive
Version:	Version 6

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January 2021

TONBRIDGE & MALLING BOROUGH COUNCIL

Contents

TONBRIDGE & MALLING BOROUGH COUNCIL
WHISTLEBLOWING POLICY

A confidential reporting policy for all Members, employees and contractors

1. Introduction

1.1 Tonbridge & Malling Borough Council operates within legal requirements and regulations and expects its employees to co-operate in this by adhering to all laws, regulations, policies and procedures. The Council recognises that employees are often the first to realise that there may be something seriously wrong within the Council. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice.

1.2 The Public Interest Disclosure Act 1998 (the 1998 Act) contains measures which help to promote greater openness between employers and employees in the workplace and supports a structure for whistleblowing. The 1998 Act:

a) is designed to give statutory protection to employees who "blow the whistle" on their employer's malpractice; and

b) although not requiring the Council to set up an appropriate mechanism for dealing with whistleblowing, makes clear the important role that such a mechanism can play in helping the Council comply with the law.

1.3 The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we expect and support employees, and others that we deal with, who have serious concerns about any aspect of the Council's work to come forward and voice those concerns. This policy is intended to encourage and enable individuals to raise concerns within the Council, without fear of reprisals, rather than overlooking a problem or "blowing the whistle" outside. The policy does, however, recognise that individuals must be able to take matters further if they are dissatisfied with the Council's response.

2. Definition of Whistleblowing

2.1 *'Whistleblowing' means the disclosure of malpractice or wrongdoing within an organisation.*

3. Aims and Scope of this Policy

3.1 The Whistleblowing Policy aims to:

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

- provide a way for you to raise concerns and receive appropriate feedback on any action taken;

- confirm that all concerns raised will be examined and the Council will assess what action should be taken;

- reassure you that you will be protected from possible reprisals or victimisation if you have made a disclosure in good faith; and

- provide ways for you to take the matter further if you are dissatisfied with the Council's response.

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

- any unlawful act, whether criminal (e.g. theft) or a breach of the civil law (e.g. slander or libel)

- health and safety risks, including risks to the public as well as to other employees (e.g. faulty electrical equipment)

- damage to the environment (e.g. pollution)

- the unauthorised use of public funds (e.g. expenditure for improper use)

- possible fraud and corruption

- inappropriate or improper conduct (e.g. abuse of power, bullying / harassment)

- serious failure to comply with appropriate professional standards (e.g. National Code of Local Government Conduct)

- breach of Council or statutory codes of practice or the Council's standing orders (e.g. Officers' Code of Conduct)

- discrimination on the grounds of race, colour, creed, ethnic or national origin, disability, age, sex, sexual orientation, marital status or class

- abuse of children and vulnerable adults (e.g. through physical, sexual, psychological or financial abuse, exploitation or neglect)

- other unethical conduct.

4. Who does this Policy Cover?

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

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

5. Supporting the Individual Raising a Concern

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

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

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

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

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

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

6. How to Raise a Concern

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

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

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

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

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

6.5 In the event of a concern being of an extreme and potentially serious nature, individuals may raise the matter directly with the Chief Executive.

6.6 Once an employee is certain that the concern should be raised, the following action should be considered:

- Concerns may be raised verbally or in writing. Employees who wish to make a written report should give the background and history of the concern and the reason why they are particularly concerned about the situation. The earlier concerns are expressed the easier it is to take action. A form is available at Appendix 1 of this policy for those wishing to raise a concern in writing.

- If the employee wishes, they may ask for a private meeting with the person to whom they wish to make the complaint. An employee may take a Trade Union representative or work colleague with them as a witness or for support. The employee should take to the meeting, if possible, dated and signed written supporting statements from anyone who can also confirm the allegations.

- When making the complaint verbally the employee is encouraged to write down any relevant information and date it. Copies of all correspondence and relevant information should be retained.

- The employee should ask the person to whom they are making the complaint what the next steps will be and if anything more is expected of them.

6.7 Although the individual raising the concern is not expected to prove the truth of an allegation, they will need to demonstrate to the person contacted that there are sufficient grounds for the concern.

7. How the Council will Respond

7.1 Once a concern is raised the appropriate Council manager is responsible for making initial enquiries, taking advice from Personnel and/or Internal Audit and Fraud Team to help decide if an investigation is appropriate and if so, what form it should take. In determining the action to be taken, the Council will take into consideration public interest and whether the concerns or allegations fall within the scope of and may be dealt with under other specific procedures such as the Council's Grievance Procedure.

7.2 Concerns raised may:

- be resolved by agreed action without the need for investigation;

- be investigated by management;

- be investigated by the Internal Audit and Fraud Team and or Personnel;

- be referred to the Police;
- be referred to the External Auditor.

7.3 As soon as possible, and in any case within 10 working days of a concern being raised, the person handling the matter will either write to or email the individual raising the concern acknowledging that it has been raised and indicating how, as far as possible, it will be dealt with. The individual will be kept informed of progress and will receive a full and final response, subject to any legal constraints.

7.4 The amount of contact between the persons considering the issues and the individual(s) raising the concern will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary to pursue investigation activity, the Council will seek further information from the individual. Where any meeting is arranged, the individual may be accompanied by a union or professional association representative or a friend or colleague.

7.5 The Council will take steps to minimise any difficulties which individuals may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings, the Council will arrange for you to receive advice and support in doing this.

8. How the Matter can be Taken Further

8.1 This policy is intended to provide individuals with an avenue to raise concerns within the Council. The Council hopes that those using this process will be satisfied with the way their concerns are treated and any investigations that may be carried out. However, if they are not satisfied, or feel it is right to take the matter outside the Council, the following are possible contact points:

- The Council's External Auditor, currently Grant Thornton UK LLP (Tel: 020 7728 2936, paul.dossett@uk.gt.com)
- Public Concern at Work (Tel: 020 7404 6609, www.pcaw.co.uk) who are a registered charity whose services are free and confidential
- The local Citizens Advice Bureau
- Relevant professional bodies, Trade Unions or regulatory organisations
- Unison's whistle-blower's hotline 0800 597 9750
- The Police
- A solicitor

- The Local Government Ombudsman.

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

9. Review and Approval of this Policy

9.1 This Policy is owned by the Director of Central Services and Deputy Chief Executive and reviewed by the Chief Audit Executive on his behalf.

9.2 The Whistleblowing Policy will be reviewed at least annually by the Audit Committee for recommendation to the General Purposes Committee for approval. The most recent review was undertaken in January 2021 with the next review due January 2022.

Appendix 1

WHISTLEBLOWING POLICY - REPORT OF A CONCERN

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

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

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

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

Name……

Contact details……..

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

Signed……. Date……..

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

18 January 2021

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 ANNUAL REVIEW OF ANTI-MONEY LAUNDERING POLICY

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

1.1 Introduction

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

1.1.2 The Council's Anti-Money Laundering Policy and supporting guidance notes were last reviewed by the Committee in January 2020.

1.1.3 A 6th Anti-Money Laundering Directive was issued in December 2020 and will come into force in June 2021. Amendments introduced include:

- harmonisation of definitions to remove loopholes in domestic regulations;
- expanding the number off offences falling into money laundering;
- extension of criminal liability, to include legal persons such as companies or partnerships;
- the introduction of a minimum four year prison sentence; and
- information sharing between Member states to allow criminal prosecution in more than one EU member state.

