Public Document Pack

# TONBRIDGE & MALLING BOROUGH COUNCIL

EXECUTIVE SERVICES

**Chief Executive**
Julie Beilby BSc (Hons) MBA

Gibson Building
Gibson Drive
Kings Hill, West Malling
Kent ME19 4LZ
West Malling (01732) 844522

**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

14 January 2022

To: MEMBERS OF THE AUDIT COMMITTEE
(Copies to all Members of the Council)

Dear Sir/Madam

Your attendance is requested at a meeting of the Audit Committee to be held in the Council Chamber, Gibson Drive, Kings Hill, on Monday, 24th January, 2022 commencing at 7.30 pm.

Members of the Committee are required to attend in person. Other Members are encouraged to participate online via MS Teams.

Information on how to observe the meeting will be published on the Council's website.

Yours faithfully

JULIE BEILBY

Chief Executive

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To recommend to Cabinet and subsequently Full Council that this Council opts into the appointing person arrangements made by Public Sector Audit Appointments Limited (PSAA) for the appointment of external auditors.

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Our external auditors (Grant Thornton UK LLP) are required to satisfy themselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report on the same to those charged with governance - which for this purpose is the Audit Committee - followed by Cabinet and Full Council.

7. Risk Management 55 - 90

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

8. Treasury Management Update and Treasury Management and Annual Investment Strategy for 2022/23 91 - 144

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 2022/23 Treasury Management and Annual Investment Strategy. Members are invited to recommend adoption of the Strategy to Cabinet.

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

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

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

**MEMBERSHIP**

Cllr Mrs F A Kemp (Chairman)
Cllr N Foyle (Vice-Chairman)

Cllr T Bishop
Cllr R I B Cannon
Cllr N J Heslop
Cllr P M Hickmott
Cllr D W King
Cllr J R S Lark
Cllr M R Rhodes

**GUIDANCE ON HOW MEETINGS WILL BE CONDUCTED**

(1) All meetings of the Borough Council will be livestreamed to YouTube here, unless there is exempt or confidential business be discussed:

https://www.youtube.com/channel/UCPp-IJlSNgoF-ugSzxjAPfw/featured

(2) There are no fire drills planned during the time a meeting is being held. For the benefit of those in the meeting room, the fire alarm is a long continuous bell and the exits are via the doors used to enter the room. An officer on site will lead any evacuation.

(3) Should you need this agenda or any of the reports in a different format, or have any other queries concerning the meeting, please contact Democratic Services on committee.services@tmbc.gov.uk in the first instance.

**Attendance:**

- Members of the Committee/Advisory Board are required to attend in person and be present in the meeting room. Only these Members are able to move/ second or amend motions, and vote.
- Other Members of the Council can join via MS Teams and can take part in any discussion and ask questions, when invited to do so by the Chairman, but cannot move/ second or amend motions or vote on any matters. Members participating remotely are reminded that this does not count towards their formal committee attendance.
- Occasionally, Members of the Committee/Advisory Board are unable to attend in person and may join via MS Teams in the same way as other Members. However, they are unable to move/ second or amend motions or vote on any matters if they are not present in the meeting room. As with other Members joining via MS Teams, this does not count towards their formal committee attendance.
- Officers can participate in person or online.
- Members of the public addressing an Area Planning Committee can participate in person or online. Please contact committee.services@tmbc.gov.uk for further information.

Before formal proceedings start there will be a sound check of Members/Officers in the room. This is done as a roll call and confirms attendance of voting Members.

**Ground Rules:**

The meeting will operate under the following ground rules:

- Members in the Chamber should indicate to speak in the usual way and use the fixed microphones in front of them. These need to be switched on when speaking or comments will not be heard by those participating online. Please switch off microphones when not speaking.
- If there any technical issues the meeting will be adjourned to try and rectify them. If this is not possible there are a number of options that can be taken to enable the meeting to continue. These will be explained if it becomes necessary.

For those Members participating online:

- please request to speak using the 'chat or hand raised function';
- please turn off cameras and microphones when not speaking;
- please do not use the 'chat function' for other matters as comments can be seen by all;
- Members may wish to blur the background on their camera using the facility on Microsoft teams.
- Please avoid distractions and general chat if not addressing the meeting
- Please remember to turn off or silence mobile phones

**Voting:**

Voting may be undertaken by way of a roll call and each Member should verbally respond For, Against, Abstain. The vote will be noted and announced by the Democratic Services Officer.

Alternatively, votes may be taken by general affirmation if it seems that there is agreement amongst Members. The Chairman will announce the outcome of the vote for those participating and viewing online.

Apologies for absence

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Declarations of interest

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

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**TONBRIDGE AND MALLING BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**Monday, 27th September, 2021**

**Present:** Cllr Mrs F A Kemp (Chairman), Cllr N Foyle (Vice-Chairman), Cllr T Bishop, Cllr R I B Cannon, Cllr J R S Lark and Cllr M R Rhodes

Councillors Mrs J A Anderson, V M C Branson, M D Boughton, M A Coffin, M Hood, Mrs A S Oakley, J L Sergison and K B Tanner participated via MS Teams and joined the discussion when invited to do so by the Chairman in accordance with Council Procedure Rule No 15.21.

An apology for absence was received from Councillor N J Heslop.

**PART 1 - PUBLIC**

**AU 21/41 DECLARATIONS OF INTEREST**

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

**AU 21/42 MINUTES**

**RESOLVED:** That the Minutes of the meeting of the Audit Committee held on 26 July 2021 be approved as a correct record and signed by the Chairman.

**MATTERS FOR RECOMMENDATION TO THE CABINET**

**AU 21/43 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. A mid-term review of the Treasury Management and Annual Investment Strategy for 2021/22 was also presented.

The report provided a commentary on investments derived from cash flow surpluses, core cash balances and other long term cash balances. A full list of investments held on 31 August 2021 was set out at Annex 1 to the report.

**RECOMMENDED:** That the following be recommended to the Council:

(1) the action taken by officers in respect of treasury management activity for April to August 2021 be endorsed; and

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

***Referred to Cabinet**

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

## AU 21/44 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.

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

## AU 21/45 STATEMENT OF ACCOUNTS 2020/21 AND EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF THE ACCOUNTS

The report of the Director of Finance and Transformation presented an audited set of Accounts for 2020/21 in the formal 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 Statement of Accounts had been circulated as a supplemental report.

**RESOLVED:** That

(1) the audited set of Accounts for 2020/21, as set out in 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 the Accounts for 2020/21 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 Thorndon issue their opinion.

## MATTERS SUBMITTED FOR INFORMATION

### AU 21/46 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

Members were provided with an update on the work of both the Internal Audit function and the Counter Fraud function for the period April 2021 to August 2021.

The shared service agreement between Tonbridge and Malling Borough Council and Kent County Council had been signed and would begin on the 1 October 2021, following which Kent County Council would provide all Internal Audit and Counter Fraud services for the Borough Council, including the transfer of the Fraud Officer and Intelligence Officer to Kent County Council. Progress made against the 2021/22 Plan was also reported and noted.

Since publishing the report, a further draft audit report had been issued and a further audit was nearing completion. There were another five audits currently being undertaken in fieldwork and two others currently being planned with the business.

Member's attention was brought to the investigation of fraud, bribery and corruption and highlighted that in 2021/22, a total of 72 referrals were received.

**RESOLVED:** That the report be received and noted.

### AU 21/47 EXCLUSION OF PRESS AND PUBLIC

The Chairman moved, it was seconded and

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

## PART 2 - PRIVATE

## MATTERS SUBMITTED FOR INFORMATION

### AU 21/48 INSURANCE CLAIMS HISTORY

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

The report of the Director of Finance and Transformation informed Members as to the nature and volume of liability and property damage insurance claims submitted during the period April 2021 to August 2021.

**RESOLVED:** That the report be received and noted.

The meeting ended at 8.11 pm

**TONBRIDGE & MALLING BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**24 January 2022**

**Report of the Director of Finance and Transformation**

**Part 1- Public**

**Matters for Recommendation to Cabinet**

## 1 APPOINTMENT OF EXTERNAL AUDITORS

**To recommend to Cabinet and subsequently Full Council that this Council opts into the appointing person arrangements made by Public Sector Audit Appointments Limited (PSAA) for the appointment of external auditors.**

### 1.1 Introduction

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

1.1.2 PSAA, an independent company set up by the Local Government Association, is responsible for setting fees, appointing auditors and monitoring the quality of auditor's work at authorities that have opted into PSAA national auditor appointment arrangements.

1.1.3 There are three broad options open to the Council in relation to the appointment of external auditors which in summary are:

- Stand-alone appointment – to make a stand alone appointment the Council must set up, consult and take into account the advice of an independent auditor panel. The panel to consist of a majority of independent members (or wholly of independent members) and must be chaired by an independent member.

- Joint Independent Auditor Panel – join with other councils to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent members.

- Opt-in to a Sector Led Body (SLB) – the SLB to be appointed by the Secretary of State. The SLB to negotiate contracts and make the appointments on behalf of councils, removing the need to set up an independent auditor panel.

1.1.4 The Borough Council, as did most councils, opted into PSAA national auditor appointment arrangements covering the five-year period 2018/19 to 2022/23. It is now time for the Council to make a decision on its external audit arrangement for the period commencing April 2023 where the national appointing arrangements made by PSAA remains the preferred option.

1.1.5 Why the SLB is seen as the preferred option? A national Sector Led Body would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit; and would remove the costs of establishing and maintaining an auditor panel. Notwithstanding the current challenging market conditions.

1.1.6 The formal invitation to opt-in to the appointing person arrangements made by PSAA for the period commencing April 2023 was received on 22 September 2021 with a closing date of 11 March 2022. The length of the appointing period is the five consecutive financial years commencing 1 April 2023.

**1.2 Legal Implications**

1.2.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in to a SLB must be made by full Council.

**1.3 Financial and Value for Money Considerations**

1.3.1 Good quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

1.3.2 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or jointly. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

**1.4 Risk Assessment**

1.4.1 As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.

**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 Procurement

## 1.7 Recommendations

1.7.1 Members are asked to **recommend** to Cabinet that this Council opts into the appointing person arrangements made by Public Sector Audit Appointments Limited for the appointment of external auditors for the five consecutive financial years commencing 1 April 2023.

Background papers: contact: Neil Lawley

Nil

Sharon Shelton
Director of Finance and Transformation

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**TONBRIDGE & MALLING BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**24 January 2022**

**Joint Report of the Chief Executive and Director of Finance and Transformation**

**Part 1- Public**

**Matters for Recommendation to Cabinet**

## 1 AUDITOR'S ANNUAL REPORT

**Our external auditors (Grant Thornton UK LLP) are required to satisfy themselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report on the same to those charged with governance - which for this purpose is the Audit Committee - followed by Cabinet and Full Council.**

### 1.1 Introduction

1.1.1 The arrangements have changed from that in previous years where the auditor is now required to report in more detail on the Authority's overall arrangements for securing economy, efficiency and effectiveness in its use of resources, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

1.1.2 Auditors are required to report their commentary on the Authority's arrangements under specified criteria. The criteria are financial sustainability, governance and improving economy, efficiency and effectiveness.

1.1.3 Before turning to the report in more detail there are some contextual comments in respect of the difficult and challenging financial outlook that we wish to draw to Members' attention. These are:

- "*Our work indicates the council will face significant financial challenges in future years"*
- *"Members must ensure they own these challenges and ensure the Council is on a sound financial footing"*
- *"We have seen from recent reports, the importance of Members taking the right financially prudent decisions at the right time.*"

1.1.4 These are of course messages which we have already impressed upon Members in other forums, but it is important to recognise the same messages from the independent external auditor.

## 1.2 Auditor's Annual Report

1.2.1 A copy of the Auditors Annual Report is attached at **[Annex 1]**. The Engagement Lead and or their representative will be at the meeting to present the report and to answer questions.

1.2.2 No significant weaknesses in arrangements were identified, but a number of improvement recommendations are made. For ease of reference the improvement recommendations made under each criteria and the management comment (*italics*) are set out below.

***Financial sustainability***

1.2.3 Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgeted information provided to Members and published on the web.

*This is not as straightforward as it might seem as some service areas are a mix of mandatory and discretionary and a discretionary service area(s) could be in support of the Councils strategic priorities and objectives. We do however recognise we will need to draw out the distinction between mandatory and discretionary spend as we progress and consider the prioritisation of services exercise in response to the financial challenge faced.*

1.2.4 Consideration should be given to completing an annual public consultation exercise when preparing the budget.

*Previous high level annual budget consultation exercises have not been particularly helpful in providing direction, and a more bespoke and tailored consultation on specific service area(s) linked to the prioritisation of services exercise could provide a more informed outcome.*

1.2.5 The Human Resources Strategy should be updated to tie into the latest corporate plan and budget as well as undertaking a workforce review.

*Officers will consider how this approach could be implemented.*

***Governance***

1.2.6 A risk training programme should be implemented for all staff levels based on the new risk management policy.

*Members received risk management training following the 2019 Borough Election. Risk management is a standing agenda item on all weekly Service Management Team meetings and is seen as a way of disseminating the roles and responsibilities of officers in the identification, evaluation and cost-effective control of risks. However, will consider whether any specific training is required either service specific or council wide.*

***Improving economy, efficiency and effectiveness***

1.2.7 The Council should formally identify their key performance indicators and develop a system of monitoring performance and annual reporting against this suite.

*Performance of the Council and its partners in achieving its objectives is monitored and measured by services and their respective Service Management Teams and subsequently Members. Individual services are accountable to the Corporate Management Team for operational performance monitoring and measurement and are responsible for taking action to correct any adverse performance, in the first instance, as appropriate. That said the subject of key performance indicators is a matter currently being considered by the Leader and Deputy Leader in conjunction with Management Team and await the outcome of that review.*

1.2.8 The Council should reintroduce the benchmarking practices used pre-pandemic looking to see how other councils provide services with a view to introducing best practice and providing value for money.

*Benchmarking can be resource intensive, that is not to say benchmarking is not a useful tool, it is, adding insight and value when used in the right context and will continue to look for opportunities to benchmark where and when it is determined it will be beneficial to do so when undertaking a review of a specific service area(s).*

1.2.9 Consideration should be given to reviewing and updating the Procurement Strategy.

*The nature, scale and size of procurement activity is relatively constant year on year and as such consider the current Procurement Strategy remains fit for purpose. However, do acknowledge the need to revisit the Strategy when other more pressing priorities and work pressures allow and in recognition of the new procurement regime due to be implemented in 2023.*

## 1.3 Legal Implications

1.3.1 The Council's external auditor is required under s20(1)c) of the Local Audit and Accountability Act 2014 to satisfy themselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

1.3.2 The Code of Audit Practice issued by the National Audit Office in 2020 requires us (Grant Thornton UK LLP) to report to you our commentary relating to proper arrangements.

## 1.4 Financial and Value for Money Considerations

1.4.1 As set out in the Auditor's Annual Report.

### 1.5 Risk Assessment

1.5.1 As set out in the Auditor's Annual Report.

### 1.6 Equality Impact Assessment

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

### 1.7 Policy Considerations

1.7.1 Business Continuity/Resilience

1.7.2 Human Resources

### 1.8 Recommendations

1.8.1 Members are **RECOMMENDED** to:

1) Approve the Auditor's Annual Report **[Annex 1]** for 2020/21.

2) Note and endorse the management comments to the improvement recommendations made.