1.1.4 This latest review and taking due regard of the above found that no changes were required at this time.

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

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

1.2 Legal Implications

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

1.3 Financial and Value for Money Considerations

1.3.1 There are no additional resource implications.

1.4 Risk Assessment

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

1.5 Equality Impact Assessment

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

1.6 Policy Considerations

1.6.1 Crime & Disorder Reduction

1.7 Recommendations

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

Background papers: contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

TONBRIDGE & MALLING BOROUGH COUNCIL
ANTI-MONEY LAUNDERING POLICY

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

1. INTRODUCTION

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

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

1.3. This policy sets out the process to minimise the risk, as well as provide guidance on the Council's money laundering procedures. Adhering to this policy and guidance will protect employees from the risk of prosecution if an employee becomes aware of money laundering activity while employed by the Council.

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

2. SCOPE OF THE POLICY

2.1 This Policy, applies to all Councillors, employees (permanent or temporary) and contractors of the Council, and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering.

2.2 The Policy sets out the procedures to enable the Council to comply with its legal obligations.

2.3 The Policy sits alongside the Council's Whistleblowing Policy and the Anti-Fraud, Bribery and Corruption Policy.

3. WHAT IS MONEY LAUNDERING?

3.1 Money laundering is defined as meaning:

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

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

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

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

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

4. WHAT ARE THE OBLIGATIONS ON THE COUNCIL?

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

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

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

5. THE MONEY LAUNDERING REPORTING OFFICER

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

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

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

6. DISCLOSURE PROCEDURE

Reporting to the Money Laundering Reporting Officer

6.1 Where an individual knows or suspects that money laundering activity is taking/has taken place, or become concerned that your involvement in a matter may amount to a prohibited act under the legislation, it must be disclosed immediately to the MLRO.

6.2 The disclosure should be made to the MLRO using the statement attached at Appendix 1. The report must include as much detail as possible, for example:

a) Full details of the individual making the report.
b) Full details of the people involved.
c) Full details of the nature of their/your involvement;
d) The details of the suspected / known activities, including:
    - Whether the transactions have happened, are ongoing or are imminent;
    - The dates of the transactions;
    - Where they took place;
    - How they were undertaken;
    - The (likely) amount of money/assets involved;
    - Why, exactly, you are suspicious;
    - Supporting relevant documentation.

6.3 Once you have reported the matter to the MLRO you must follow any directions they may give you.

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

Consideration of the disclosure by the Money Laundering Reporting Officer

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

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

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

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

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

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

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

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

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

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

7. CLIENT IDENTIFICATION PROCEDURE

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

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

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

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

8. RECORD KEEPING PROCEDURES

8.1 Each section of the Council must maintain records of:

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

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

9. CONCLUSION

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

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

REVIEW AND APPROVAL OF THIS POLICY

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

The Anti Money Laundering Policy will be reviewed and endorsed at least annually by the Audit Committee at their January meeting. The most recent review was undertaken in January 2021 with the next review due January 2022.

January 2021

Anti-Money Laundering Reporting Form

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

Name :	
Service / Post Title	
Email:	
Contact Telephone:	

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

Name(s) and Address(es) of Person(s) involved
If a company or public body please include the nature of business.

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

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

Nature of suspicion regarding such activity:
Please continue on a separate sheet if necessary.

Are you aware of any investigations undertaken to date:
If yes please give details otherwise please write NO.

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

Please give any other information that you feel is relevant.

Signed _____

Dated _____

THE REPORTER SHOULD NOT WRITE ANYTHING BELOW THIS LINE

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

Date report received _____

Date receipt of report acknowledged _____

Consideration of disclosure:

Action Plan:

Outcome of Consideration of disclosure:

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

Date report sent _____

Date receipt of report acknowledged _____

Notice Period From _____ to _____

Moratorium Period From _____ to _____

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

Date consent received from NCA _____

Date consent given by MLRO to employee _____

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

Date of consent given by MLRO to proceed with transaction

_____

Any other relevant information:

Signed _____

Dated _____

THIS REPORT IS TO BE RETAINED FOR AT LEAST 5 YEARS

TONBRIDGE & MALLING BOROUGH COUNCIL

GUIDANCE NOTE - Anti-Money Laundering

1. INTRODUCTION

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

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

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

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

2. GENERAL

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

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

These are;

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

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

3. THE OFFENCES

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

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

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

Money Laundering Offences

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

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

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

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

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

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

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

Examples of money laundering activity

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

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

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

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

Possible signs of money laundering

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

Legal and financial

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

Property

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

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

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

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

Failure to report money laundering offences.

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

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

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

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

4. CONSIDERATION OF DISCLOSURE REPORT BY MLRO

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

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

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

5. RELEVANT GUIDANCE

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

6. INTERNAL PROCEDURES

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

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

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

7. CLIENT IDENTIFICATION PROCEDURE

Where the Council -

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

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

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

8. SATISFACTORY EVIDENCE OF IDENTITY

Satisfactory evidence is that which:

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

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

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

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

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

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

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

9. TRAINING

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

10. CONCLUSION

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

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

January 2021

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

18 January 2021

Report of the Chief Audit Executive

Part 1- Public

Matters for Information

1 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

This report provides Members with an update on the work of both the Internal Audit function and the Counter Fraud function for the period April to December 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 the 27th 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.

1.2.2 Progress against the 2020/21 Internal Audit Plan continues to be challenging with the current status slightly behind target. There has been strain on the Council's resources due to the current pandemic such there has been delays in starting some audits and others have been delayed until later in the year or postponed until 2021/22.

1.2.3 The current audit plan has been reviewed to ensure that it adequately covers, and provides assurance against, the key risks of the Council. This has resulted in a number of changes made to the 2020/21 Plan. These changes have resulted in 3 audits being postponed to next year and replaced with 2 new audits. It has also been agreed to delay one audit until quarter 4 which will add additional pressure on delivery. Details of these changes are included in **[Annex 1]**.

1.2.4 The majority of audits on the 2020/21 Internal Audit Plan have now been commenced. Four final reports have been issued so far this year; and a further 3 audits are at draft report stage. The resultant opinions have been largely positive with 1 'High' rating, 3 'Substantial', 2 'Adequate' and 1 yet to be given an opinion rating. There are another 4 audits in progress and 5 that are being planned. A summary of the current status of all audits on the 2020/21 Plan, including a summary of findings where finalised or at draft report, is attached at **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.

1.2.5 In line with the PSIAS, Internal Audit has arrangements in place to follow up on all recommendations agreed with management and to report to the Audit Committee on a regular basis with the responses received. An escalation process would be instigated that would ultimately result in reporting to Management Team and this Committee should risks be accepted that Internal Audit does not believe are within the risk appetite of the organisation; there are currently no such risks to report.

1.2.6 Thirty-Six recommendations were due for implementation during 2020/21 to date. This excludes 'Low' priority recommendations which are considered to be good practice only and are not followed up and includes any recommendations carried forward as not fully implemented at 31 March 2020. Progress is as follows:

- 8 have been closed as implemented.
- 4 were closed due to being superseded as service is no longer provided.
- A further 10 remain open as Internal Audit are awaiting a response from the service.
- 11 have had a new implementation date agreed based on discussion with the business.
- The remaining 3 will be covered in future audit engagements.

Details of the 21 recommendations that remain open are attached in **[Annex 3]**. There is considerable scope for improvements in internal control and the management of risk through the implementation of these recommendations.

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

1.3.1 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.

1.3.2 An External Quality Assessment (EQA) was last undertaken in 2016. It is a requirement for an EQA to be undertaken every 5 years. The next EQA will therefore be due in 2021. Quotes have been sought in partnership with Kent County Council and supplier will be selected to complete an EQA in the first 3 months of 2021.

1.3.3 A detailed self-assessment of the Internal Audit function has been undertaken. This, as well as the accompanying evidence, will be submitted to the organisation undertaking the EQA who will evaluate the assessment to provide independent assurance. The subsequent report and any identified improvement actions will be submitted to this Committee.

1.3.4 It is likely that the EQA will commence prior to the next Audit Committee in April and therefore, the format and provider of this assessment will be discussed with the Chair of the Audit Committee prior to the review taking place.

Counter Fraud Update

1.4 Prevention and Detection of Fraud, Bribery and Corruption

1.4.1 This section of the report provides details of the Council's activity in preventing and detecting fraud, bribery and corruption in the year 2020/21 to date.

1.4.2 The Council proactively takes part in the National Fraud Initiative (NFI), a biennial nationwide data matching exercise comparing computer records held by the Council against those held by other councils and other bodies. The current biennial exercise commenced in October 2018. 1,018 matches were received with a further 1,010 received and to date 1,840 have been closed with no further action and 160 have been closed with errors found, 7 have been opened to undertake further enquiries and 21 have yet to be reviewed. New data sets were submitted in December 2020 and the next set of biennial data matches are expected early in 2021.

1.4.3 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 Raising 18 referrals), 836 have been closed with no further action required, 32 have been closed with errors found and 39 have yet to be reviewed.

1.4.4 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 £9,548 with increased annual liability of £4,420 through the removal of Single Person Discounts.

1.4.5 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. The total identified additional business rates due for the year up to the end of September 2020/21 was £14,856 with increased annual liability of £10,261.

1.4.6 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.

1.4.7 Where a match is found through any of the routes above it does not necessarily indicate fraud in all instances; it does however highlight an inconsistency in the information held which requires further investigation and could be attributed to either fraud or error. A full summary of the Kent Intelligence Network data matches for Council Tax and Business rates is attached at **[Annex 4]**.

1.4.8 The team continue to review areas of fraud risk and direct our work accordingly. Including the progression of Service specific fraud, bribery and corruption risk assessments, 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.

1.5 Investigating Fraud, Bribery and Corruption

1.5.1 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.

1.5.2 In 2020/21 to end of November, the Counter Fraud Team have closed 89 cases and received a total of 158 referrals, 78 of which relate to NFI; there are 14 ongoing investigations with a further 8 being investigated from previous year. The total amount of income due as a result of investigations to end of November is £21,916.46 with increased annual liability of £19,123.00. Civil penalties (net) in the amount of £1,330.00 were also applied. **[Annex 5]** summarises the results of investigations concluded in 2020/21.

1.6 Small Business, Hospitality and Retail Grants

1.6.1 In response to the Covid-19 pandemic, the government announced there would be support for small businesses, and businesses in the retail, hospitality and leisure sectors.

1.6.2 Under the Small Business Grant Fund (SBGF), all businesses in England in receipt of either Small Business Rates Relief (SBRR) or Rural Rates Relief (RRR) in the business rates system will be eligible for a payment.

1.6.3 Under the Retail, Hospitality and Leisure Grant (RHLG), businesses in England that would have been in receipt of the Expanded Retail Discount (which covers retail, hospitality and leisure) on 11 March with a rateable value of less than £51,000 were eligible for the cash grants.

1.6.4 Tonbridge and Malling have paid out a total of 1,510 grants to date. The fraud team requested, and was provided with the full list of grants issued to detect possible fraudulent applications.

1.6.5 The Cabinet Office provide councils with access to the Spotlight system to manage grant applications. Spotlight performs automated due diligence checks on each application. This includes checks against Companies House information and also identifies where more than one application has been made over different administrating councils. The system output highlights areas of risk that require further investigation. Tonbridge and Malling made the decision to carry these checks out in bulk post paying the grant.

1.6.6 To date, 713 applications have been passed through the Spotlight software with the remainder requiring additional information before they are accepted by the system. Of these 713, issues were found with 17. Of the 17, 4 required no further action, with 13 active enquiries.

1.6.7 As members of the National Anti-Fraud Network (NAFN) we have received regular alerts where fraud has been identified. To date, 93 alerts from NAFN have been received. These alerts cover issues such as false email addresses, false bank accounts and empty property alerts. Of the 93 alerts received none have required further investigation as they have not made applications in our area or the applicant was stopped prior to being accepted for a grant.

1.6.8 The full list of grants has also been processed through the Kent Intelligence Network Destin system. This has raised 12 referrals for further investigation where grants may have been paid to liquidated or dissolved companies.

1.6.9 The Counter Fraud team have completed 1 investigation for a small business grant that was paid to a company that was not eligible for Small Business Rates Relief. The investigation concluded that fraud was not proven in this case due to the information that the Council provided the applicant. Although the grant was issued in error, it was determined that as the business was eligible for Expanded Retail Discount and therefore could receive the Retail, Hospitality and Leisure Grant this money was not reclaimed.

1.6.10 There has been one other case of fraud identified where an expanded retail discount and grant application was received impersonating an existing company. A grant of £25,000 was paid to an account that was not associated with the business, along with a refund totalling £18,960. Counter Fraud are liaising with the bank on recovery of the funds. The bank has notified that the grant payment was stopped, and notification of the refund amount is awaited.

1.6.11 With the release of additional grants and post assurance still being undertaken in regard to the original grants, post assurance work is ongoing. The results of which will be reported to future meetings.

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 (Delayed to Quarter 4)**		
Community Safety	**3**	**Draft Report**		
Health and Safety	**2**	**Part 1: Complete** **Part 2: Complete**	**High**	Part 1 : Reported to Audit Committee 28th September Part 2: Internal Audit have 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 where staff are working on visits and inspections and sufficient PPE is available as and when required by officers. 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. In terms of wider Health and Safety, testing established that the Council has the necessary policies and procedures in place and keeps them under regular review. Policies are also widely available to staff which some policies being made mandatory for officers to read periodically. In addition to having suitable policies in place, the Council is also considered to be taking sufficient action to mitigate as best as possible Health and Safety risks. Good procedures were found to be in place regarding areas such as Accident reporting, Legionella, Asbestos and staff training in areas such as Fire Safety and First Aid. Some scope for improvement was identified around manual handling training. Further detail on this is contained in the Action Plan below. 1 Medium recommendation raised
Customer Services Review	**Ongoing**			

Housing Allocation Scheme	**1**	**On Hold**		**(Project yet to start)**
S106 – Developer Contributions	**4**	**Planning**		
Waste Contract	**3**	**Planning**		
Business Continuity	**3**	**Planning**		
Tree Strategy	**1**	**Complete**	**Adequate**	The Tree Safety Policy is up to date and includes comprehensive guidance on basic and expert tree inspections as well as procedure notes. The policy was updated in June 2020 to accurately reflect the expected timescales for Priority Category 1 assignments is 6 months, as advised by the contractor. Priority Sites listed in the Tree Safety Policy are subject to an Expert Inspection every three years and a basic Inspection for each year in between. Internal Audit were informed Leisure Services conduct a check to confirm they have received a completed inspection for all expected sites, however there is no evidence of the check or a database which lists when inspections have been completed. There were further inconsistencies with recording and documenting of inspections and subsequent works. Internal Audit were able to confirm for all other Officers that all but one had evidence of completion of a LANTRA Basic Trees Survey & Inspection Course in line with policy. We were informed that the one that could not be evidenced did not fill out the relevant training form, therefore it was not recorded electronically. 8 Recommendations raised, of which 1 High, 6 Medium and 1 Low
IT Governance	**4**			