Background papers: contact: Neil Lawley

Nil

Julie Beilby
Chief Executive

Sharon Shelton
Director of Finance and Transformation

Grant Thornton

# Auditor's Annual Report on Tonbridge and Malling Borough Council



2020/21

December 2021

# Contents



We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) in 2020 requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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Appendices

A – The responsibilities of the Council

B – An explanatory note on recommendations


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

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# Executive summary

## Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

| Criteria | Risk assessment | Conclusion |
|---|---|---|
| Financial sustainability | No risks of significant weaknesses identified | No significant weaknesses in arrangements identified, but improvement recommendations made |
| Governance | No risks of significant weaknesses identified | No significant weaknesses in arrangements identified, but improvement recommendations made |
| Improving economy, efficiency and effectiveness | No risks of significant weaknesses identified | No significant weaknesses in arrangements identified, but improvement recommendations made |

### Financial sustainability

Despite the uncertainty, and the challenges posed by COVID-19, the Council has maintained a good financial position. The Council has proposed a balanced budget for 2021/22 although this does rely on the use of some reserves although far below the current holdings. As at 31 March 2021, the Authority held £36m of reserves, including £10m to meet the 2020/21 collection fund deficit in respect of business rates, and £0m in borrowings.

This places the Council in a strong financial position. However it is under pressure to identify savings in the years ahead.

Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council.

Further details can be seen on pages 7-10 of this report.

### Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic.

Our work on both business as usual governance and adapted structures has not identified any significant weaknesses in arrangements in relation to governance.

Further details can be seen on pages 14-17 of this report.

### Improving economy, efficiency and effectiveness

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in is use of resources.

Our work has not identified any significant weaknesses in arrangements or improvement recommendations in relation to delivering economy efficiency and effectiveness.

Further details can be seen on pages 21-22 of this report.



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## Opinion on the financial statements

We have completed our audit of the Council's financial statements and issued an unqualified audit opinion on September 29th 2021 following the Audit Committee meeting on September 27th 2021. Our findings are set out in further detail in the Audit Findings Report shared at that meeting.

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# Key recommendations

The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Authority We have defined these recommendations as 'key recommendations'.

Our work has not identified any significant weaknesses in arrangements and therefore we have not made any key recommendations.

The range of recommendations that external auditors can make is explained in Appendix B.



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# Commentary on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources

All local authorities are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

Local Authorities report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 3, requires us to assess arrangements under three areas:

### Financial Sustainability

Arrangements for ensuring the Authority can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

### Governance

Arrangements for ensuring that the Authority makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Authority makes decisions based on appropriate information.

### Improving economy, efficiency and effectiveness

Arrangements for improving the way the Authority delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 7 to 26.



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# Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.



## 2020/21 and ongoing financial pressures

The covid-19 pandemic has been the largest peace time emergency seen in this country since WWII. The knock-on effects on local government finance have meant shortfalls in income due to cessation of services and reduction in collection of both Council Tax and Business Rates. There has also been a loss of commercial income in such areas as car parking and commercial rents as people stayed at home and business were forced to close. The Council does not have a large property portfolio but does have some property holdings in borough. Covid has hit rental income but in the medium-term income levels are expected to return to pre Covid levels. While government grants have covered part of the general shortfall, councils have been with increased financial uncertainty.

Throughout the huge uncertainty of last financial year, the Council worked to minimise expenditure in all areas where appropriate and some of the capital programme was paused or delayed due to Covid-19. Alongside this, new, essential activity was introduced, such as the community support hub and bringing those who are homeless into accommodation, to address the impact of the pandemic on the residents of the district.

Precepts for 2020/21 for County, Fire and Police services were set in February 2020 before the effects of the pandemic were realised and as such district councils have had to pay these over as planned , while collection rates have been down, providing added pressures on cashflow.

Some services were suspended for example, parking enforcement, while some staff were diverted to Covid related work including paying out Covid related support grants across the district.

The Council set its budget for 2020/21 in February 2020. The pandemic started in March and it became clear over the next couple of months that it would have a fundamental impact on the Council's finances. The Cabinet were briefed on the financial impact of Covid in June 2020. At that time, it was projected that the Council would forego between £4m and £5m in income and incur additional costs in the region of £350k. This shortfall was funded by a mixture of additional savings and use of reserves. The final outturn for the General Fund was a small underspend which allowed larger than expected contributions to be made to reserves. This is laudable performance given the income losses incurred by the Council due in part to receipt of significant levels of Government Grant but also due to strong budgetary control. This outcome will have positive benefits for the Council's financial resilience in 2021/22 and beyond . A balanced budget was set for 2021/22 in February 2021. The 2021/22 budget does still, however, expect a reliance on reserves and savings as recovery begins. Review of Council papers indicate the assumptions used for the financial planning for 2020/21 and 2021/22 are sound. We have seen no evidence that short term measures are being used to relieve current pressures.

The future financing of local government is still unclear. A planned government long term spending review was postponed from 2020 due to the pandemic and the current local government settlement only covers the 2021/22 year. The date of the long-term review, whilst announced in the October 2021 budget statement, is yet to be confirmed with the expectation that 2022/23 will also be covered by a one year settlement.

The Council has a detailed financial plan covering the years to 2030/31. Given the uncertainty of the financial regime, its plan has been drawn up on prudent assumptions on future income streams. The Council has considered the financial pressures brought about by the pandemic and has also looked at long term pressures on funding streams such as Council Tax, Business Rates and the Government funding settlement.

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# Financial sustainability

### 2020/21 and ongoing financial pressures (continued)

Lack of information on future funding is a national issue but we have seen pre pandemic that the Council has a sensible approach to financial planning and budget management.

Financial plans are discussed at Council, Cabinet and Finance Innovation & Property Advisory Board. The Council has a history of transparency in financial matters. However, financial plans are not discussed with wider stakeholders through an annual consultation exercise, we were informed this had happened in the past but there were no plans at present to reinstate this process.



### Savings plans

The Council prepares a savings and transformation strategy. The purpose of the Strategy is to provide structure, focus and direction in addressing the financial challenge faced by the Council. This strategy was reviewed during 2020/21 to reflect the changes in financial circumstances engendered by the pandemic. The revised strategy identified that in total over the next 4 years a sum of approaching £1.4m will need to be delivered in savings or transformation contributions

The final budget is approved by Council. The Council has a history of delivering on savings and on its budget. Savings delivery is monitored at Cabinet as part of the Medium Term Financial Strategy Report. The last update on this was provided in July 2021.

As part of the 2021/22 budget setting, budgets have been reviewed and changes to the budget were made adjusting for pressures, new initiatives, expected cost increases and income changes. The current financial plan highlighted a potential use of reserves of £2m in the medium term with required savings as previously mentioned of £975k The Council has a healthy reserves position so this expected draw down is not of immediate concern. At 31st March 2021, the Council held a healthy level of usable reserves of £36m, including £10m to meet the 2020/21 collection fund deficit in respect of business rates. The Council has been prudent in its' funding assumptions and the Council Tax base and the Council is hoping collection fund balances should be better than expected and thus not requiring the predicted level of use of reserves.

While savings potential has been affected by the effects of the pandemic, from our experience in previous years, Tonbridge and Malling has a history of successful delivery on savings and we have no reason that this will not happen going forward post Covid.

### Financial Planning

We found a robust financial planning process which ties in with corporate objectives. There is extensive internal consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies.

The Human Resources Strategy (incorporating the workforce strategy) was last updated in 2019. From review of the document, it is unclear how this ties in with corporate plans and the budget. The development of such a document should be seen as a priority given the workforce challenges all organisations face.

The Council has the necessary resources for financial management including a financial system able to provide timely financial information, the necessary financial skills, experience and capacity in the finance team and budget holders in the services, clearly defined responsibilities for budget management and Corporate Management and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary. The Finance team is well established with significant experience of managing the Council's finances. We feel the Council has a positive financial culture and an appropriate 'tone from the top' set by the Chief Executive officer. The ongoing management of the Council's financial position over recent years is evidence of this. In challenging times , its vitally important that a strong financial culture is maintained.

Budget holders receive monthly budget reports. The onus is on budget holders to flag issues with finance rather than regular meetings being held. £5k variances must be reported to the Director of Finance and Transformation. Finance carry out independent review of significant elements of the budget such as salaries and income so are aware of the position.

The Council has a Capital Plan and has adopted a Capital Strategy and Capital Planning process which are regularly reviewed to reflect changing circumstances. Other than funding for the replacement of assets which deliver services as well as recurring capital expenditure, there is now an annual capital allowance for all other capital expenditure. Any 'bids' for capital schemes or discretionary capital grants are to be assessed in the context of the capital annual allowance. Priority is given to those schemes that generate income or reduce costs. The annual capital allowance is currently set at £250,000. The Capital programme largely consist of maintenance and improvement items and contains no major schemes The capital programme is overseen by Cabinet, while projects are subject to an appraisal and approval process.

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# Financial sustainability

## Financial Planning (continued)

The current corporate strategy covers the period 2020 to 2023 and was agreed in February 2020. The current areas of focus are:

- Achieving Efficiency
- Embracing Effective Partnership Working and Funding
- Valuing our environment and encouraging sustainable growth
- Innovation

An understanding of drivers of risk in the Council budget are strong and variances from budget are understood. However, there remain fluctuations in variances to budget which may indicate further work is required, either to arrive at more accurate assumptions / a better understanding of cost pressures in the budget, or to ensure budgetary adherence is improved by budget holders. Some variance is inevitable as some services are demand led and is difficult to predict. The Covid-19 pandemic has also made it more difficult to predict future costs and demand as the Council has experienced a 'difficult-to-predict-and-plan-for' year. However, in emerging from the pandemic, a return to the norms of budgetary monitoring and financial discipline will be required to ensure financial success. It will be equally critical to ensure that budget holders, and the Council as a whole, on signing up to future budgets, are held to account for any future failure to deliver the budgets agreed to. The Council will also need to be cognisant, early on, of pressures to budgets, with effective early warning systems to identify risks and ensure corrective action is taken. It is equally critical there are effective monitoring and assessment arrangements in place to understand whether future budgetary overspends are the result of unavoidable / unforeseeable cost pressures, or deficiencies in budgetary and financial discipline within directorates. Previous experience has indicated to us that the Council is well equipped to deal with the challenges ahead as long a strong financial culture is maintained.

Statutory and discretionary spend is not clearly differentiated in the financial planning reports which underlie the budget and MTFP. Whilst discretionary spends are the areas which come under scrutiny when savings plans are being considered, it would not be clear to a resident that there is a distinction between statutory and discretionary spend.

## Managing risks to financial resilience

2020/21 has been a unique year for financial management of dealing with a pandemic including the temporary cessation of some services to deal with Covid demands and a changing profile of demands on services.

Within the corporate risk register, the Council has identified the risk of not balancing the budget. It is noted that the latest Strategic Risk Register indicated the risk was marked as "red" for inherent risk but "amber"after application of current controls. Ways in which the Council is managing this risk include budget monitoring, the savings and transformation strategy, the MTFS and use if reserves. Budget reports are monitored on a regular basis and finance reports are subject to scrutiny and challenge at Cabinet meetings. A list of financial risk is included in budget papers sent to members when setting the Council's budget. It is evident that the Council has built up its reserves in the "good times" for any "rainy day".

As the Council emerges from the pandemic, and the 'new normal' begins to be established – crucially, a normal which once again comes with financial constraints – the organisation should assess what covid working patterns and arrangements should continue in the post pandemic world. Our work indicates the Council will face significant financial challenges in future years and we will monitor this response in those years. Members must ensure they own these challenge and ensure the Council is on a sound financial footing. We have seen from recent reports involving Croydon and Slough, the importance of members taking the right financially prudent decisions at the right time.



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# Financial sustainability



### Medium term financial planning

In 2020/21, an additional role of the Council was to support the response to the pandemic. The response was coordinated at a county level by the Kent Resilience Forum (KRF), of which Tonbridge and Malling Borough Council is a member. The Council has paid out £38 million in Covid grants, supported local residents and business and providing advice to business. Planning for 2021/22 has been challenging as the pandemic has provided increased uncertainty around future funding. In November 2020, a one-year funding settlement was announced and the next year's funding settlement is due for announcement shortly at the time of writing.

We found a robust financial planning process which ties in with corporate objectives. There is evidence of staff working collaboratively across the Council as opposed to silo working. Service provision is aligned to the funding envelope.

However, the Council does not have an up-to-date workforce plan or people strategy which has been reviewed to reflect the demands of the "new normal". As a sector, local government is facing a recruitment and retention challenge. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is clear. We would recommend the Council invests in a workforce review for the medium term.

### Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of serious weaknesses. We have identified several opportunities for improvement which are set out overleaf.

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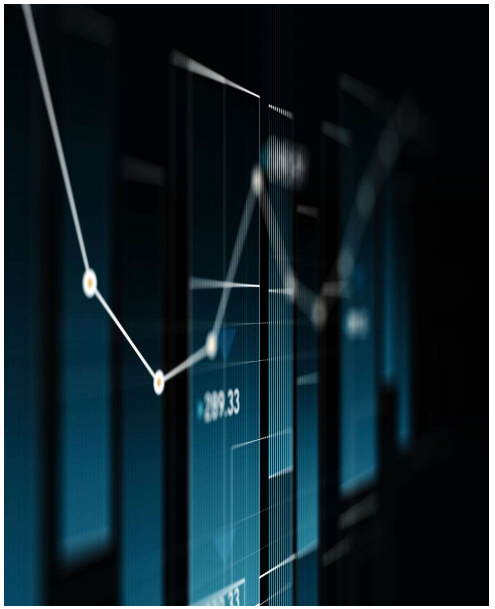
# Improvement recommendation

## Financial Sustainability

| | |
|---|---|
| **Recommendation** | Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web. |
| **Why/impact** | This would help residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside of or in addition to its statutory obligations. |
| **Summary findings** | No distinction is made in the financial information reported to TCWG between statutory and discretionary spending. |
| **Management comment** | Officers will consider how this approach could be implemented. |



The range of recommendations that external auditors can make is explained in Appendix B.



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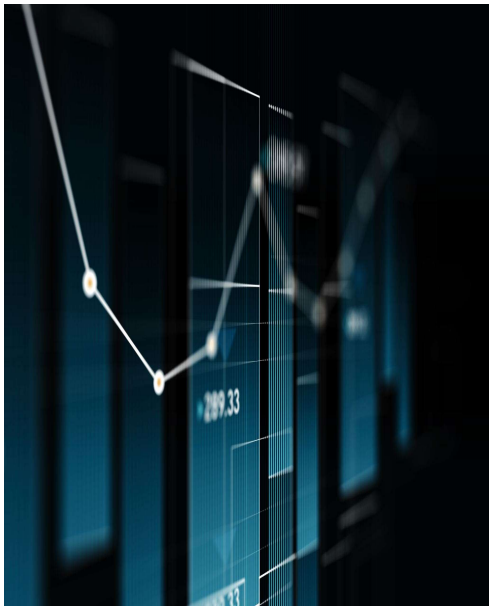
# Improvement recommendation

## Financial Sustainability

| | |
|---|---|
| **Recommendation** | Consideration should be given to completing an annual public consultation exercise when preparing the budget. |
| **Why/impact** | This could help gauge resident appetite for certain savings plans and increase representation and participation. |
| **Summary findings** | There is a lack of external stakeholder consultation in budgeting process |
| **Management comment** | Officers will consider how this approach could be implemented. |



The range of recommendations that external auditors can make is explained in Appendix B.



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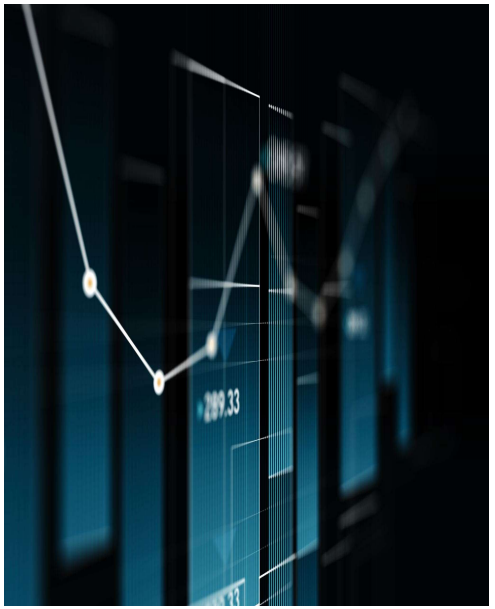
# Improvement recommendation

## Financial Sustainability

| | |
|---|---|
| **Recommendation** | The Human Resources Strategy should be updated to tie in to the latest corporate plan and budget as well undertaking a workforce review. |
| **Why/impact** | This would help the Council to make decisions regarding the workforce in relation to the strategic objectives of the Council |
| **Summary findings** | The Human Resources Strategy was last updated in 2019 and it is now unclear how it relates to the budget and any potential savings plans |
| **Management comment** | Officers will consider how this approach could be implemented. |



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# Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.



## Monitoring and assessing risk

Governance is the system by which an organisation is controlled and operates and is the mechanism by which it and its staff are held to account. It works from Council meetings to the front line. Ethics, risk management, compliance, internal control and best practice are all element of governance. Effective governance requires both clear and unambiguous structures and processes and effective working of people within these frameworks. Effective governance also requires an open culture that promotes transparency, a willingness to learn and improve and no fear to speak the "truth to power".

The Annual Governance Statement for 2020/21 notes "Risk management practices are embedded within the organisation through the annual service and strategic planning processes, which is used to develop the Council's vision and objectives. This ensures that risks to the achievement of the Council's objectives are identified and managed appropriately".

Risk Management was reviewed by Internal Audit in July 21 and was provided with "adequate" assurance. The report recommended, inter alia, management team should review the strategic risk register prior to its submission to Audit Committee, that training should be organized on risk management and risk registers should be updated in real time.

Based on our review of your risk management processes, we concur with this view but see scope for small improvements in the organisation. The risk management policy was approved in January 2020 and there is separate guidance to staff on the risk management process. Roles and responsibilities are clearly defined and the guidance describes the process for identifying, assessing, evaluating, escalating, allocating and monitoring risk.

The Council Strategic Risk Register is reported regularly to the Audit Committee and Cabinet. It was last reported to Audit Committee in September 2021. The Strategic Risk Register contains 17 risks which in our expected range of risk (5 to 15 risks) to allow adequate review of those threats to Council objectives. Risks are scored and the risk register contains five "red" risks relating to finance, Brexit the Local Plan and the Waste/Recycling contact.

The risk register format is clear showing current and target risk score, lead officer, consequences, current mitigations and actions required. The risk register does not document a number of potential factors including direction of travel, sources of risk and assurance and dates of last next review. The Council should consider developing information provided to Members and Senior Management regarding risk and this can be linked to the three lines of defence model advocated by the Institute of Internal Auditors.

We understand Members and officers have received training on risk in the past. The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff in tandem with the new risk management policy and providing greater clarity of the relationship between all the risk registers used across the Council, including strategic, operational, project and partnership risk. These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation.

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# Governance

## Monitoring and Assessing Risk (continued)

From October 2021, Internal Audit services are provided by Kent County Council. Prior to that the service was provided in house with management resources provided by Kent County Council. Although the agreed plan had to be adjusted because of the pandemic, Internal Audit provided sufficient fieldwork and completed reports within the year and the Head of Internal Audit Opinion provided to the Council by July 2021. Progress reports highlighting key issues and findings on reviews are reported to Audit Committee periodically. The Head of Internal Audit Opinion concludes that "the Council has a framework of governance, risk management and control substantially contributed to the proper, economic, efficient and effective use of resources in achieving the Council's objectives during 2020/21". Review of the Annual Internal Audit Opinion indicates a wide breadth of work during the year covering financial and operational processes and including a flexible approach which allowed adjustments to the plan in year.

Internal audit presented one limited assurance reports in 2020/21. This related to the Waste Contract and found weaknesses in income collection around garden waste subscriptions. Internal Audit will continue their work in this area in 2022.

Counter fraud services are also provided by Kent County Council. The Annual Internal Audit Opinion makes reference to this service. The Counter Fraud Team assisted the Council's participation in all of the government led counter fraud initiatives and undertook pro-active exercises designed to protect valuable Council Tax and Business Rate revenue collection. They also support the distribution of Covid Business Support Grants by checking applications for potential fraud and error.

Counter fraud operations are underpinned by a Member code of conduct and a whistleblowing policy. These documents were last updated in January 2021 and are subject to annual review meaning that the council anticipates updating in January 2022. The officer code of conduct is detailed within the constitution but is undated so we are unable to conclude as to its appropriateness. The anti-fraud, bribery and corruption policy was last updated in January 2021

The annual work plans for internal audit are currently approved and overseen by the Audit Committee. From our attendance at Audit Committee, we consider it to robustly review the work of internal audit, providing appropriate challenge.

## Budgetary Setting Process

The Government's challenging financial landscape has made this a unique year for financial planning. The Council has a robust approach to financial planning and assumptions made appear reasonable. While future funding is unclear, a medium-term financial plan has been produced based on prudent assumptions about future income streams. Our previous knowledge of the Council informs us that arrangements are in place with the Council to model the uncertainties in the system notwithstanding the factors that are outside the Council's control. We understand that the model medium term financial strategy is a living document, constantly updated following discussions across the council. Given the approach, we have seen evidence of the scenario planning.

Budgets are discussed with budget holders, senior leadership and members prior to approval at Council level.

Investments and Borrowings are included within the financial plan, but the effects are minimal given the current rates of return on investments.

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# Governance

### Budgetary control

Budget managers have access to finance system and can review budgets at any time. Budgets are monitor by Finance on key high-risk areas. Meetings are held on ad hoc basis with budget holders, furthermore the accountancy team review the budgets under their control raising questions with the services as required. Review of Cabinet papers indicates that variances are adequately identified and explained.

The Finance team is duly qualified, stable and experienced. The S151 Officer is the Director of Finance and Transformation and sits on the Management Team.

It is clear that financial delivery is a key objective from the top down. 2020/21 has been a tough year financially for Tonbridge & Malling and without a concerted effort across the council the year end position could have been troubling for financial sustainability.

We consider budget management arrangements to be robust and we have found no areas of concern during our work.

### Leadership and committee effectiveness/decision making

From review of papers and discussions with staff, we believe the Council's decision-making processes are open, transparent and strong and we have no evidence that reactive or unlawful decisions have been made.

It is evident from our review of papers that sufficient information is provided to members and they challenge and hold senior management to account appropriately. The Council is engaged and provides appropriate levels of scrutiny to external and internal audit. There is no evidence of serious and pervasive weaknesses in final accounts processes leading to material errors in draft accounts, failure to meet statutory reporting deadlines and/or a modified opinion on the financial statements.

Covid-19 brought some unique challenges to the Council and some decisions had to be taken on a short timescale. However, as will be seen in our section on Covid in this report, we feel that appropriate arrangements were put in place to facilitate both agile decision making but also appropriate scrutiny and authorization in line with the wishes of the Council.

The Council is well established but they have recently selected a new leader following the stepping down of the previous incumbent in July 2021 after many years in the role. The Council is now working with the new leader to decide on priorities going forward and we will monitor how these develop. The Council has had a high turnover of members in recent years .We have no concerns as yet in relation to risks related to this high turnover of Council members but recognise the risks which might lead to inadequate understanding of the organization and the financial landscape leading to poor decision making. The importance of maintaining a strong financial culture is vital in the context.

Financial and operational activity appears well planned with no need for reactive actions and short-term remedies. Even during the height of the effects of the pandemic response have been deliberate and thought out.

The waste and recycling contract is highlighted as a "red risk" on the corporate risk register. A new contractor (Urbaser) was appointed in March 2019 jointly with Tunbridge Wells Borough Council and new service delivery arrangements commenced in September 2019. The risk register states that contract performance has been unsatisfactory in terms of missed collections and uncompleted rounds. The service has been affected by the pandemic and the national shortage of HGV drivers. It was agreed with the contractor to suspend garden waste collections for a period to allow for focus to improve the recycling and general waste collection service. It is estimated that the cancellation of these services will cost the council £1m per annum in lost revenues while they're halted. It should be noted that this is the gross cost and it is anticipated that the service will be reintroduced by 1 April 2022 at which time the service will have been suspended for a nine-month period. This has also had a knock-on effect on the street cleansing service. The last update to the Street Scene and Environment Advisory Board in November 2021 indicated there had been some improvement in services but continues close monitoring of the contract is still required to help to ensure the risk of contract failure does not materialize.

In late 2020 the Planning Inspector's made a preliminary decision that there had been a failure of the Duty to Cooperate on the part of the council with its local plan. The council objected and wrote to the Inspector in January 2021. Despite the Council's arguments to the contrary, the Inspector's response subsequently confirmed their initial decision and invited the Council to either withdraw the Local Plan or request a Final Report from the Inspectors. The Council responded inviting them to prepare their Final Report. The Inspector's Final Report with a covering note from the Planning Inspectorate were duly issued. The report sets out the Inspectors justification for reaching their conclusion; that there was a failure of the Duty to Cooperate in respect of unmet housing need coming from Sevenoaks and the knock on impact this would have on Tonbridge and Malling.



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# Governance

### Monitoring and ensuring appropriate standards

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements.

Our work has not uncovered any non-compliance with the Constitution, statutory requirements or expected standards of behaviour. We have not been made aware of any data breaches at the Council.

Officer and Member conduct is set in codes of conduct within the constitution. Members interests are published on the Council website. There is an opportunity for Members to declare interests at every meeting as a set agenda item. Related party transactions are required to be declared as part of year end closure of accounts and sent to all Members and Senior officers for their completion. There is a member protocol on gifts benefits and hospitality. The gifts and hospitality register are retained by the Monitoring Officer and is available for inspection on request. Officers are advised on the rules related to gifts and hospitality and registering of interests and a register of gifts and hospitality for officers is held by the Chief Executives office. We we found no evidence of adverse outcomes of interests, gifts or hospitality not being declared. In July 2021, the Council decided to resubmit a revised Local Plan in order to ensure a Local Plan is adopted as soon as possible. Work is now progressing on this matter with a view to submitting a revised Local Plan in early 2023. Preparation of a local plan is an onerous exercise and taking up significant members and senior officer time. The Council will need to be mindful that this exercise does not distract members and key officers from the other issues the council finds itself dealing with and the focus remains on providing all services to the required standard to ensure resident satisfaction and value for money.

### Conclusion

**Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified some opportunities for improvement, set out overleaf.**



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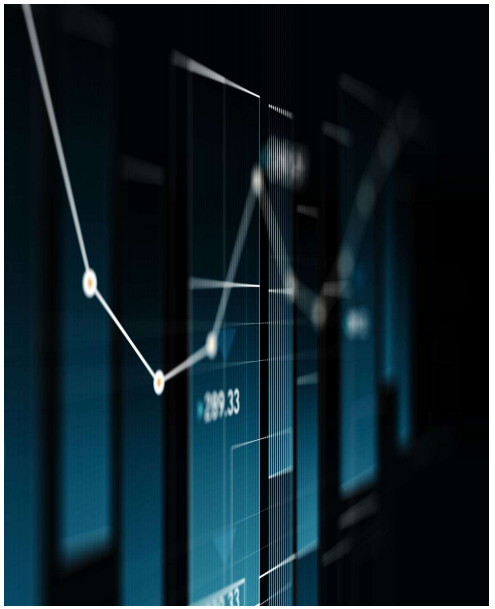
# Improvement recommendation

## Governance

| | |
|---|---|
| **Recommendation** | A risk training programme should be implemented for all staff levels based on the new risk management policy |
| **Why/impact** | Improve understanding of how the risk registers are used across the council, ensure that they all align and are used appropriately. |
| **Summary findings** | Members and officers have received risk training in the past but not since the new risk management policy was introduced. |
| **Management comment** | Officers will consider implementing programme. |



The range of recommendations that external auditors can make is explained in Appendix B.



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# Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.



## Performance review, monitoring and assessment

This year has been incredibly challenging one for public services as a whole and Tonbridge and Malling are no different. Kent was the first to see the Alpha variant of Covid-19 and this has meant the county has been particularly hard hit by the pandemic. The first six months of the year were spent getting to grips with the unique challenges of the pandemic, as services adapted to this unknown threat and challenges of the first lockdown. Tonbridge & Malling played its part in the county wide effort to support residents and local business. Local Government will face yet more challenge as it moves from the Covid response stage to the task of supporting long-term economic and social recovery.

In respect of the performance management of the Corporate Plan objectives, we were informed that while some performance indicators are included within the annual accounts and selected performance indicators are reported to relevant committees, the is no comprehensive suite of key performance indicators which are reported to Cabinet or wider stakeholders. There is also currently no lead officer for performance management at the Council .We understand that the new leader may be developing a suite of key performance indicators but this is still at a formative stage.

Failure to develop this framework in a timely fashion may lead to an increased risk that the corporate objectives are not achieved. A formal project plan for this should be developed. Once a set of performance measure is agreed, an annual performance report should be published which gives a narrative of Council performance and publishes a suite of performance indicators comparing performance over a number of years.

The Council have a Data Quality Policy which has been reviewed in September 2020. The policy sets out the Council's data quality standards, roles and responsibilities for data quality and the Council's expectations in regard to system and processes.

Benchmarking has been used to assess performance in the past but with the focus on dealing with the pandemic over the last 20 months, understandably resources have not been available to focus on service improvement. We would suggest, especially given the need for significant efficiencies in the medium term, a return to looking to see how other Councils provide services with a view to introducing best practice and providing value for money.

A review of benchmarking data from the CFO Insights (CFOI) tool by Grant Thornton shows two trends to bring to the attention of the Council based:

1. The number of individuals being prevented or relieved from homelessness dropped between 2010 to 2018

2. Within Kent the Council has the 11th of 12 lowest homeless prevention per 10,000 households figures

Infographics for this are considered on the following page.

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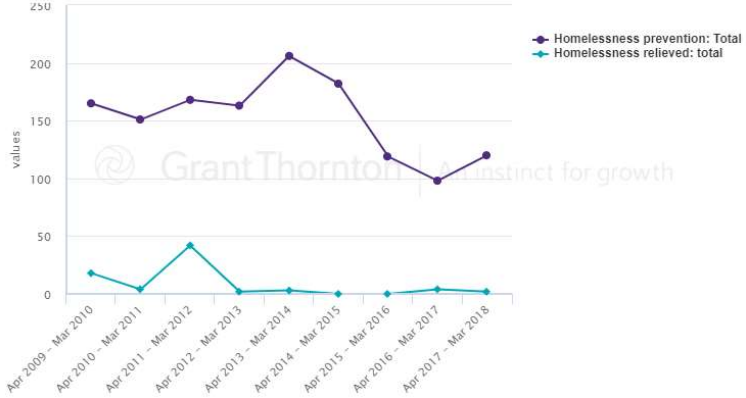
# CFO Insights – Homeless data for Tonbridge and Malling District Council

## Outcomes: Homelessness prevention & relief

How have prevention and relief outcomes changed over time?

**Tonbridge and Malling**




This data has been taken from information published by the Ministry of Housing, Communities and Local Government. As part of this work ,we are not making a value judgement on these data-driven indicators, but are sharing them given the focus at the Council on improving outcomes for homelessness and understanding how costs have increased. The Council's own assessment is able to use the latest data.