Council Tax Reduction Scheme	**3**	**Fieldwork**		
Citizen Access System	**3**	**Draft Report**	**Substantial**	The Citizen Access system allows Council Tax account holders to access their account via an online portal to view bills, and make various changes to their account. This is intended to make the application process both easier and faster for the claimant, and at the same time generate efficiencies. The online Benefit application form is currently not working, and therefore not available to Housing Benefit applicants wishing to submit an application or inform the Council of changes in their circumstances. This means that, although there is evidence that there is a positive return on investment, the Council is unable to capitalise fully on the potential benefits which the system can deliver. The Council entered into a two year contract with the software provider in March 2018 meaning that the current contract has expired. Officers have taken suitable measures to move Council Tax customers away from paper billing, and manual changes via the telephone or person to person contact, over onto the digital platform. This is resulting in a steady increase in take-up, and use of the system which is in turn delivering efficiency savings which the Council is starting to benefit from. The system is accurately applying changes to customer accounts. Similarly, the system is also recognising the errors so manual adjustments can be applied. Two Medium recommendations raised.
Housing Benefit Claims	**1**	**Complete**	**Substantial**	Reported to Audit Committee 28th September
General Ledger	**2**	**Fieldwork**		

Corporate Credit Cards	**2**	**Complete**	**Substantial**	A suitably approved set of guidance notes is in place and available to give card holders details on when cards can be used and subsequently the measures required to make purchases using Corporate Credit Cards. Internal Audit were also able to confirm that that all Credit Card holders within our sample have signed a declaration to confirm that they understand the guidance notes, and expectations placed upon them when using their Corporate Credit card. There suitable documentation is in place to evidence that approval has been granted by the relevant Corporate Director for officers to be issued with a Corporate Credit Card. Similarly, all approved transaction limits have been correctly notified to the card issuer. Credit Card Guidance notes require the card user to obtain approval for all expenditure in advance of entering into the purchase. Where that is not possible due to emergency expenditure, the card holder is required to obtain approval the next working day. Sample testing of 30 different card transactions established 10 instances where non-emergency related transactions had not been approved before the purchase was made. One transaction was identified where the credit card purchase form had not been approved. Officers provided receipts to support the purchase, similarly, where VAT is being incurred, a suitably detailed VAT receipt is being obtained. Card and transaction limits are kept under review by Senior Finance officers and currently considered to be set at appropriate levels for each card holder. Expenditure on credit cards is being suitably coded to appropriate expenditure codes. Expenditure on credit cards is also being accurately reported in accordance with relevant transparency legislation.

Parking	**1**	**Draft Report**	**Adequate**	There is sufficient information is available for both residential permits and Penalty Charge Notices (PCN's). Imperial provided two days training prior to "go live" of the systems, followed by the issue of a frequently asked questions (FAQ). There is no specific guidance or procedures for the Permit Smarti system. Based on conversations held during the audit it is apparent the Team are mindful of GDPR when speaking to residents on the phone. We were advised unless the account details match information is not divulged. Access to both systems is adequately restricted. Documentation uploaded onto Permit Smarti by applicants was not regularly checked prior to the resident permit becoming valid. A report was ran and established of 1527 permits that had been generated without the documentation being verified. In addition testing of a sample of permits granted between Dec 2019 and Sept 2020 identified further issues with checking if sufficient documentation had been uploaded prior to the permit being granted. Details of how to request a refund are documented on the Councils website. We were unable to test whether refunds were applied appropriately as there was no easy way to identify those who had received a refund part way through the year, however the process for issuing refunds appears sufficient. We were advised that the CEO's have hold professional parking qualifications and have also undertaken conflict management training. We were unable to verify this as Personnel did not provide the evidence requested, therefore we are unable to provide assurance that CEO's are suitably trained. When the new system was implemented an email was sent to residents notifying them. Due to a high number of emails that 'bounced' a management decision was made to waiver any PCN's that were a result of an out of date permit for the year preceding the system implementation date, providing a permit was swiftly sought. A batch of reminders were sent out in July as reminders when permits were due for renewal. We were advised the team have recently devised a spreadsheet to monitor renewal dates and have scheduled a review every two weeks when reminders will be issued.

				The parking appeals policy is comprehensive and clearly published on the Councils website. Analysis of contraventions which had been appealed identified a total of 26 over the last few years that been heard at an independent tribunal, 12 had been upheld and subsequently paid. Review of the latest three confirmed the team had progressed the cases fairly. 5 Recommendations raised, of which 1 High, 2 Medium and 2 Low
Risk Management	**Ongoing**			
Performance Management	**Ongoing**			
Temporary Accommodation	**Additional**	**Fieldwork**		
Budget Monitoring, Savings and Income	**Additional**	**Planning**		
Sickness Management	**2**	**Postponed to 2021/22**		
Recruitment and Retention	**1**	**Postponed to 2021/22**		
Local Plan	**3**	**Postponed to 2021/22**		

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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Audit	High	Medium	Status	Evidence
S106 Planning Contributions	1		Revised Date agreed – 31/03/2021	In progress
Procurement		2	Revised Date agreed – 31/12/2021	Vacancy within legal services and on hold due to other priorities
Payroll		1	Revised date agreed – 31/03/2021	Processes and procedures impacted by Covid-19 remote working
Council Administration		1	Revised date agreed – 31/03/2021	Current responsible post vacant
Creditors and VAT		1	Revised date agreed – 31/03/2021	Processes and procedures impacted by Covid-19 remote working
Contaminated Land	2		Revised date agreed – 30/11/2021	In Progress. Impact of remote working and availability of specialist software due to Covid-19
Information Governance	1	1	Awaiting response from service	
Asset Utilisation		2	Revised date agreed – 31/05/2021	Current responsible post vacant
IT Strategy		4	Awaiting response from service	
Public Health	2	1	Awaiting response from service	
Facilities Management		1	Awaiting response from service	
IT Network, Physical Access and Security		1	Revised date agreed – 31/12/2020	

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Overall Results of Kent Intelligence Data Matching and Referrals

April to Sep 2020-21

SBRR	
Number of referrals Actioned	42
	Reclaimed
Relief reclaimed	£14,856
Internal SBRR cases - relief reclaimed	
Future loss provision	£10,261

Council Tax Reviews (Removal of Single Person Discount)				
	No. of accounts adjusted	**Value of discount / exemption removed**	**Future loss provision**	**Value of penalties imposed**
Council Tax / Hotline Referrals	1	£441	£109	£70
TransUnion 360 (SPD)	8	£9,107	£4,311	£280
TOTALS	**9**	**£9,548**	**£4,420**	**£350**