As part of this work we have considered whether these indicators show potential significant weaknesses. Part of sound governance is to identify problems and take action. The Council has engaged a consultant to identify how prevention outcomes can be improved and intends on implementing their findings and new processes in 2022.

## Outcomes: Homelessness prevention & relief ^

What is the scale difference in the numbers of homelessness prevention and relief among my peer geographie? Who is achieving better outcomes to me?

**Homelessness prevention & relief: per 1,000 Households (2017/18)**

| Top (1) | Area (11) | Bottom (12) |
|---|---|---|
| Area: Ashford | Area: Tonbridge and Malling | Area: Dartford |
| Count: 32.39 | Count: 2.36 | Count: 1.80 |

| Rank ↑ | Area | |
|---|---|---|
| 3 | Maidstone | 6.67 |
| 4 | Tunbridge Wells | 5.09 |
| 5 | Gravesham | 4.15 |
| 6 | Thanet | 3.82 |
| 7 | Swale | 2.86 |
| 8 | Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) | 2.74 |
| 9 | Dover | 2.68 |
| 10 | Sevenoaks | 2.43 |
| 11 | Tonbridge and Malling | 2.36 |
| 12 | Dartford | 1.80 |



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# Improving economy, efficiency and effectiveness

### Evaluation of services

The Corporate Strategy is used by officers to deliver services and to inform their recommendations to service committees. Councillors use it to inform their decisions too. The current Corporate Strategy runs until 2023. At its meeting on 3rd June 2020, Cabinet agreed an addendum to the Corporate Strategy to provide a strategic framework for the Council's covid recovery plan, underpinned by three themes (Review, Re-orientation and Recovery), and within the context of the county wide recovery "cells"

As previously mentioned, the Council does not have a comprehensive approach to performance management and we would recommend that this issue is address as during 2022.

### Partnership working

Partnerships and in particular shared services have been seen as a cost effective and efficient way to provide services by the Council for a number of years. Partnerships have been entered into with neighbouring councils in Kent to provide key services such as refuse collection, building control and internal audit. The Council is flexible in its approach, working in partnership when it is efficient and economical to do so, and reverting to direct provision, should circumstances call for that. Leisure Facilities are run by the Tonbridge and Malling Leisure Trust.

The Council also works with other agencies to co-ordinate and improve services and value for money.

The Council is transparent about its dealing with significant partners except where commercial sensitivity precludes this.

### Procurement

Procurement support services across the organisation delivering front line and back-office services. The Council has a Procurement Strategy last approved in 2017. The strategy covers partnering, e-procurement, procurement with small to medium size enterprises and the voluntary sector and sustainable procurement. Given recent events and the adoption of a revised Corporate Strategy in 2020, and the introduction of the National Procurement Strategy for Local Government in England in 2018, we feel the document is in need of review. It should be noted that The National Procurement Strategy provides a toolkit for the Council to assess its progress against the themes and objectives within the strategy which would be useful when refreshing the in-house strategy.

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements. In conjunction with relevant legislation and the Council's Constitution (particularly the Financial Procedure Rules and Contract Procedure Rules).

We found no evidence that appropriate procurement processes were not followed during 2020/21.

The Council has no significant commercial ventures.

### Conclusion

**Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have identified some opportunities for improvement, set out below.**



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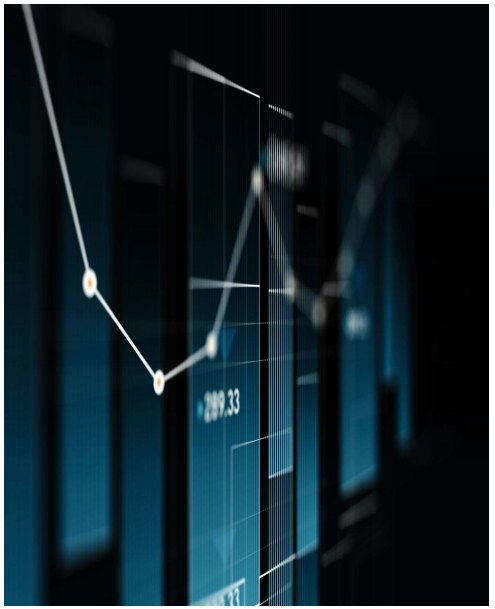
# Improvement recommendation

## Improving economy, efficiency and effectiveness

| | |
|---|---|
| **Recommendation** | The Council should formally identify their key performance indicators and develop a system of monitoring performance and annual reporting against this suite |
| **Why/impact** | There is a risk the Council's performance monitoring is not sufficiently reviewed or aligned to an agreed set of key performance indicators. Failure to develop this framework in a timely fashion may lead to an increased risk that the corporate objectives are not achieved |
| **Summary findings** | While some performance indicators are included within the annual accounts and selected performance indicators are reported to relevant committees, the is no comprehensive suite of key performance indicators which are reported to Cabinet or wider stakeholders |
| **Management comment** | Although the council does not perform a 'batch' report of all performance indicators compared to other bodies, performance of the council and partners is measured be the Service Management Teams and Members. Services are accountable to the Corporate Management Team who are responsible for taking action to correct adverse performance. The Leader and Deputy Leader are currently considering the key performance indicators used by the council in conjunction with management. |



The range of recommendations that external auditors can make is explained in Appendix B.



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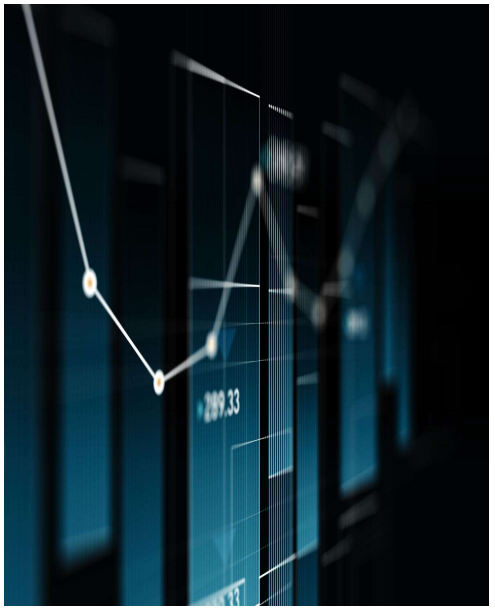
# Improvement recommendation

## Improving economy, efficiency and effectiveness

| | |
|---|---|
| **Recommendation** | The Council should re-introduce the benchmarking practices used pre-pandemic looking to see how other Councils provide services with a view to introducing best practice and providing value for money. |
| **Why/impact** | The Council needs to identify efficiencies in the medium term to form a realistic savings plan. |
| **Summary findings** | During the pandemic resources have been used to focus on service improvement and delivery but not on comparison to other councils to identify ways to deliver the same services as efficiently as possible. |
| **Management comment** | Although the council does not perform a 'batch' report of all performance indicators compared to other bodies, performance of the council and partners is measured be the Service Management Teams and Members. Services are accountable to the Corporate Management Team who are responsible for taking action to correct adverse performance. The Leader and Deputy Leader are currently considering the key performance indicators used by the council in conjunction with management. |



The range of recommendations that external auditors can make is explained in Appendix B.



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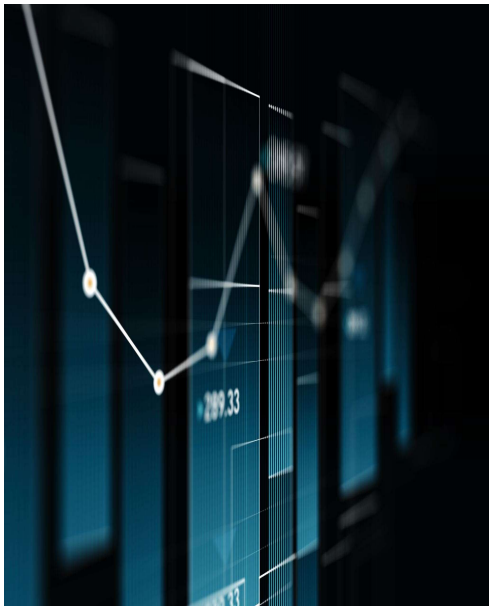
# Improvement recommendation

## Improving economy, efficiency and effectiveness

| | |
|---|---|
| **Recommendation** | Consideration should be given reviewing and updating the Procurement Strategy. |
| **Why/impact** | Given recent events and the adoption of a revised Corporate Strategy in 2020, and the introduction of the National Procurement Strategy for Local Government in England in 2018, we feel the current Procurement Strategy is in need of review |
| **Summary findings** | The Council has a Procurement Strategy last approved in 2017. |
| **Management comment** | Procurement strategy to be reviewed and considered for updating. |



The range of recommendations that external auditors can make is explained in Appendix B.



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# COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

## COVID-19 arrangements

On 15 March 2020 based on epidemiological forecasts, the UK government said everyone should avoid all "non-essential" travel and contact with others, avoid crowds, and work from home if possible. Those with symptoms, and their household, were asked to self-isolate. Pregnant women, people over 70, and those with certain health conditions were asked to self-isolate for longer. On 20 March 2020, the UK governments closed all schools, restaurants, pubs, indoor entertainment venues and leisure centres, with some exceptions. On 23 March 2020, the government imposed a lockdown on the whole population, banning all "non-essential" travel and contact with people outside one's home, and shutting almost all businesses, venues, facilities, amenities and places of worship. People were told to keep apart in public. Police were given power to enforce the lockdown, and the Coronavirus Act 2020 gave the government emergency powers including local authorities.

In response to the covid-19 pandemic, the multi-agency Strategic Coordination Group declared the coronavirus pandemic a major incident on 24 March 2020 and Kent and Medway went into a national lockdown on that date. These measures did not significantly change through the whole financial year 2020/21. The first six months of the year was spent largely adjusting to the demands of the pandemic with new services being introduced and the payment of grants to support residents and local business. Staff were seconded to help with Covid related work and this had a knock-on effect to day-to-day services.

To manage the response, the Council initiated daily "Business Continuity" (BC) virtual meetings, with an extended management team to include key staff leading on a number of themes relating to service delivery and to initiate any response to requests from the government and the Kent Resilience Forum.

The Leader, Deputy Leader and Cabinet Member with responsibility for emergency planning had virtual meetings at least weekly with the Chief Executive and Deputy Chief Executive.

As part of Brexit planning, Members approved emergency decision making provisions within the Constitution. This has ensured that decision making has continued during the pandemic with consequential Decision Notices being published in order to ensure transparency.

In March there was an impact on business as usual and delivery of services mainly from staff working at home and some self-isolation, some services were unable to function during the initial lockdown such as parking enforcement. Decisions around any necessary changes to internal controls were discussed with senior managers and escalated if necessary. The Council started a food delivery service for those shielding in partnership with NHS volunteers at the request of government and procured personal protective equipment to help staff carry out their roles. An initial assessment of the costs and loss of income of immediately apparent changes was also carried out and reported to management and members

The pandemic has had significant financial effect on the Council predominately through the loss of income from such things as commercial rents and car parking. However, operational changes have led to a change in expenditure profile which have partially offset losses.



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# COVID-19 arrangements



## COVID-19 arrangements (continued)

In the early stages of the pandemic the Government announced various funds to provide financial support for business (Small Business Grant Fund, the Retail, Leisure and Hospitality Grant Fund and the Local Authority Discretionary Grant Fund (LADGF)). Local authorities were made responsible for delivering grants to eligible businesses.

Member meetings went on-line and all staff started working from home where possible to reduce the risk of spread of the disease. Other measures were put in place to ensure the safety of those who still had to work in the community.

The Council's response to the Covid-19 emergency included providing temporary accommodation for rough sleepers and people at risk of homelessness, supporting vulnerable residents including setting up a Community Hub from which the delivery of food and other supplies to the vulnerable were managed and the Council distributed millions of pounds in Business Grants.

Nevertheless, there is likely to be significant pressure on public funds in future years given the levels of borrowing undertaken by Government to fund Covid-19 support measures. The Council has commenced some scenario modelling on the potential impact on the Council Tax base for the number of households from which full Council Tax can be collected, to understand how this may affect the Council's core funding in the immediate future. In the short term any unexpected shortfall in funding will be met from reserves.

The Council received additional grant funding to cover costs incurred as a result of Covid-19. This funding was utilised in a variety of ways. The Government also announced a support package to partly cover the irrecoverable council tax and business rate loss of income in 2020/21, whereby 75% of losses incurred will be funded by Government Grant.

Governance arrangements were amended to meet the challenges of the pandemic. Specific cost centres were set up to allow for accurate recording of Covid related costs.

The Council was kept up to date with the situation through regular updates through reports to Cabinet.

## Conclusion

**Our review has not identified any significant weaknesses in the Authority's VFM arrangements for responding to the Covid-19 pandemic.**

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# Opinion on the financial statements

## Audit opinion on the financial statements

We have completed our audit of the Council's financial statements and issued an unqualified audit opinion on September 29th 2021 following the Audit Committee meeting on September 27th, in line with the national deadline September 30th 2021.

## Other opinion/key findings

We have not identified any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement or the Pension Fund financial statements.

## Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 27 September 2021.

## Issues arising from the accounts

All adjusted and unadjusted misstatements identified for the Council's 2020/21 financial statements are disclosed in the 20/21 Audit Findings Report, Appendix B.

## Preparation of the accounts

The Council provided draft accounts in line with the national deadline. The quality of the draft financial statements and on the whole the supporting working papers continue to be of a good standard.

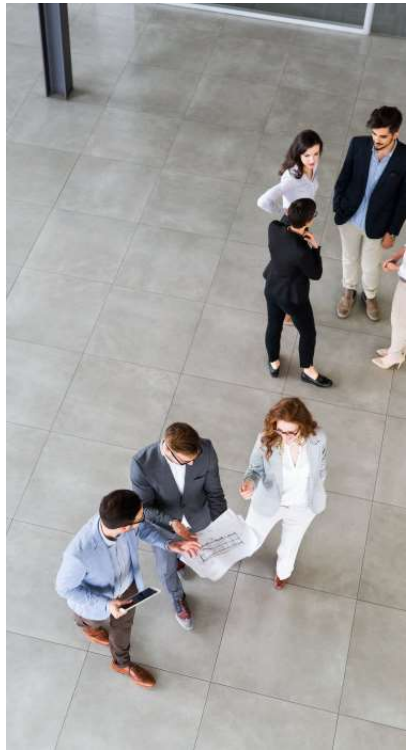
## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We will complete our work on the Whole of Government Accounts consolidation pack in line with the national deadline.

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.





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# Appendices

# Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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# Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

| Type of recommendation | Background | Raised within this report | Page reference |
|---|---|---|---|
| Statutory | Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report. | No | N/A |
| Key | The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'. | No | N/A |
| Improvement | These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements. | Yes | FS p. 11-13<br>Governance p. 18<br>3Es p. 22-24 |



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**TONBRIDGE & MALLING BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**24 January 2022**

**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 to earlier meetings 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.

1.4.3 For completeness the risks categorised as RED **at the time of the September meeting** is given below and remains the case.

1) Financial position/budget deficit

2) EU Transition and Economic Uncertainty (severely impacted by Coronavirus Pandemic)

3) Corporate Strategy and Savings and Transformation Strategy

4) Waste Services

5) Local Plan

1.4.4 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 those risks categorised as **RED.**

Background papers: contact: Sharon Shelton

Nil

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

# RISK MANAGEMENT STRATEGY

**January 2022**

# 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.<br>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.<br>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.<br>Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability.<br>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.<br>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.<br>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.<br>Keep the Council's risk management framework under regular review and approve and monitor delivery of the annual risk work programme.<br>Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability.<br>Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.<br>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.<br>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.<br>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 2022 and will be reviewed next in January 2023.

# 7. Approval

Signed: Print Name: Matt Boughton

Date: 22 February 2022 Position: Leader of the Council

Signed: Print Name: Julie Beilby

Date: 22 February 2022 Position: Chief Executive

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**TONBRIDGE AND MALLING BOROUGH COUNCIL**

**RISK MANAGEMENT GUIDANCE**

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3. Risk management at a glance 2
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10. Allocating risks and determining actions 8
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# 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.

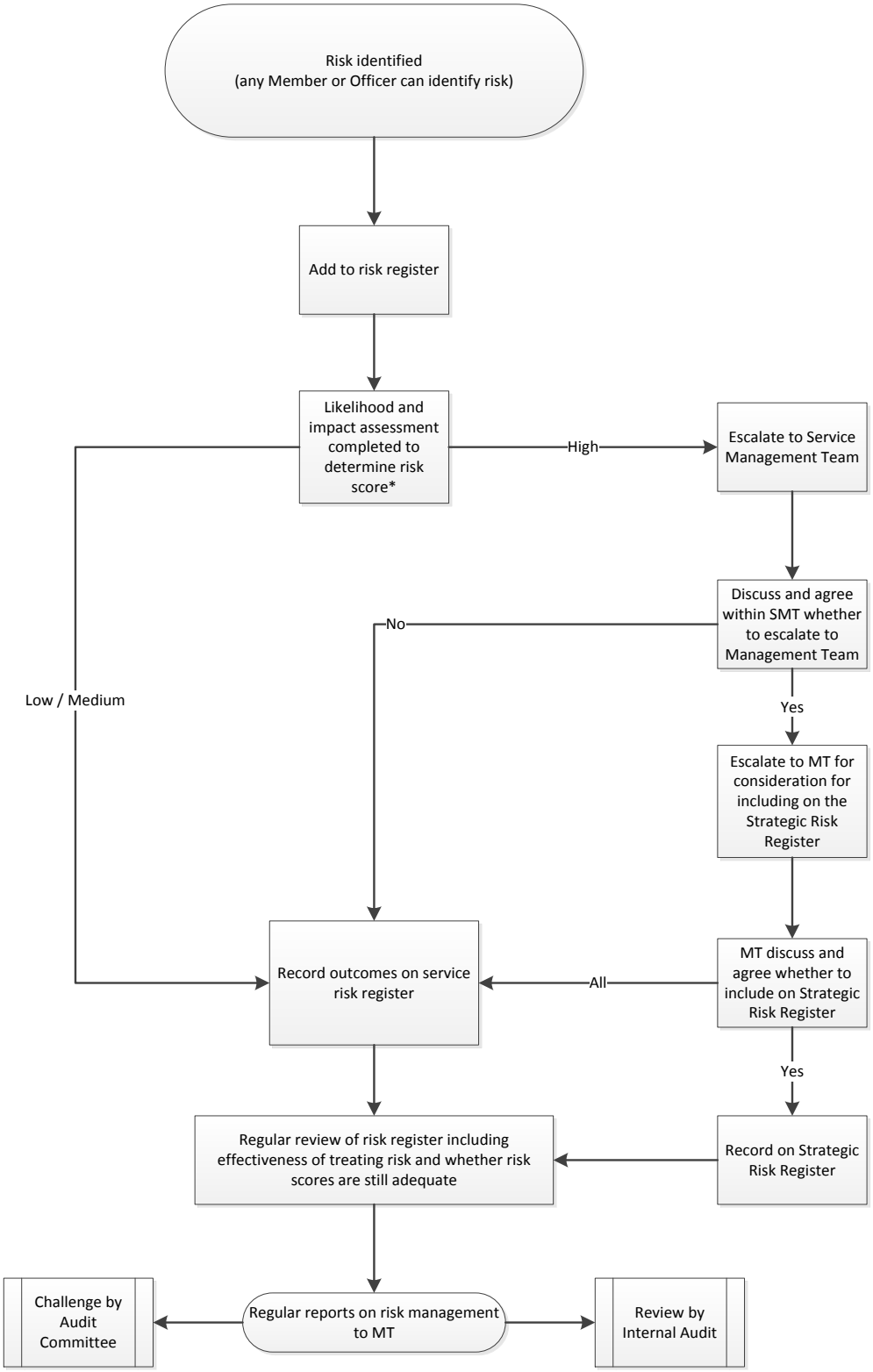
# 2. Achieving strategy objectives

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.




* 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:

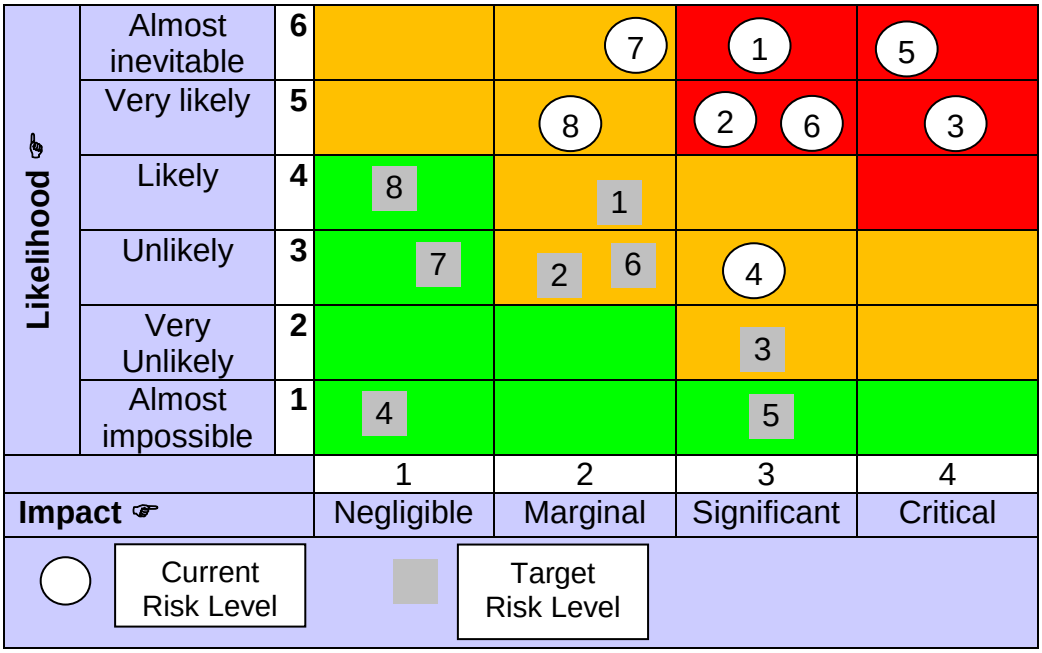
- Immediate – Risk likely to occur / most severe within the next 6 months
- Medium Term - Risk likely to occur / most severe between 6 to 12 months
- Long Term - Risk likely to occur / most severe 12 months plus

## 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




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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | |
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## 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**:<br>• Implementation:<br>• Review date:<br>• 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<br>• Loss of life or permanent/ debilitating damage<br>• 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<br>• Major injury<br>• Local media coverage, government interest |
| **Marginal** | • Limited loss or damage | • Some financial loss but manageable impact on service delivery<br>• Minor injury<br>• Limited social media interest |
| **Negligible** | • Tolerable level of loss or damage | • No or very minimal financial loss<br>• Minor 'trips and slips'<br>• 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** **07/01/2022** 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.<br><br>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.<br>Audit Review undertaken, identifying areas of weakness to be address, progress to date with positive direction noted.<br>Training delivered to all Hackney Carriage and Private Hire Drivers.<br>Secure Database in place, with secure access, for recording of safeguarding concerns and referrals onto other agencies<br>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 | Continue to refer Safeguarding concerns to appropriate agencies where necessary and also raise with partners at the weekly CSU meetings. | Safeguarding Policy | Chief Executive | Apr-22 |
| 2 | Financial position/budget deficit | F, R | Financially unstable organisation. Failure to deliver a balanced budget, detrimental impact on quality of service, increased intervention.<br><br>Failure to maximise New Homes Bonus (for as long as it exists).<br>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;<br>Treasury Management and Investment Strategy.<br>Robustness of estimates and adequacy of reserves.<br>Effective monitoring control procedures.<br>Savings and Transformation Strategy (STS) reviewed and updated.<br>Unqualified Audit and Value for Money Opinion contained with Annual Audit Letter.<br>Medium Term Financial Strategy (MTFS) updated and shared regularly with Cabinet to keep members aware of current financial situation.<br>Business Rates income monitored. Decision taken not to be part of Kent pool from 2021/22 due to volatility arising from pandemic and therefore increased risk.<br>Local government finance settlement for 21/22 confirmed as anticipated. Some New Homes Bonus to be paid in 21/22.<br>Council Tax increase approved by Council for 21/22 at 2.3% (£5)<br>MTFS and STS updated during Budget Setting Feb 2021/22. Funding gap updated and targets set.<br>Impact of Pandemic projected to have significant effect on Council finances, but this has been dampened by government grants and compensation schemes. Review and Reassessment underway. Ethos of essential spend only agreed by Cabinet and carried forward into 21/22 to protect Council finances.<br>Regular returns submitted to MHCLG as required to assist with roll out of government grants. National Leisure Funding application submitted and £250,000 has been awarded.<br>Response to New Homes Bonus consultation sent April 2021<br>Lobbied for additional funds for leisure provision under COVID<br>Regular reports to Cabinet and FIPAB during 2021 on latest position re budget and funding gap | 3 | 3 | 9 | Areas of potential savings yet to be identified and prioritised, with commitment to delivery of those selected.<br>Commissioning of service reviews via MT to identify potential areas of transformation and savings.<br>Review of key strategic assets to be completed, including office accommodation.<br>O&S Committee establish work programme to continue to identify potential savings.<br>Reports to FIPAB and Cabinet in early 2022 setting out the latest financial position with receipt of the provisional local government finance settlement. Cabinet needs to confirm in response to the funding gap generated how TMBC will bridge that gap in the next 4 years.. Council need to deliver a council tax increase in order to contribute to financial stability<br>Continued tight rein on essential spend only to protect Council finances as approved by Full Council Feb 2021.<br>Fair Funding Review awaited, as is Business Rates Retention Review. Assumptions about impact have been built int MTFS, but until these are released for consultation it is unknown as to whether assumptions are correct. Respond to consultation when available.<br>Three key financial risks have been highlighted to Members: namely Waste, Homelessness and Local Plan. All three have significant financial implications for the Council in different ways. Consultants have been engaged in respect of Homelessness to find ways of reducing cost and finding more efficient ways of delivering the mandatory function. Discussions with Waste contractor continue with regards to performance and garden waste. Resubmission of local plan ha been reported to Members and decisions made about way forward. The additional costs being factored into budget reports for 22/23 | Vision- to be a financially sustainable Council.<br>Taking a business-like approach. | Director of Finance and Transformation | Mar-22 |

**STRATEGIC RISK REGISTER - CURRENT** **07/01/2022** 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3 | EU Transition Impact and Economic Stability<br><br>(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.<br><br>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.<br><br>Regular review of;<br>MTFS reflecting economic factors<br>Treasury Management and Investment strategies.<br><br>Working with Kent Resilience Forum since outbreak of pandemic on day to day basis, managing both pandemic and EU transition impacts.<br><br>TMBC also paying Self Isolation Payments (Test and Trace) to those residents who qualify.<br><br>All staff equipped to be able to work from home and deliver public services. Staff working under transitional working arrangements until Sept 2022 when future of office space/working arrangements will be determined | 3 | 4 | 12 | Council continuing to working with Kent Resilience forum and County Partnership groups including Strategic and Tactical Co-ordinating Groups.<br><br>Keep Business Impact assessments under review.<br><br>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.<br>Self-isolation payments extended until Mar 22. TMBC to continue with payments<br><br>IT staff continuing to support staff working from home. Transitional working arrangements commenced Sept 2021 as agreed by Members. | N/A - external risk. | Chief Executive / Director of Finance and Transformation/ Management Team | Mar-22 |
| 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.<br><br>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<br><br>Corporate Strategy is in the early stages of review – a recent consultation exercise has been undertaken to gather views of local residents, and this, along with the outcomes of the Peer Challenge Review (which will be received early 2022) will form the basis of the new Corporate Strategy.<br>STS reviewed alongside Budget 21/22 and MTFS. Approved Full council Feb 21. Further update to cabinet 6 July affecting both STS and MTFS. Measures recommended | 3 | 3 | 9 | Areas of potential savings to be formally identified and prioritised, with commitment to delivery of those selected.<br><br>Commissioning of in service reviews via MT to identify potential areas of transformation and savings.<br><br>Strategic asset management review to deliver new income .<br><br>O&S programme to be supported in order to deliver savings to contribute to STS.<br>During Budget setting Feb 21, Members reminded of the need to firstly deliver on the already identified savings initiatives within the timescales set in the MTFS; and secondly to identify and implement the new funding gap within the next 4 years. Report to FIPAB and Cabinet January/February 2022 will update the funding gap and savings target. Delivery of these savings targets is PARAMOUNT for the financial stability of the Council.<br><br>Budget report to Cabinet Feb 22 to include update of MTFS and STS. Council need to deliver council tax increase in order to contribute to financial stability | 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.<br>Taking a business-like approach. | Chief Executive / Director of Finance and Transformation/ Management Team | Mar-22 |

**STRATEGIC RISK REGISTER - CURRENT** **07/01/2022** 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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 | Local Plan Inspectors Final report requested 11.3.21 - now awaited - Will conclude that the LP is unadoptable due to failure to meet the Duty to Cooperate (in respect of unmet housing need in Sevenoaks).<br><br>Members are regularly updated by email by the Planning Policy Manager and reports to P&TAB.<br><br>Member approval received for revised Local Development Scheme and associated budget provision in November 2021 | 3 | 3 | 9 | Regular review of Government policy announcements that may impact on delivery, including housing standard methodology and WMS relating o Planning<br><br>Ongoing engagement with Counsel<br><br>Ongoing engagement with Members<br><br>Regular analysis of budget position<br><br>Regular analysis of programme - within Policy team on a weekly basis, reported to PHEH bi-weekly. | 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 | Mar-22 |
| 6 | Organisational development inc. staff recruitment and retention/skills mix. Impact of loss of capacity caused by recruitment difficulties upon delivery of corporate objectives. | 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.<br><br>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.<br><br>Engagement of external consultants and specialists where required.<br>Resilience and rationalisation of existing structures.<br><br>Recruitment and retention strategy to be reviewed by MT.<br>Pay award for 2021/22 1%. National Award yet to be determined<br><br>Structural reviews approved by Members in 2017/18 and 2018/19.<br><br>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.<br><br>Transitional arrangements to encourage development opportunities where appropriate. | HR Strategy<br>Savings and Transformation Strategy | Director of Central Services and Deputy Chief Executive/ Chief Executive | Mar-22 |
| 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.<br><br>Health and Safety considered by management at weekly SMT meetings.<br><br>Staff involvement with JECC (supported by Members).<br><br>Ongoing review undertaken to react to potential key risk areas.<br><br>Organisational learning and response to national events.<br><br>Incident and near miss reporting.<br><br>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.<br><br>Corporate Health and Safety Group (chaired by DPHEH) identifying cross organisational issues with feedback to Management Team and Health and Safety Officer.<br>All services have reviewed all their Health & Safety local Procedures in particular Lone working and service specific risk assessments.<br><br>Staff survey on H&W completed spring 2021, results being reviewed and consideration given to a further repeat survey later in 2021<br><br>Corporate Health & Safety Policies and procedures are up to date and reviewed regularly which all staff can access.<br>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 | Mar-22 |