Missing Council Tax Referrals	
No. referrals	15
Closed, no further action	3
Successful referrals	9
No. referrals under investigation	0
Cases currently with the VOA	2
% of referrals that were successful	60%
Value of Council Tax billed	£6,994
Share of amount billed for Kent County Council (73%)	£5,106
Share of amount billed for Billing Authority (12%)	£839
Share of amount billed for Police (10%)	£699
Share of amount billed for Kent Fire & Rescue (5%)	£350
Future loss prevention (3 years x 2020/21 annual charge)	£35,787
Estimated increase in Council Tax income from 2021/22	£11,929
Estimated increase in income for Kent County Council (73%)	£8,708
Estimated increase in income for Billing Authority (12%)	£1,431
Estimated increase in income for Police (10%)	£1,193
Estimated increase in income for Kent Fire & Rescue (5%)	£596
New Homes Bonus	£50,400
Estimated NHB for Kent County Council (20%)	£10,080
Estimated NHB for Billing Authority (80%)	£40,320
Estimated NHB for Medway (100%)	-

Unidentified Businesses	
No. referrals	6
Closed, no further action	0
Successful referrals	1
No. referrals under investigation	4
Cases currently with the VOA	1
% of referrals that were successful	17%
Value of Business Rates billed	£4,157
Share of amount billed for Central Government (50%)	£2,079
*Share of amount billed for Billing Authority (40%)	£1,663
Share of amount billed for Kent County Council (9%)	£374
Share of amount billed for Kent Fire & Rescue (1%)	£42
Future loss prevention (3 years x 2020/21 annual charge)	£4,491
Estimated increase in NNDR income from 2021/22	£1,497
Estimated increase in income for Central Government (50%)	£749
*Estimated increase in income for Billing Authority (40%)	£599
Estimated increase in income for Kent County Council (9%)	£135
Estimated increase in income for Kent Fire & Rescue (1%)	£15

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Criminal Standard Investigations

Fraud Type	Cases Closed	No Evidence of Fraud	Customer Error or Incorrect Entitlement	Fraud Proven	Permit Revoked	Removed from Housing List	Prevented	Reduction In Weekly Entitlement	Total Under/ Overpayments	Increase In Liability	No of Penalty Charges	Total Penalty charge
SPD	76	44	32					**£365.11**	**£19,811.40**	**£18,985.72**	**19**	**£1,330.00**
CTRS	1		1					**£2.64**	**£2,105.06**	**£137.28**		
HB	7	7										
NNDR	1	1										
Parking												
Housing	3	2				1						
Other	1	1										
Total	**89**	**55**	**33**			**1**		**£367.75**	**£21,916.46**	**£19,123.00**	**19**	**£1,330.00**

** Includes £19,062.59 of underpayments also reported as part of the National Fraud Initiative.

Fraud Case Figures to the end of November 2020 Annex 5

Match type	Total Received	Closed NFA	Closed Error	Closed Fraud	Further enquiries	To be Opened	Underpayments	Comments
Council Tax to Electoral Register	860	828	32	0	0	0	**£18,022.01**	
Council Tax Rising 18's	47	8	0	0	0	39	**£0.00**	
Council Tax to Other Datasets	1739	1731	8	0	0	0	**£4,201.92**	
Council Tax to HMRC Household Composition	2482	987	9	0	11	1475	**£5,862.83**	
Waiting List to Housing Tenants	1	1	0	0	0	0	**£0.00**	
Biennial	2028	1840	160	0	7	21	**£15,717.79**	
TOTAL	**7157**	**5395**	**209**	**0**	**18**	**1535**	**£43,804.55**	

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

18 January 2021

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT THORNTON AUDIT 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:

- Progress in delivering our responsibilities as your external auditor.
- The Redmond Review on local authority audit recommending a new regulator; scope to increase fees; move back to a September deadline; and accounts simplification.
- A new Code of Audit Practice introducing a new Auditor's Annual Report and a revised approach to the audit of Value for Money.

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: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

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Grant Thornton

Audit Progress Report and Sector Update

Tonbridge and Malling Borough Council
Year ending 31 March 2021

January 2021

Contents

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Introduction

Paul Dossett, Partner

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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 Paul Dossett

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Progress at December 2021

Financial Statements Audit

We issued the opinion on the financial statements and value for money conclusion on 27 November 2020. We also issued our certificate closing the audit on the same day. Our work on the 2020/21 financial statements audit will commence in the New Year.

Other areas – Meetings

We met with your senior leaders in the autumn These meetings form part of our planning process for the 2020/21 financial statements audit.

Certification of claims and returns

Our work on the certification of the Council's annual Housing Benefit subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP) is underway. It should be noted that, in response to the impact of the Covid-19 pandemic, the DwP has moved the reporting deadline to 31 January 2021.

Value for Money

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

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

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

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

Our work on the Council's 2019/20 Value for Money conclusion is complete and **we anticipate issuing an unqualified Value for Money conclusion – refer to our Audit Findings Report included in Committee papers for detail**.

The NAO consultation on a new Code of Audit Practice (the 'Code') has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation is now underway and runs until 2 September 2020. It can be accessed through the NAO website:

https://www.nao.org.uk/code-audit-practice/agn-03-vfm-consultation/

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Audit deliverables

2020/21 Deliverables	Planned Date	Status
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2020/21 financial statements.	April 2021	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2021	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the September Audit Committee.	September 2021	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	September 2021	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	October 2021	Not yet due

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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**

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The Redmond Review

The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – 'The Redmond Review' was published on 8 September.

The review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Authority's annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

The Review received 156 responses to the Calls for Views and carried out more than 100 interviews. The Review notes "A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process".

Key recommendations in the report include:

- A new regulator – the Office of Local Audit and Regulation (OLAR) to replace the Financial Reporting Council's (FRC) role and that of Public Sector Auditor Appointments (PSAA)
- Scope to revise fees – the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- Move back to a September deadline for Local Authorities – the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- 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.

The OLAR would manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

The current roles and responsibilities relating to local audit discharged by the Public Sector Audit Appointments (PSAA); Institute of Chartered Accountants in England and Wales (ICAEW); FRC; and The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.

How you can respond to the Review

One of the recommendations was for local authorities to implement:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor;
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

Whilst Redmond requires legislation, in practice the second and third bullets are things which authorities could start doing now.

The full report can be obtained from the gov.uk website:

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

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The Redmond Review
Local Government audit and financial reporting

Scope
- Launched September 2019.
- Led by Sir Tony Redmond, former President of CIPFA.

Purpose
To assess the:
- Effectiveness of audit in local authorities; and
- Transparency of financial report.

Context – Why the need for a review?
Local audit is facing an unprecedented set of challenges:
- Accounts have grown far more complex
- Authorities are engaging in more innovative/unusual transactions
- Austerity has reduced the ability of many authorities to prepare high quality accounts and working papers
- Audit fees have fallen to an unsustainably low level
- The sign off date of 31 July is too tight, even without Covid-19 pressures
- Retention of audit staff is very difficult in this environment
- Authorities are not getting the service they deserve
- Radical and urgent reform is needed

Areas of focus – It is a wide-ranging review
- The expectations gap
- Audit and wider assurance
- Audit quality
- The financial reporting framework
- Auditor reporting

The review had 156 responses, over 100 interviews were held, the report runs to 83 pages with 23 recommendations.

The system is not working

The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

Covering letter to the Secretary of State
- The local audit market is very fragile. The current fee structure des not enable auditors to fulfil the role in an entirely satisfactory way.
- With 40% of audits failing to meet the required deadline for report in 2018/19 this signals a serious weakness in the ability of auditors to comply with their contractual obligations.
- In addition, the ambition of attracting new firms to the local authority market has not been realised.