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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.<br><br>Assessment of Legal implications included within all reports to Members.<br>GDPR requirements are addressed by two officer groups, Information Governance Group and Procurement OSG, which includes Legal representation.<br>CPD and Professional Monitoring offered to all staff<br>The Council has undertaken both Corporate Governance and GPDR reviews / audits.<br><br>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.<br><br>Officers ensure that professional update training is undertaken.<br>Members received GDPR training in July 2018, with all officers completing e-learning on GDPR by May 2018.<br><br>Revised constitution approved by Members in July 2019.<br>Additional GDPR and Cyber Awareness Training undertaken by all staff and members, completion date of October 2019.<br><br>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, leading to revised protocol being agreed in April 2021. UPDATE - protocol now expired as regulations permitting virtual meetings expired.<br>Delivery of audio/ visual technology in Chamber to enable transparent decision making and streaming - UPDATE - delivered in May 2021<br>Information Governance OSG considered risks for transfer of personal data between EU and UK post 31 December 2020. UPDATE - On 21/06/21 the EU approved adequacy decisions for the EU GDPR and the Law Enforcement Directive. This means that data can continue to flow as before in the majority of situations. | 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 | Mar-22 |
| 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;<br>Information Security Policy deployed via Policy Management System.<br><br>Implemented network security measures including access controls.<br><br>Considered cyber insurance.<br>Established an Information Governance Group.<br>Appointed a Member Cyber Champion.<br>Rolled out Cyber awareness training to all staff and Members via eLearning.<br><br>Deployed 'Next generation' Palo Alto firewall technology for improved visibility and control.<br>Deployed software solution to identify potential confidential data held on file servers.<br>Deployed DLP software at email egress point.<br>Implemented secure email in accordance with NCSC guidelines.<br>Maintained dual level firewall security with the KPSN gateway being primary and the Council's own firewalls secondary.<br>Implemented Solarwinds Security Event Manager.<br><br>1 member of IT team obtained Certified Information Systems Security Professional (CISSP) qualification October 2020.<br><br>Implemented cloud backup and DR facilities to improve resilience; and embedded cyber security into DR and BCP processes.<br><br>Continued to monitor Cybersecurity alerts via LGA Cyber Security email; through membership of NLAWARP and CiSP; and attending information sharing events such as Kent Connects Information Security Group.<br><br>Cloud based web and email filtering deployed to improve availability and resilience. | 3 | 3 | 9 | The Council has;<br>Prioritised the resources (both financial and staff) to ensure relevant updates and security mitigations are carried out in a timely manner.<br>Scheduled annual IT Health Check (ITHC), quarterly PCI scans, and monthly vulnerability scans, feeding into remediation plans. Investigating and resolving detected security issues from latest ITHC 2-5/8/21 and latest PCI ASV scan (December 21).<br><br>Planned review of firewall ruleset for Azure Q3 following Palo Alto firewall migration to Cloud in March 2021. Remediation work to be carried out in Q3/Q4.<br>Carrying out a Phishing testing process, and will be rolling out a training programme for all staff and Members dependent upon vulnerabilities detected. Q2/Q3.<br><br>Further email to be sent out to all staff and members on cyber security vigilance. Q3/Q4.<br><br>Investigating emerging threats and cyber alerts, such as the Apache Log4J2 vulnerability in December 21, communicating with 3rd party suppliers to check compliance/obtain security updates and implementing mitigations as required to reduce likelihood of compromise.<br>Investigating further improvements to DR capability with specific regard to recovery from cyber incidents. | IT Strategy | Director of Finance and Transformation | Mar-22 |

| 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 have been reviewed and updated.<br><br>Invest to save opportunities and funding identified and projects have been initiated.<br><br>Digital Strategy - developed and approved by Members in July 2019.<br><br>Replacement of legacy business systems and greater use of digital alternatives (cloud based) projects have been initiated.<br><br>Disaster Recovery solution (cloud based) has been implemented.<br><br>All staff are able to work remotely via laptops and secure 'always-on' VPN.<br><br>Ipads and required software rolled out to Councillors, MT Members, Senior Management and in-field Staff.<br><br>Data quality policy has been introduced to ensure improvement and efficiency can be achieved.<br><br>Introduced Microsoft Teams for virtual meetings for members and staff.<br><br>Implemented hybrid media conferencing solutions for on-site and remote workers.<br><br>Multi-factor authentication solution enabled for remote access to O365 to improve security and business continuity.<br><br>Migrated Telephony to the Cloud to improve business continuity and functionality.<br><br>Multi-media Cloud based Contact Centre management solution implemented to improve functionality, availability and business continuity.<br><br>Migrated production environment from on-premises to Cloud to improve and sustain business continuity and service availability.<br><br>New CMS solution and website implemented to improve digital engagement for residents and businesses.<br><br>Implemented cross-region cloud backups for the new cloud production environment to improve resilience. | 3 | 4 | 12 | IT Strategy has been reviewed, updated and extended to 2023 (previously 2018-2022) with linkage to MTFS and Savings and Transformation and Digital Strategy.<br><br>Active engagement of Officer and Member Groups in the implementation of digital agenda and changes to the Website format and content.<br><br>Mobile working solution for in-field workers currently being developed and undergoing field testing.<br><br>Corporate/enterprise document management system has been procured and implementation is underway. Expected to be implemented in March 2022.<br><br>Further development of multi-media Cloud Contact Centre solution under consideration to exploit state of the art technology and features to improve customer experience in line with current industry standards.<br><br>Introduction of mobile app facilities to enable proactive and responsive engagement with residents and businesses is being considered to be launched in parallel with the new website.<br><br>Deployment of Office 365 to improve flexibility, availability and collaboration, is currently underway with 95% of staff now migrated.<br><br>Review of backup processes and Disaster Recovery arrangements for Cloud production environment is underway to improve resilience to cyber attack.<br><br>VPN to be migrated to Cloud and Multi-factor authentication to be implemented for remote access over VPN in Q4 to improve security and business continuity. | IT Strategy | Director of Finance and Transformation | Mar-22 |

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 11 | 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;<br>Business Continuity Plan.<br>Corporate Business Continuity Risk Register<br>Emergency Plans<br>Disaster Recovery Plans<br>Inter-Authority Agreements<br>Mutual Aid Agreement<br>Partnership agreement with Kent Resilience Team.<br>Emergency Planning Support Officer.<br>Duty Emergency Coordinator System and Duty Officer System introduced to provide greater resilience.<br>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.<br>Training organised by Kent Resilience Team . 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.<br>Duty Officer rota in place to support Duty Emergency Coordinators out of hours. All staff fully trained before commencing duties.<br>Out of Hours Manual reviewed and regularly updated.<br>DSSLTS sits on Kent Resilience Forum Strategic Board.<br>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. Business Continuity Group including all members of Management Team meets twice weekly to oversee and coordinate response to pandemic.<br>Annual Emergency planning review to be reported to Management Team.<br>Pandemic response dealt with as emergency through Kent Resilience Forum. Reports regularly presented to Cabinet. More detailed reports covering Review Reorientation and Recovery presented to relevant Advisory Boards.<br>Training courses are being delivered in a Covid safe manner for roles within the Emergency Plan.<br>Recruitment into roles in the Emergency Plan is on-going. Emergency Planning Officer's hours increased to full time during pandemic.<br>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 | Mar-22 |
| 12 | 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.<br>Participation in county wide debate via Joint Kent Chief Execs and Kent Leaders meetings.<br>Update DEC 18 - County wide devolution discussions have been formally ceased. Horizon scanning and continued participation in Kent Leaders and CE meetings is ongoing.<br>County Deal discussions are invited and Kent Leaders are giving preliminary considerations albeit that there is no agreed view at this stage. | 3 | 3 | 9 | White Paper on Devolution is to be published in the Autumn. Analysis of this will be a priority action. This is now replaced by the anticipated "Levelling Up" prospectus in 2022 | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 13 | 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.<br><br>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.<br><br>Good communication with staff.<br><br>Officers maintain awareness of issues relating to private sector partners and plans formulated for service delivery in the event of failure via business continuity.<br><br>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.<br><br>Council withdrawn from Business Rates Pool from 1/4/21 given the potential financial risks at the current time<br><br>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 | New Waste Services Contract in partnership with Urbaser, TWBC and KCC commenced 1st March 2019. Formal Inter Authority Agreement and Partnership Agreement in place.<br><br>Ground Maintenance Contract extended in light of good performance of contractor.<br><br>KCC will be undertaking Audit and Fraud function from 1 October 2021 on a newly agreed delegated functions arrangement. As previously report to Audit Committee and Cabinet, this arrangement will provide greater resilience and breadth of experience/knowledge.<br><br>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.<br><br>Continuing discussion with major partners regarding impact of COVID.<br><br>Building Control Partnership operationally ended on 1 October 2021. Some remaining handover tasks relating to data and debt recovery are being finalised before the end of the financial year.<br><br>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<br><br>DPHEH | As required<br><br>Apr-22 |

| 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 | 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.<br><br>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.<br><br>Providing advice to residents on welfare and housing issues, or signposting to relevant providers.<br><br>Working with partners to identify land and funding opportunities.<br>Working with Registered Provider Partners to ensure needs of residents are being met.<br><br>Working with owners to bring long term empty properties back into use.<br><br>New initiatives for Temporary Accommodation, including purchase of flats and properties to be converted.<br><br>commissioned consultancy work in respect of Homelessness function (TA)<br><br>Concessionary charges for key services.<br>EQIA assessment of key decisions included in all Board reports.<br><br>HRA implications assessed and GPC agreed new posts to deliver service which have been recruited to.<br>Universal Credit rolled out Nov 18 for Tonbridge & Maidstone Job Centres.<br>Signposting now to UC rather than HB for new working age claimants.<br>CTR Scheme approved for 21/22 . Hardship policy updated to allow for the "up to £50" contribution by KCC for working age CTR claimants in 21/22. Further £40 granted to working age CTR Dec 21<br>Household Support fund allocated by KCC Dec 21<br><br>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 | Improved working with TA providers leading to more guarantees of available accommodation and working towards a procurement exercise to improve value for money.<br>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.<br><br>New temporary accommodation purchased in Pembury Rd. Need to progress refit to bring these on stream for occupation<br>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.<br>work with Kent councils collaboratively to ensure grants and support targeted to those most in need<br><br>Approach to additional purchase of TA to be agreed so timely response can be made to opportunities that arise.<br><br>Extension of self-isolation payments to Mar 22<br><br>Response to consultants report on homelessness - to be presented to Member Q1 of 2022<br><br>policy for household support fund to be developed<br><br>Refresh local CTR scheme for 22/23. | 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 | Mar-22 |
| 15 | 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 temporary accommodation and in borough provision as well as framework agreement with private providers.<br><br>Close liaison with Leader, Deputy Leader and Cabinet in developing the Savings & Transformation Strategy.<br><br>Clear and comprehensive reports to support Members in making appropriate decisions to support the S&TS. | 3 | 3 | 9 | Member briefings and training sessions. | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 16 | 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.<br><br>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.<br><br>Council represented on key County Partnership Groups overseeing EU Transition implications including Strategic Coordinating Group.<br><br>Council Officers dial into Severe Weather Advisory Group meetings.<br>Regular attendance at KRF training sessions.<br>Ongoing support for Tonbridge Flood Group.<br>Funding allocated in Council's Capital Plan to support works to Leigh Flood storage area which is due for construction over the next two years.<br>£20,000 from Business Rates Retention Pilot Reserve approved for Natural Flood Management Schemes in the Borough (Leybourne Lakes and Ightham Mote) | Emergency Plan Civil Contingencies Act 2004<br>Kent Emergency Response Framework<br>West Kent Partnership and Medway Catchment Partnership | Director of Street Scene, Leisure & Technical Services | Mar-22 |
| 17 | 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.<br>Failure to achieve financial targets for garden waste scheme.<br><br>Coronavirus pandemic has significant economic implications for businesses and residents.<br>Future sustainability of contract. | 01/07/2018 | 4 | 4 | 16 | Partnership arrangement with TWBC, with allocation of key tasks.<br>Internal Project Group reporting regularly to MT and Members.<br><br>External advice sought from specialists on key decisions.<br>Detailed project plan, risk register and marketing plan in place.<br>Inter authority agreement with KCC encourages improved recycling performance and shares risks and rewards.<br><br>IT, Communications and Operations identified as crucial work streams and individual working groups established to manage and implement these work areas.<br><br>Waste services continue to be affected by the pandemic and most recently the national shortage of HGV driver. Agreed with contractor to cease collection of garden waste for a period of time to allow focus on recycling and general waste. Residents are having subscriptions extended to compensate. No new subscriptions now available. Saturday freighter service also suspended. Street cleansing was not suspended but has been impacted as other services have taken priority.<br><br>Full roll out of service to flats postponed with pilot to take place in Tonbridge which started on 4 September following Member approval.<br><br>Joint Task and Finish Group established with Tunbridge Wells BC following fatality on the TW's side of the contract. Group set to review both Urbauer's 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.HSE investigation has concluded that no action will be taken by the HSE or Police.<br><br>Regular meetings taking place with senior management at Urbaser to consider the future sustainability of the contract and financial implications resulting from the pandemic and Joint Member Group established with TW's to give | 3 | 3 | 9 | New contractor (Urbaser) appointed with commencement in March 2019.<br>New service delivery arrangements, including opt in garden waste collections commenced 30th September 2019.<br>Operational and Marketing plan approved by members in Feb 2019.<br>Contractor Annual Service plan to be monitored by Partnership Manager.<br>Garden Waste charges set to encourage uptake<br><br>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.<br><br>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. Member Steering group established .<br><br>Weekly update reports on contractor performance sent to all Members along with reports to all meetings of the Street Scene and Environment Advisory Board.<br><br>Garden waste collection and new subscriptions currently suspended due to HGV driver shortage and Covid impact on staffing levels. One off collections of garden waste being progressed.<br><br>Roll out of new service to flats to be progressed following successful pilot in central Tonbridge. | Delivery of cost effective service to meet customer needs. | Director of Street Scene, Leisure & Technical Services | Mar-22 |

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

| | Risk Identified | Background | Removed or ongoing | Reason for removal / ongoing |
|---|---|---|---|---|
| Chief Executive and Central Services | 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. Further samples now clear, so Trust have moved to quarterly sampling. We will only need this if samples go the wrong way, but the cost of such a system is unbudgeted. | Ongoing | Ongoing. Impact of pandemic continues and biocide levels will be reviewed once centre is back in full operation. |
| | Transitional Working Arrangements | Trial period due to start in September 2021 | Ongoing. | Trial working arrangements commenced 13 Sept 2021. Need to keep under review during 12 month trial to monitor effectiveness. Re-introduction of WFH guidance with effect from 13/12/21 will have an impact upon trial. |
| Finance and Transformation | IT Security (formerly COCO Compliance) | Review of IT Infrastructure identified several areas of weakness for IT standards compliance | Ongoing | Number of risk removed, expected that remaining risks, once removed, will allow full compliance. |
| | IT infrastructure | Procurement and implementation of IT infrastructure for production environment. Current equipment goes out of support in December 2020. | Removed | Migration to cloud based platforms now complete. |
| | Replacement of Uniform - Financial and Operational Sustainability | replacement to existing system is currently delayed to legal review of procurement. | Ongoing | Lack of Legal Staff Resources is causing delays to possible termination of existing contractual arrangements, which inturn could increase financial pressure on Council. |
| | Budget Setting | At present time face to face meetings are still required for Budget Setting purposes for all Precepting bodies, from Parish to County Council. Delays in notification of precept requirement could delay billing processes, which could have cashflow implications. | Ongoing | Preceptors have been requested to provide provisional figures which could be used for setting Council Tax. However financial risk of change would lie with Billing Authority and therefore General Fund. |
| | Covid 19 | Pandemic issues surrounding Council Finances | Ongoing | Part of Strategic Risk Register. |
| | Supported Accommodation | Change in KCC approach for care need could have impact on ability to recover Housing Benefit Subsidy | Ongoing | Meetings arranged to assess full impact to district councils |

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

| | Risk Identified | Background | Removed or ongoing | Reason for removal / ongoing |
|---|---|---|---|---|
| Planning, Housing and Environmental Health | Temporary Accommodation (TA) | Heightened use of TA over and above likely levels for TMBC resulting in high caseloads and financial pressures. | Ongoing | TA consultancy review underway, final report due late December 2021. |
| | Temporary Accommodation (TA) | Personal injury claims | Ongoing | Review of inspection regime under way as part of TA consultancy review |
| | Food & Safety | Increased risk of food complaints/poisoning. Additional resources to manage backlog of inspections. | Ongoing | During the Covid-19 crisis the ceasing/reduction in the food hygiene inspection regime may result in food safety issues. There will also be a backlog of food safety inspections due to restrictions on visiting/businesses closed. FSA guidance awaited but suspect locally we will need to manage. |
| | 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 | Risk of delay to adopting the Plan if the Council's challenge of the LP Inspector's Final Decision remains unresolved for an extended period of time. | Ongoing | In the event the process has to begin again the timescales to adopt by the end of 2023 are very challenging. Failure to secure member approval by the Summer would make this unachievable. |
| | Local Plan | Although Covid-19 infection rates are falling due to the third lockdown measures introduced in January 2021 there remains a risk of illness having a detrimental impact on the Council's Team | Ongoing | The Team will continue to be fully engaged in the Local Plan process throughout 2021, initially to progress routes of challenge of the LP Inspector's decision and potentially starting the process again later in the year. |

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

| | Risk Identified | Background | Removed or ongoing | Reason for removal / ongoing |
|---|---|---|---|---|
| **Street Scene, Leisure and Technical Services** | Legionella | Problem identified in LLC Dry change showers. | Ongoing | See issues covered under Central Services. |
| | 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. Further survey undertaken and report being analysed and new work program being developed. |
| | Leybourne Lakes Country Park | Anti-social behaviour increased on site during peak summer months which became unmanageable for onsite 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. Responsibility for this now rests with T&M Leisure Trust following the transfer of the facility management. |
| | 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. | Task and Finish Group has completed its review and made a number of recommendations relating to the health and safety management of the contract. The Health and Safety Executive are not pursuing the matter further with Urbaser following its recommendations but has made a number of recommendations which the contractor is implementing. The Council will monitor the contractor's progress with addressing the recommendations. |

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**TONBRIDGE & MALLING BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**24 January 2022**

**Report of the Director of Finance and Transformation**

**Part 1- Public**

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

## 1 TREASURY MANAGEMENT UPDATE AND TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2022/23

**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 2022/23 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 2021/22 Investment Strategy assumed economic conditions would remain at 0.1% over the next three years.

1.2.2 The world has continued to evolve since the beginning of Covid-19 with the vaccination rollout deemed a success, scientists worked against the clock to produce new and effective vaccines against the various mutations being discovered. Since the 2021/22 Strategy was published last February there has been a shift in appetite to increase the interest rate, and although we are expecting to see interest rate rises in the coming months, forecasting is still problematic and tentative than it is in normal circumstances.

1.2.3 The Bank of England became the first major western central bank to put interest rates up to 0.25% in December 2021 and there is further expected rate increases in the coming months to alleviate rising inflation rates. The Bank of England have advised that once the bank rate has increased to 0.50%, they will start to reduce Quantitate Easing (QE) and will allow current investments specifically targeted at QE to mature.

1.2.4 Link's latest Bank Rate forecast, updated in December 2021, is included in **[Annex 5]** and anticipates the Bank Rate rising to 1.25% over the next three years to March 2025.

**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 2021/22 cash flow surpluses have averaged £12.5m.

1.3.3 The Authority also has £22m 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 2021/22 and the remainder in future years.

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

1.3.6 Medium term investment comprises £4.25m in diversified income fund investments.

1.3.7 A full list of investments held on 31 December 2021 is provided at **[Annex 1]** and a copy of our lending list of 31 December 2021 is provided at **[Annex 2]**. The table below provides a summary of funds invested and income earned at the end of December.

| | Funds invested on 31 December 2021 | Average duration to maturity | Weighted average rate of return | Interest / dividends earned 1 April to 31 December 2021 | Gross annualised return | LIBID benchmark (average) 1 April to 31 December 2021 |
|---|---|---|---|---|---|---|
| | £m | Days | % | £ | % | % |
| Cash flow | 36.2 | 3 | 0.09 | 5,960 | 0.03 | -0.08(7 Day) |
| Core cash | 22.0 | 120 | 0.3 | 42,410 | 0.29 | -0.03 (3 Mth) |
| **Sub-total** | **58.2** | **48** | **0.17** | **48,370** | **0.14** | **-0.05 (Ave)** |
| Long term | 5.00 | | | 78,000 | 3.1 | |
| Medium term | 4.25 | | | 43,100 | 3.0 | |
| **Total** | **67.4** | | | **169,470** | **0.74** | |

Table 1

*Property funds pay dividends quarterly. The return quoted above is based on dividends received for the period April to September 2021.*

1.3.8 **Cash flow and core cash investments**. Whilst the authority outperformed the LIBID benchmark by 19 basis points, Interest earned of £48,370 to the end of December is £11,630 below the original budget estimate for the same period. The fall in income is due to investment rates remaining low since the emergency cuts in Bank Rate in March 2020 and the impact on investment opportunities.

1.3.9 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 2021/22. The revised estimates for 2021/22 have been adjusted to incorporate the adverse variance in cash and core investment income.

1.3.10 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 2021 the Council's return at 0.14% (purple diamond) was inline with the local authority average. 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.

1.3.11 Only cash flow and core cash returns form part of the benchmarking data. The additional return the Council makes from its property fund investments is not included. The data also excludes 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 anticipated during the remainder of 2021/22.

1.3.12 **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.

1.3.13 £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.

1.3.14 During the period 1 April 2021 to 30 September 2021 the £5m investment in property funds generated dividends of £78,000 which represents an annualised return of 3.1% (3.1% in 2020/21). Covid-19 has resulted in a proportion of rents due to be collected being deferred. In the third quarter fund managers reported that over 80% of rents due had been paid with the remaining expected at some point during the current financial year. Income from property funds is expected to be in line with the budget for the financial year as a whole.

1.3.15 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.

1.3.16 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. However, there are strong indicators that recovery is underway and demand for commercial property units has shown signs of increase in the later part of 2021. It was reported to Audit Committee in September 2021 that the principal investment in the property funds is close to pre-covid 19 levels.

1.3.17 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.

1.3.18 Sale values at the end of November vs initial purchase prices are as follows:

| **Property fund**<br><br>(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<br><br>a<br><br>£ | Sale value at date of purchase<br><br>b<br><br>£ | Sale value 30 November 2021<br><br>C<br><br>£ | 30 November 21 sale value above (below) purchase<br><br>price (c-a) £ |
|---|---|---|---|---|
| LAPF (Primary, July 2017) | 1,000,000 | 922,200 | 1,023,440 | 23,440 |
| Lothbury (Primary, July 2017) | 1,000,000 | 927,700 | 1,000,820 | 820 |
| Hermes (Secondary, Oct 2017) | 1,000,000 | 939,000 | 1,060,080 | 60,080 |
| LAPF (Primary, June 2018) | 1,000,000 | 922,200 | 981,270 | (18,730) |
| Lothbury (Secondary, July 2018) | 1,000,000 | 973,000 | 981,520 | (18,480) |
| **Total change in principal** | 5,000,000 | 4,684,100 | 5,047,130 | **47,130** |
| | | | **Total dividends received to September 2021** | **660,580** |
| | | | **Net benefit since inception** | **707,710** |

Table 2

1.3.19 Since inception, the Council has received dividends from its property fund investments totalling £660,580. The change in sales value on the principal investment within the property portfolio has exceeded the original purchase price, therefore as at November 2021, the capital investment has appreciated in value by £47,130. With the economy showing signs of recovery, this is the first time since the impact of Covid-19 we are able to report the capital growth has exceeded the cost of the original investment.

1.3.20 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.

1.3.21 **Medium term investment**. In recent years multi asset (diversified income) funds have grown in popularity. The rational for adopting such a fund was explored in the Audit Committee report of January 2018 and their use for medium-term investment reaffirmed in the January 2021 Audit Committee report which introduced the multi asset funds into the 2021/22 Annual Investment Strategy.

1.3.22 Like property funds, multi asset funds aim to generate returns over and above inflation and thus preserve spending power. The March 2020 cut in bank rate and its impact on the level of investment income in the early years of our MTFS provided added impetus to progress such an investment and provide some mitigation against a "low Bank Rate for longer".

1.3.23 Link were engaged to support the selection process. From a longlist of seventeen potential funds Link considered appropriate for Local Authority treasury investment, twelve were selected for detailed evaluation. In response to a questionnaire the qualitative and quantitative analysis undertaken by Link culminated in five funds being selected for presentation / interview. The presentations were held on 29 June 2021 and three funds were selected for investment with an expectation based on past performance that, each will deliver a return in excess of 3% per annum and preserve capital over the five-year duration of the investment

1.3.24 A total of £3m was initially invested equally between Fidelity Multi Asset Income Fund, Ninety-One Diversified Income Fund and Aegon Diversified Monthly Income Fund in July and August, with a further £1.25m invested in November 2021 across Aegon and Ninety-One with the proceeds from the sale of Riverwalk offices. Additional multi asset fund investments could be made in the future as resources become available from asset disposals and other windfalls.

1.3.25 During the period July 2021 to December 2021 the £4.25m investment in multi asset funds generated dividends of £43,100 which represents an annualised return of 3%. In the third quarter fund managers reported continued growth in the portfolios and in particular, infrastructure projects are providing healthy returns.

1.3.26 **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 2022/23

1.4.1 The Council's treasury advisor anticipates bank rate rising over the next three years in increments of 0.25% in order to counter the high levels of inflation we are currently experiencing and to promote the UK's economic growth. The expectation is we will see two incremental rate rises in 2022/23 and further stepped rates rises over the following two years to 2024/25 slowly increasing the bank rate to 1.25%. However, the timing of the bank rate rises is hard to predict as it is recognised that there is likely to be further mutations of Covid-19, which may change the landscape once more.

1.4.2 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 banks and building societies unrealistic at the present time. Bank offers have improved a little following the MPC's decision in December 2021 to move the bank rate to 0.25%. Nevertheless the improvement has amounted 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.

1.4.3 The returns on our **property fund investments**, though representing only 7.37% of 2021/22 investment portfolio, are likely to generate some 43% 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 to property funds from existing resources to 20% of expected long term balances, circa £3m per fund.

1.4.4 The returns on our **diversified income fund investments**, though representing only 6.27% of 2021/22 investment portfolio, are likely to generate some 40% of next years' income. The diversified income fund investments are medium term (5 year) investments. As a consequence of the potential for significant volatility in capital values, our strategy limits exposure to diversified income funds from existing resources to 20% of expected long term balances, circa £3m per fund.

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

1.4.6 There are no proposed changes for the 2022/23 strategy. However, the treasury team continuously monitor the market for potential investment which may align with the Council's strategic plans, and which would provide additional revenue streams.

1.4.7 **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. The 2022/23 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 2028/29, 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.

1.4.8 The 2022/23 Strategy **[Annex 5]** reflects the current economic environment, Link Asset Services' latest interest rate forecast and incorporates the risk parameters summarised in paragraph 1.4.7.

**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 2028/29. 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. Accordingly, a practice note was prepared and endorsed at the Audit Committee meeting in January 2021 and is attached at **[Annex 6]** for information.

## 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. Please note, both Codes have been updated in December 2021, and we will need to consider the implications to future updates to the Treasury Management and Annual Investment Strategy.

## 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. In December 2021, the Bank of England (BoE) returned the Bank Rate to 0.25%. Link's current forecast (December 2021) anticipates Bank Rate rising to 1.25% over the next three years to March 2025.

1.7.2 Following the March 2020 cut in Bank Rate, investment income at the end of December 2021 (month nine of the financial year) from cash flow surpluses and core cash investments is £11,630 below original budget for the same period. Income from property funds at the end of September is below original budget by £7,000 for the same period. Investment income from multi-asset funds since inception have generated £43,100 of unbudgeted income. Investment income for the year as a whole is expected to exceed the original budget by £46,100.

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 2022/23 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 2021.

2) Adopts the Treasury Management and Annual Investment Strategy for 2022/23 set out at **[Annex 5)**.

Background papers: contact: Donna Riley

Link Asset Services: Interest rate forecast (December 2021), economic commentary and benchmarking data.