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The Redmond Review
Local Government audit and financial reporting

Detailed findings

Systems leadership is lacking

- The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. No one body is looking for systematic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks (Sir John Kingman).
- There is a need for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

Procurement has resulted in fees which are too low

- PSAA adopted the same procurement framework in 2017 as the Audit Commission had done previously in 2014. No assessment of the amount it would cost to audit each local authority, based on their level of audit risk, has been made in the past ten years.
- Audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors, including other parts of the public sector, have significantly risen.
- Firms stated that the lack of profitability changes the way that local audit work is perceived within the firm. Specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

The audit timescale is unrealistic and unhelpful

- The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff.

Financial reporting is overly complex/not always relevant

- Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector.
- Scope identified to improve transparency and relevance of reporting, eg:
  - Asset valuations: accounting is complex and the perception of many stakeholders is that it does not add value.
  - Going concern disclosures are perceived to be less relevant in a local authority context than financial resilience.

Governance and transparency of reporting needs improvement

- The ability of audit committees, which mostly lack independent, technically qualified members, to consider effectively audit reports has been challenged in responses to the call for views.
- Transparency and accountability of audit reports, from a public perspective, is lacking.
- There needs to be a greater role for full council and a stronger interface between statutory officers and audit.

There is too much focus on Property and Pension Valuations

- Authorities concerned that auditors are spending significant time on fixed asset and pension valuations, rather than on major areas of expenditure and usable reserves. Auditors coming through the system are not developing wider understanding of LG context.
- Firms would prefer to do less work on asset and pension valuations but explained that these areas are given more attention to secure a positive assessment from the FRC.
- The FRC believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of CIPFA/LASAAC.

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The Redmond Review
Local Government audit and financial reporting

Sir Tony's recommendations

A call for action

- **A new regulator** – The Office of Local Audit and Regulation to replace the FRC and PSAA.
- **Scope to increase fees** – The current fee structure for local audit to be revised (ie increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- **Move back to a September deadline** – The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- **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**.

Where next?

- Consultation
- Legislation
- Immediate actions

Given the urgency, it is imperative to introduce change where possible now, even ahead of legislation.

The Government responded to Redmond in December 2020 and amongst other comments pledged to invest £15m in the local audit regime.

Local authority financial reporting and external audit: government response to the Redmond review - GOV.UK (www.gov.uk)

Grant Thornton's view

Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.

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Code of Audit Practice and revised approach to Value for Money audit work–National Audit Office

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money.

Value for Money – Key changes

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified/unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The new approach to VfM re-focuses the work of local auditors to:

- Promote more timely reporting of significant issues to local bodies
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness
- Provide clearer recommendations to help local bodies improve their arrangements.

Implications of the changes

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful, and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The Auditor's Annual Report will need to be published at the same time as the Auditor's Report on the Financial Statements.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

The Code can be accessed here:
https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

18 January 2021

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 ANNUAL AUDIT LETTER

The purpose of the report is to inform Members of the receipt of the Annual Audit Letter for the year ended 31 March 2020.

1.1 Introduction

1.1.1 As in previous years the Annual Audit Letter summarises the main outcomes from the work carried out by our external auditor and in this case for the year ended 31 March 2020. As such it repeats the headline messages in the Audit Findings Report reported to this Committee in September. A final version of the Report was issued on 26 November.

1.1.2 The Letter is the prime means through which the results of audit and performance assessment work are communicated to Members, the public and other stakeholders. A copy of the Annual Audit Letter for the year 2019/20 is attached at **[Annex 1]** and has also been made available on the Council's website.

1.1.3 The key messages drawn from the letter are set out below:

1) Gave an unqualified opinion on the Council's financial statements.

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

3) Officers to consider lessons learnt in respect of asset valuations following the audit of the 2019/20 Financial Statements.

4) Commend the Council's processes to date in terms of addressing financial sustainability but would make it clear that further hard decisions are coming and the Council needs to continue to demonstrate its current commitment to financial sustainability into the medium term.

1.1.4 The Engagement Lead and or their representative will be at the meeting to introduce the paper and to answer questions.

1.2 Legal Implications

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

1.3 Financial and Value for Money Considerations

1.3.1 The audit fee was increased from £42,748 to £57,160 reflecting the impact of Covid-19 on the audit of the 2019/20 financial statements and additional work required, in particular relating to asset valuations.

1.4 Risk Assessment

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

Background papers:

Nil

contact: Neil Lawley
Paul Worden

Sharon Shelton
Director of Finance and Transformation

Grant Thornton

The Annual Audit Letter for Tonbridge and Malling Borough Council

Year ended 31 March 2020

December 2020

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Tonbridge and Malling Borough Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our work on 28 September 2020 in our Audit Findings Report to the Council's Audit Committee as those charged with governance. A final version of our report was issued on 26 November 2020.

Respective responsibilities

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

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

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

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,200,000, which is 1.93% of the Council's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 27 November 2020. Our report included an emphasis of matter in respect of the impact of the Covid-19 pandemic on the valuation of the Council's land and buildings, investment properties, holdings in property investment funds and share In the Kent Pension Fund's property investments as at 31 March 2020. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 27 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Tonbridge and Malling Council in accordance with the requirements of the Code of Audit Practice on 27 November 2020.

Working with the Council

Both the Council and the audit team moved to remote working arrangements In March 2020. We continued to have regular contact with the Council throughout our audit of the financial statements, although the remote working arrangements meant that our audit took longer to complete.

We would like to take this opportunity to record our appreciation for the assistance provided by the Council's staff during the audit, particularly given the additional issues associated with remote working as a result of the pandemic.

Grant Thornton UK LLP December 2020

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's financial statements to be £1,200,000, which is 1.93% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year. We set a lower level of materiality, £60,000, for our review of the disclosure on senior officer remuneration.

We set a threshold of £60,000 above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the other information published with the financial statements (including the Annual Governance Statement and the Narrative Report) to check that this is consistent with our understanding of the Council.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global Covid-19 pandemic has led to unprecedented uncertainty for all organisations, including the Council. We identified risks relating to: • the impact of remote working arrangements on the Council's process for producing the financial statements, and on the audit team's ability to obtain sufficient, appropriate audit evidence to support our opinion; • the greater uncertainty applying to assumptions and estimates made by management, including the potential impact of market volatility on property valuations; and • the need for appropriate disclosures in the financial statements on the impact of the pandemic.	As part of our audit work we have: • worked with management to understand the implications of the response to the pandemic on the Council's ability to prepare the 2019/20 financial statements; • evaluated the adequacy of the disclosures in the financial statements in the light of the pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; and • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the valuations for property assets.	The Council moved to a remote working environment on 23 March 2020. However, there has been no indication of high sickness levels, changes in roles and responsibilities or IT systems issues with a significant impact on the workings of the finance team. The Council published draft accounts in line with its original timetable. Management concluded that all valuations in respect of the Council's land and buildings, holdings in property investment funds, and share In the Kent Pension Fund's property investments should be reported on the basis of "material valuation uncertainty". Our audit opinion includes an emphasis of matter drawing attention to this disclosure in the financial statements.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Council revalues its land and building assets using a five year rolling programme. The Council also performs work each year to confirm that the carrying value of all assets at the balance sheet date is not materially misstated, even if a full revaluation has not been performed. All Investment properties are revalued annually. The valuation of these assets represents a significant estimate by management in the financial statements. We designed our work to address the risk that the valuation of land and building assets was materially misstated.	As part of our audit work we; • evaluated management's processes for the calculation of the estimate, including the instructions issued to the Council's external valuers and the scope of their work; • evaluated the competence, capabilities and objectivity of the external valuers; • challenged the information and assumptions used by the Council's external valuers, • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated how management concluded that the carrying value of assets not revalued was not materially misstated.	The Council revalues its assets such that the intervals between valuations do not exceed 5 years; this is a requirement of the CIPFA Accounting Code of Practice. However, audit work indicated that full revaluations for Larkfield Leisure Centre, the Angel Centre and Tonbridge Swimming Pool had not been performed since 2013. We agreed with management that updated valuations would be obtained for these assets. These updated valuations showed an aggregate reduction in value of £3,220,000. The accounts were amended. We noted an error in the measurement of gross internal area used by the Council in the valuation calculations for Larkfield Leisure Centre. This error was corrected as part of the updated full revaluation. We noted a material change in value for the Tonbridge Castle Gatehouse compared with the previous year. Given the specialist nature of this asset we used a Grant Thornton internal valuer to review the approach and assumptions used by the Council's external valuer. We concluded that there had been a change in valuation approach compared with the previous year, but that the valuation was not materially misstated. We agreed that additional disclosure should be added explaining the change in approach. The Council did not revalue all investment properties at 31 March 2020 and therefore did not comply with the CIPFA Accounting Code of Practice. We asked management to obtain additional information to support the valuations for investment properties included in the financial statements. We reviewed this evidence and concluded the valuations for investment properties were not materially misstated. All of the above meant we spent additional audit time in 19/20 , in particular the instruction of a professional valuer to support us in the above audit work.

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings (continued)		For one investment the valuation at 31 March 2020 was unchanged from the previous year. We noted that the valuation included in the 2018/19 accounts was based on the imminent sale of the asset. However, as at 31 March 2020 the sale had not yet taken place. At a meeting in August 2020 the Council's Area One Planning Committee concluded that they were minded to refuse an associated application for planning permission. If planning permission is not granted then the valuation for this asset included in the 2019/20 financial statements may be materially overstated. We agreed that additional disclosure explaining the position would be included in the financial statements. Our audit work did not identify any other issues in respect of the valuation of land and buildings.
Valuation of net pension liability The Council's financial statements include a net liability in respect of the Local Government Pension Scheme (LGPS). This represents a significant estimate in the financial statements. We designed our work to address the risk that the pension fund net liability was materially misstated.	As part of our audit work we; • identified and evaluated the design of the controls put in place to ensure that the pension fund net liability was not materially misstated; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation	We noted that as a result of the Covid 19 pandemic the accounts for the Kent Pension Fund disclosed a 'material valuation uncertainty' in respect of the valuations for property assets held by the fund. As the Council's share of property assets held in the Kent Pension Fund is material. we agreed with management that this disclosure would also be included in the Council's accounts, and that we would draw attention to the disclosure through an emphasis of matter in our audit opinion. In December 2018 the Court of Appeal ruled that provisions in some public sector pension schemes were discriminatory on the basis of age, the so-called "McCloud" judgement. This ruling has implications for other

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability (continued)	• assessed the accuracy and completeness of the information provided by the Authority to the actuary; • confirmed the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PWC (as auditor's expert) and performing the additional procedures suggested within the report; • checked that the disclosures on pensions included in the financial statements were consistent with the actuary's report; and • obtained assurance from the auditor of the Kent Pension Fund (KPF) on the validity and accuracy of the membership, contributions and benefits data provided by KPF to the actuary, and used by the actuary to calculate the Council's net pension liability.	pension schemes, including the LGPS. The Council's actuary has estimated that the impact of the ruling is to increase the Council's overall pension liabilities at 31 March 2020 by £780,000. A consultation by HM Treasury on the next phase of the Government's response to address this discrimination commenced in July 2020. This process may lead to changes in the liabilities arising out of the judgment. Management have concluded that the issue is not material. No additional disclosure has been included in the accounts. We concluded that there was no material issue for our opinion.

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We designed our work to address the risk associated with management override of internal controls.	As part of our audit work we; • evaluated the design effectiveness of management controls over journals; • identified and tested unusual journal entries for appropriateness; • gained an understanding of the accounting estimates, judgements applied and decisions made by management, and considered their reasonableness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions.	We considered the disclosures on estimation uncertainty relating to the pandemic and agreed a number of changes with management to clarify the position. We also agreed a number of changes to the disclosure on critical judgments in applying accounting policies. We did not identify any other issues in respect of management override of controls.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 27 November 2020.

Issues arising from the audit of the financial statements

As a result of the Covid-19 pandemic remote working arrangements for both the Council and the audit team have been in place throughout the audit. This has meant that the audit has taken longer to complete, with screen-sharing and other procedures required to obtain appropriate supporting evidence.

Additional work has also been required in 2019/20 to address the depth and challenge of work now required by the Financial Reporting Council in areas such as the valuation of property assets and the Council's net pension liability.

As outlined in the section on significant risks, further work has also been required to address a number of issues identified during the 2019/20 audit, in particular those relating to asset valuations.

We reported the key issues from our audit to the Council's Audit Committee on 28 September 2020. A final version of our report was issued on 26 November 2020.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report.

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

Whole of Government Accounts (WGA)

We carried out work in accordance with instructions issued by the NAO. We issued an assurance statement confirming that a review of the Council's data collection tool was not required as the values in the financial statements were below the specified threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Tonbridge and Malling Borough Council in accordance with the requirements of the Code of Audit Practice on 27 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

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

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability We identified a significant risk in respect of the Council's arrangements to ensure financial sustainability in the context of the Covid-19 pandemic.	The Council has a history of strong financial management. A 10-year Medium Term Financial Strategy (MTFS) is aligned with the budget-setting process and regularly updated. In recent years there has been a structured approach to addressing the impact of sustained reductions in government funding, with the delivery of savings requirements agreed in tranches over several years, allowing appropriate time for planning and implementation. In its original 2020/21 budget the Council identified a funding gap of £320,000 to be addressed over the lifetime of the MTFS, with a final tranche of savings to be delivered by 31.3.24. At 31.3.20 the Council had a General Revenue Reserve balance of £6,723,000, with other cash-backed revenue reserves, including earmarked reserves and those to support expenditure on capital expenditure and building repairs, of £14,777,000. In its original budget for 2020/21 the Council also established a "budget stabilisation reserve" of £3,500,000; anticipating that direct government funding from New Homes Bonus, business rates and other funding streams would reduce over time, amounts from these funding streams would be transferred to a reserve to help manage financial risks. The Council remains debt-free. The impact of the Covid 19 pandemic on the council's financial position in 2019/20 has been limited, with lockdown arrangements commencing in late March 2020. However, management have concluded that the impact on the Council's finances in 2020/21 and over the lifetime of the MTFS is likely to be very significant. The council faces pressures both from loss of income and additional costs. The loss of income reflects the impact of wider economic conditions, including reduced income from fees and charges (mainly car parking income) and the impact of reduced collection rates for council tax and business rates. The Council currently estimates that the overall loss of income will be £4m in 2020/21, with a further loss of £2m in 2021/22 and £1m in 2022/23. The pandemic has also led to additional costs, including expenditure on community hub arrangements and to meet increased demand for temporary accommodation. Management anticipate that unbudgeted costs of £350,000 will arise in 2020/21, with a further £150,000 in 2021/22. Significant additional costs have also arisen in respect of the Tonbridge and Malling Leisure Trust (TMLT) a charitable trust which operates the Council's leisure centres. To date leisure trusts such as TMLT have not been eligible for financial support provided by central government, and a period of closure during lockdown arrangements, together with current reductions in usage levels, have led to significant reductions in income. The Council has agreed to make payments to TMLT to ensure that the Council's assets are	We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability (continued)	properly maintained and that key services continue to be provided, recognising also that further costs would fall on the Council if the Trust ceased operations. An additional budget provision of £1m has been agreed for 2020/21, with a further provision of £700,000 anticipated in 2021/22. The Council has received three tranches of emergency funding totalling £1,550,000 from central government. Further support, currently estimated to be approximately £1,000,000, is anticipated under government plans to compensate Councils for the potential loss of income from council tax and business rates. These pressures have significant implications for the Council's MTFS. In a report to Cabinet on 30 June 2020 the Council modelled the impact of the pressures using three different scenarios, reflecting different assumptions about the duration of the pandemic and the timespan for any economic recovery. The mid-range scenario suggested that the 2020/21 revenue budget would need to supported by additional calls on reserves of £3,900,000, with further calls of £3,050,000 in 2021/22 and £1,100,000 in 2022/23. Whilst the position continues to change, and although these scenarios are for modelling purposes only, the potential impact on reserves is significant. The Council's current policy is to maintain a General Revenue Reserve balance of at least £3m. Even allowing for the use of the budget stabilisation reserve, the impact of the mid-range scenario would lead to a reduction in the balance of the General Revenue Reserve to between £2m and £3m, although this would not be until 2024/25, and with the balance again rising above £3m by the end of the MTFS period. In this context the Council has recognised the need to re-visit its plans for financial savings. In May 2020 as an immediate response management agreed to an "essential spend only" policy for 2020/21, with anticipated savings of £500,000; reporting at September 2020 indicates savings with a value of £352,000 have been identified to date. The mid-range scenario modelled at June 2020 indicated that savings schemes totalling £600,000 might be required over the lifetime of the MTFS; as at September 2020 this has been revised to £755,000. Initial savings targets of £100,000 have been agreed for both 2020/21 and 2021/22, with a further £555,000 to be achieved by 31 March 2024. These are significant amounts to be delivered on a relatively short timescale. We considered the Council's response to managing the potential impact of the pandemic on its financial sustainability. We noted that management have regularly provided informal updates or summary reports on the financial impact of the	

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability (continued)	pandemic to members from April 2020, and that there has been formal scenario modelling across the lifetime of the MTFS. We confirmed that the figures in the scenarios reported to members agreed to underling workings. There is evidence that the Council's forecasts are being continually updated. The Council's previous decision to establish a budget stabilisation reserve has helped manage the current financial risks. The Council has taken early action to begin addressing the long term impact of the pandemic, reducing essential spend and setting an immediate savings requirement in 2020/21. Recognising that the pandemic demonstrates the need to maintain an appropriate level of reserves to deal with emergency pressures, the Council has agreed that the general revenue reserve balance should not drop below £2m at any point during the lifetime of the MTFS, and should return to a minimum level of £3m by the end of this period. We concluded that the Council now faces very significant financial pressures. Considerable uncertainty still remains over the final scale and timing of these pressures, in part depending on the extent and duration of any downturn in the wider economy, and how far permanent changes in behaviour arising from the pandemic have an impact on the Council's income streams. Further work is also required to identify and deliver the planned savings schemes, as any shortfall in delivery is likely to lead to additional calls on reserves. However, we concluded that on current forecasts the Council continues to operate within a sustainable medium term financial plan, and that in addressing the impact of the pandemic the Council has continued to demonstrate that it has an appropriate framework of financial management arrangements. We would commend the Council's processes to date in terms of addressing financial sustainability but would make it clear that further hard decisions are coming and the Council needs to continue to demonstrate its current commitment to financial sustainability into the medium term.	

A. Reports issued and fees

We confirm below our final reports issued and the fees charged for the audit and for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	September 2020
Annual Audit Letter	December 2020

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	42,748	57,160	40,448
Total fees	**42,748**	**57,160**	**40,448**

Fees for non-audit services

	Planned £	Actual fees £	2018/19 fees £
Audit related services	12,000	TBC	18,420
Certification of Housing Benefit Subsidy claim			
Non-Audit related services			
- None			
Total fees for non-audit services	**12,000**	**TBC**	**18,420**

Non- audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table summarises all non-audit services which were identified.

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services identified are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Audit fee variation

As outlined in our audit plan the planned fee of £42,748 for 2019/20 was based on the assumption that the scope of our audit did not significantly change. However, for 2019/20 there are a number of areas where we have been required to perform additional work over and above that originally envisaged in our audit plan. Our final fee is set out in the table overleaf.

The proposed fee variation is subject to approval by PSAA. Additional fees relating to the Covid pandemic have been levied at all audit clients. In addition we have levied a one –off proposed additional fees in relation to the engagement of a professional valuer..

A. Reports issued and fees

Area	Reason	Fee proposed (£)
Scale fee		35,248
Increased depth and challenge of work	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local government audits. This has required additional audit planning and supervision, as well as additional challenge and scepticism in areas such as estimates, financial resilience and information provided by the entity.	2,500
Pensions –valuation of net pension liabilities under International Auditing Standard (IAS) 19	The Financial Reporting Council (FRC) has highlighted the need for improvements by all audit firms in their work on pension valuations. This has required increases in the depth of coverage and the scope of our audit challenge, with increased levels of documentation and reporting.	1,750
Property, Plant and Equipment Valuation –work of experts	The FRC has also determined that auditors need to improve the quality of work relating to the valuation of property assets. We have therefore increased the volume and scope of our work, in particular to challenge the management assumptions underpinning the valuations.	1,750
New standards / developments	The Council is required to respond effectively to new accounting standards or technical issues. Although the planned introduction from 1 April 2020 of IFRS 16 on leases was deferred, other current issues such as the government consultation on the McCloud remedy have required additional work as part of the 2019/20 accounts.	1,500
Original planned fee per Audit Plan (January 2020)		**42,748**
Covid 19	The impact of Covid 19 on the audit of the 2019/20 financial statements has been substantial. Remote working arrangements have required significantly more time to obtain sufficient, appropriate audit evidence. Additional work has also been required to; -review our planning risk assessment. An audit plan addendum was issued in May 2020; -review management assumptions and estimates, particularly those relating to property valuations, given the uncertainties created by the pandemic, -consider the Council's financial sustainability, which we identified as a new value for money conclusion risk in our audit plan addendum.	6,412
Use of a Grant Thornton valuer	Given the change in approach to the valuation of the Tonbridge Castle Gatehouse, and the specialist nature of the asset, we have been required to use an internal GT valuer to assess management's assumptions and the approach of the Council's external valuer. Our internal valuer has also helped assess the external valuer's approach to the valuation of the Council's leisure assets.	8,000
Total		**57,160**

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

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

ANY REPORTS APPEARING AFTER THIS PAGE CONTAIN EXEMPT INFORMATION

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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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