Sharon Shelton
Director of Finance and Transformation

## Tonbridge and Malling Borough Council - Investment summary 31 December 2021

| Counterparty / type of investment | Sovereign | Fitch long term | Fitch short term | Link suggested post CDS duration limit | Investment | | | | | | Cash Flow surpluses £ | Core Cash balances £ | Medium term investment balances £ | Long term investment balances £ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Start date | End date | Duration at start | Amount invested £ | Return % | Proportion of total % | | | | |
| **Banks, Building Societies & Other Financials** | | | | | | | | | | | | | | |
| **Barclays Bank :** | UK | A+ | F1 | 6 months | | | | **3,000,000** | | 4.42% | | | | |
| 95 day notice account | | | | | 23/07/2019 | TBD | 95 Days | 3,000,000 | 0.15 | | | 3,000,000 | | |
| **Close Brothers :** | UK | A- | F2 | 6 months | | | | **4,000,000** | | 5.90% | | | | |
| Fixed term deposit | | | | | 21/07/2021 | 21/04/2022 | 9 Months | 2,000,000 | 0.35 | | | 2,000,000 | | |
| Fixed term deposit | | | | | 30/07/2021 | 29/04/2022 | 9 Months | 2,000,000 | 0.35 | | | 2,000,000 | | |
| **Goldman Sachs :** | UK | A+ | F1 | 6 months | | | | **5,000,000** | | 7.37% | | | | |
| Fixed term deposit | | | | | 17/03/2021 | 17/03/2022 | 1 year | 2,000,000 | 0.40 | | | 2,000,000 | | |
| Fixed term deposit | | | | | 21/04/2021 | 21/04/2022 | 1 year | 2,000,000 | 0.39 | | | 2,000,000 | | |
| Fixed term deposit | | | | | 13/09/2021 | 13/06/2022 | 9 Months | 1,000,000 | 0.26 | | | 1,000,000 | | |
| **HSBC Bank :** | UK | AA- | F1+ | 1 year | | | | **3,000,000** | | 4.42% | | | | |
| 31 day notice account | | | | | 02/12/2019 | TBD | 31 Days | 3,000,000 | 0.10 | | 3,000,000 | | | |
| **National Westminster Bank :** | UK | A+ | F1 | 1 year | | | | **2,050,000** | | 3.02% | | | | |
| Deposit account | | | | | 31/12/2021 | 04/01/2022 | Overnight | 50,000 | 0.01 | | 50,000 | | | |
| Certificate of Deposit | | | | | 15/12/2021 | 15/12/2022 | 1 Year | 2,000,000 | 0.56 | | | 2,000,000 | | |
| **Santander UK Bank :** | UK | A+ | F1 | 6 months | | | | **6,000,000** | | 8.85% | | | | |
| Fixed term deposit | | | | | 22/04/2021 | 21/01/2022 | 9 Months | 2,000,000 | 0.25 | | | 2,000,000 | | |
| Fixed term deposit | | | | | 27/05/2021 | 25/02/2022 | 9 Months | 2,000,000 | 0.25 | | | 2,000,000 | | |
| Fixed term deposit | | | | | 17/06/2021 | 17/03/2022 | 9 Months | 2,000,000 | 0.25 | | | 2,000,000 | | |
| **Toronto Domination Bank :** | Canada | AA- | F1+ | 1 year | | | | **2,000,000** | | 2.95% | | | | |
| Fixed term deposit | | | | | 28/09/2021 | 28/06/2022 | 9 Months | 2,000,000 | 0.20 | | | 2,000,000 | | |
| **Money Market Funds** | | | | | | | | | | | | | | |
| **Blackrock MMF** - shares/units held | N/A | AAA | mmf (Eq) | 5 years | 31/12/2021 | 04/01/2022 | Overnight | **50,000** | 0.00 | 0.07% | 50,000 | | | |
| **BNP Paribas MMF** - shares/units held | N/A | AAA | mmf (Eq) | 5 years | 31/12/2021 | 04/01/2022 | Overnight | **8,000,000** | 0.09 | 11.79% | 8,000,000 | | | |
| **CCLA PSDF MMF** - shares/units held | N/A | AAA | mmf | 5 years | 31/12/2021 | 04/01/2022 | Overnight | **8,000,000** | 0.13 | 11.79% | 8,000,000 | | | |
| **DWS Deutsche MMF** - shares/units held | N/A | AAA | mmf | 5 years | 31/12/2021 | 04/01/2022 | Overnight | **7,885,000** | 0.05 | 11.62% | 7,885,000 | | | |
| **Federated MMF** - shares/units held | N/A | AAA | mmf | 5 years | 31/12/2021 | 04/01/2022 | Overnight | **2,706,000** | 0.03 | 3.99% | 2,706,000 | | | |
| **Morgan Stanley MMF** - shares/units held | N/A | AAA | mmf | 5 years | 31/12/2021 | 04/01/2022 | Overnight | **6,890,000** | 0.05 | 10.16% | 6,890,000 | | | |
| **Property Funds** | | | | | | | | | | | | | | |
| **Hermes Property Unit Trust :** | N/A | N/A | N/A | N/A | | | | **1,000,000** | | 1.47% | | | | |
| Property fund units | | | | | 29/09/2017 | N/A | N/A | 1,000,000 | 3.49 | | | | | 1,000,000 |
| **Local Authorities' Property Fund :** | N/A | N/A | N/A | N/A | | | | **2,000,000** | | 2.95% | | | | |
| Property fund units | | | | | 29/06/2017 | N/A | N/A | 1,000,000 | 4.22 | | | | | 1,000,000 |
| Property fund units | | | | | 30/05/2018 | N/A | N/A | 1,000,000 | 3.98 | | | | | 1,000,000 |
| **Lothbury Property Trust :** | N/A | N/A | N/A | N/A | | | | **2,000,000** | | 2.95% | | | | |
| Property fund units | | | | | 06/07/2017 | N/A | N/A | 1,000,000 | 2.96 | | | | | 1,000,000 |
| Property fund units | | | | | 02/07/2018 | N/A | N/A | 1,000,000 | 2.85 | | | | | 1,000,000 |
| **Multi Asset Funds** | | | | | | | | | | | | | | |
| **Aegon** | N/A | N/A | N/A | N/A | | | | **1,750,000** | | 2.58% | | | | |
| Multi Asset fund units | | | | | 29/07/2021 | N/A | N/A | 1,750,000 | | | | | 1,750,000 | |
| **Fidelity** | N/A | N/A | N/A | N/A | | | | **1,000,000** | | 1.47% | | | | |
| Multi Asset fund units | | | | | 12/08/2021 | N/A | N/A | 1,000,000 | | | | | 1,000,000 | |
| **Ninety One** | N/A | N/A | N/A | N/A | | | | **1,500,000** | | 2.21% | | | | |
| Multi Asset fund units | | | | | 12/08/2021 | N/A | N/A | 1,500,000 | | | | | 1,500,000 | |
| | | | | | **Total invested** | | | **67,831,000** | | **100.00%** | **36,581,000** | **22,000,000** | **4,250,000** | **5,000,000** |

| | | | |
|---|---|---|---|
| **Number of investments** | 27 | **Average investment value £** | 2,512,000 |
| **Number of counter parties** | 19 | **Average counter party investment £** | 3,570,000 |

| **Group exposures:** | **Core £** | **Cash £** | **Combined £** | **%** |
|---|---|---|---|---|
| **Royal Bank of Scotland + National Westminster (UK Nationalised MAX 20%)** | 2,000,000 | 50,000 | 2,050,000 | 3.02 |
| **Bank of Scotland + Lloyds (MAX 20%)** | - | - | - | - |

| | **£** | **%** |
|---|---|---|
| **Property Funds Total** | 5,000,000 | 7.37 |
| **Multi Asset Funds Total** | 4,250,000 | 6.27 |

| | |
|---|---|
| **Total non-specified investments should be less than 60% of Investment balances** | 6.27% |

**Notes:**

**Property fund returns are based on dividends distributed from the start of each investment. Capital appreciation / depreciation is recorded elsewhere. Last update June 2021.**

**End date for notice accounts to be determined (TBD)**

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## Tonbridge and Malling Borough Council Lending List

Checked against Link's "Suggested Credit List" dated 31/12/21
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 | 6 months | 6 months |
| **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 |
| **CCLA Public Sector Deposit Fund** | - | AAA | - | £8m | 5 years |
| **DWS Deutsche Global Liquidity - Deutsche Managed Sterling** | AAA | AAA | AAA | £8m | 5 years |
| **Federated Cash Management - Short Term Sterling Prime** | - | AAA | AAA | £8m | 5 years |
| **Insight - Sterling Liquidity** (Group limit IL & ILP of £7m) | - | AAA | AAA | £8m | 5 years |
| **Morgan Stanley Liquidity - Sterling** | AAA | AAA | AAA | £8m | 5 years |

**Enhanced Cash Funds (Minimum investment criteria AAA) :**

| Fund Name | Moody | Fitch | S&P | Exposure Limit | Link credit worthiness |
|---|---|---|---|---|---|
| **Insight - Sterling Liquidity Plus** (Group limit IL & ILP £7m) | - | AAA | AA+ | £3.5m | 5 years |

Approved by Director of Finance and Transformation

04 January 2022

No change

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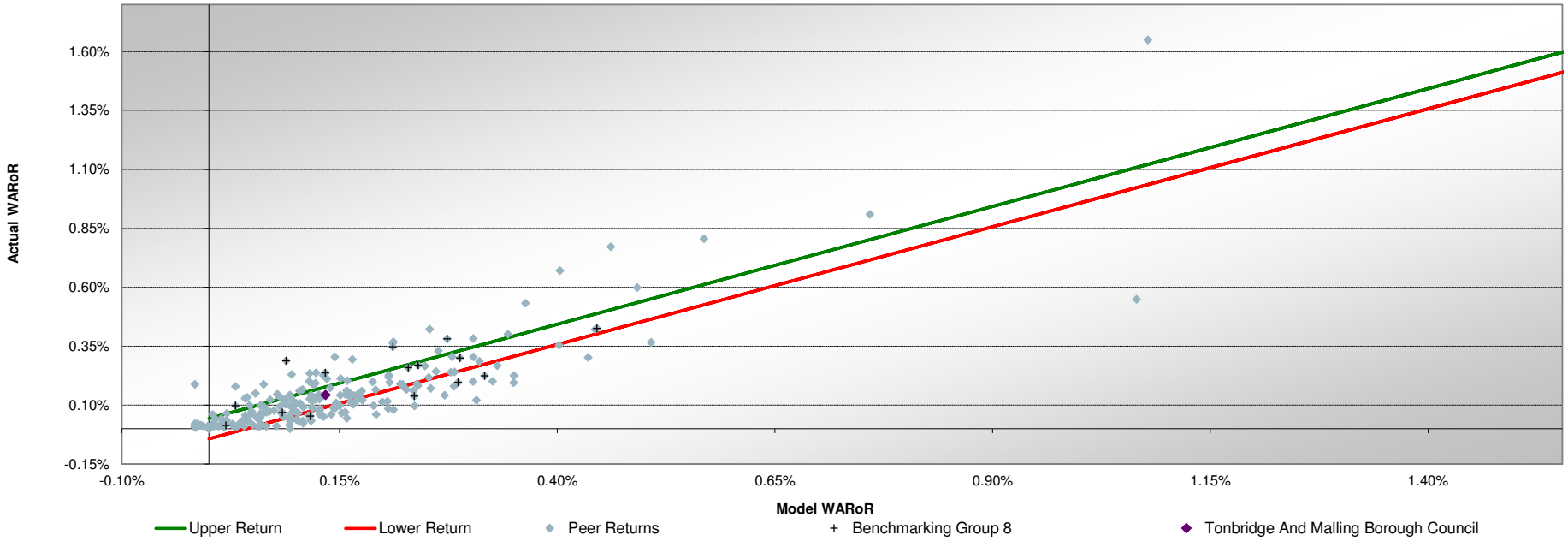
## Tonbridge And Malling Borough Council

### Population Returns against Model Returns




| | Actual WARoR | Model WARoR | Difference | Lower Bound | Upper Bound | Performance |
|---|---|---|---|---|---|---|
| Tonbridge And Malling Borough Council | 0.14% | 0.13% | 0.01% | 0.09% | 0.18% | Inline |

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Extract from FIPAB estimates presentaiton - 12 January 2022. Costs attributed to banking arrangements and transfers in lieu of interest are excluded.

## DIRECTOR OF FINANCE & TRANSFORMATION

| | 2021/22 ORIGINAL ESTIMATE £ | 2021/22 REVISED ESTIMATE £ | 2022/23 ESTIMATE £ |
|---|---|---|---|
| **4 TREASURY MANAGEMENT** | | | |
| **Employees** | | | |
| Salaries | 31,800 | 31,100 | 31,950 |
| **Supplies & Services** | | | |
| Treasury Advisor & Dealing Fees | 11,000 | 19,500 **a)** | 11,000 |
| | 42,800 | 50,600 | 42,950 |
| **Less Income** | | | |
| Interest on: | | | |
| Cash Flow Investments | (31,000) | (9,200) **b)** | (10,850) |
| Core Cash Investments | (49,000) | (55,000) | (57,000) |
| Medium Term Investments | - | (61,900) **c)** | (157,250) **c)** |
| Long Term Investments | (170,000) | (170,000) | (172,000) |
| | (250,000) | (296,100) | (397,100) |
| **Sub-total** | (207,200) | (245,500) | (354,150) |
| **Central, Departmental & Technical Support Services** | | | |
| Central Salaries & Administration | 10,650 | 10,550 | 10,850 |
| Information Technology Expenses | 700 | 700 | 650 |
| Departmental Administrative Expenses | 15,850 | 16,900 | 16,800 |
| **TO SUMMARY** | **(180,000)** | **(217,350)** | **(325,850)** |
| **Full Time Equivalent Number of Staff** (including Support Service Staff) | 0.92 | 0.90 | 0.91 |

**a)** Increase reflects the fee paid to the Council's treasury management advisors for the support provided in the Multi Asset Diversified Income Funds investment selection process.

**b)** Interest rates remain low.

**c)** Investment of existing funds and the proceeds from the sale of River Walk Offices in Multi Asset Diversified Income Funds during 2021/22.

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# Treasury Management and Annual Investment Strategy 2022/23

## 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 2028/29 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 2021 comprised only investments. On that date the Council's cash flow and core fund investments totaled £58m 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 48 days with a weighted average rate of return 0.17%. Returns in future years are expected to improve as Bank Rate increases are implemented. 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 2022.

6.2 The Council held £5m in externally managed property fund investments at 31 December 2021. The property funds are expected to generate a stable income of 4% in 2022/23 and this level should continue 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 The Council also held £4.25m in externally managed multi asset fund investments at 31 December 2021. The multi asset funds are expected to generate income of 3.4% in 2022/23 rising to 4% in future years. Over time the rise in the value of each multi asset funds' assets (capital appreciation) is expected to negate and fund entry and exit costs where applicable.

6.4 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 was endorsed by Council approving 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:

- 2022/ 2023 0.75%
- 2023/ 2024 1.00%
- 2024/ 2025 1.25%

7.2 The forecast may be overly optimistic (downside risks) dependent on:

- Mutations of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed or unable to be administered fast enough to stop the NHS being overwhelmed, resulting in further national lockdowns or severe regional restrictions.
- Labour and supply shortages prove more enduring and disruptive and depress economic activity.
- Bank of England acts 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:

- 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 later rapid series of increases in Bank Rate than we currently expect.
- Longer term US treasury yields rise strongly and pull gilt yields up higher than forecast.

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 | N/A |

| | |
|---|---|
| available from, or in anticipation of, the sale of existing property assets or other windfalls. | |
| 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. 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 |

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 2022/23 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 2022/23 a return on cash flow investments of 0.21% 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 2022/23 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 2022/23 a return on core fund investments of 0.46% 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 2022**

## 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 2022/23 report that is to be submitted to Cabinet on 10 February 2022.

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

| TREASURY MANAGEMENT INDICATORS | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|
| | 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 | 9,250 (23.4%) | 60% of funds | | | |

| Maturity structure of fixed rate borrowing during 2021/22 – 2024/25 | upper limit | lower limit |
|---|---|---|
| under 12 months | 100 % | 0 % |
| Over 12 months | 0 % | 0 % |

## Appendix 3 Interest rate forecasts – December 2021

| Link Group Interest Rate View | 20.12.21 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 |
| BANK RATE | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 |
| 3 month ave earnings | 0.20 | 0.30 | 0.50 | 0.50 | 0.60 | 0.70 | 0.80 | 0.90 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| 6 month ave earnings | 0.40 | 0.50 | 0.60 | 0.60 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 |
| 12 month ave earnings | 0.70 | 0.70 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.10 | 1.10 | 1.20 | 1.20 | 1.20 | 1.20 | 1.20 |
| 5 yr PWLB | 1.40 | 1.50 | 1.50 | 1.60 | 1.60 | 1.70 | 1.80 | 1.80 | 1.80 | 1.90 | 1.90 | 1.90 | 2.00 | 2.00 |
| 10 yr PWLB | 1.60 | 1.70 | 1.80 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.10 | 2.20 | 2.30 |
| 25 yr PWLB | 1.80 | 1.90 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 | 2.40 | 2.40 | 2.50 | 2.50 |
| 50 yr PWLB | 1.50 | 1.70 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.30 | 2.30 |
| **Bank Rate** | | | | | | | | | | | | | | |
| Link | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 |
| Capital Economics | 0.25 | 0.25 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | - | - | - | - | - |
| **5yr PWLB Rate** | | | | | | | | | | | | | | |
| Link | 1.40 | 1.50 | 1.50 | 1.60 | 1.60 | 1.70 | 1.80 | 1.80 | 1.80 | 1.90 | 1.90 | 1.90 | 2.00 | 2.00 |
| Capital Economics | 1.40 | 1.40 | 1.50 | 1.50 | 1.60 | 1.70 | 1.70 | 1.80 | 1.90 | - | - | - | - | - |
| **10yr PWLB Rate** | | | | | | | | | | | | | | |
| Link | 1.60 | 1.70 | 1.80 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.10 | 2.20 | 2.30 |
| Capital Economics | 1.60 | 1.60 | 1.70 | 1.70 | 1.80 | 1.80 | 1.90 | 2.00 | 2.00 | - | - | - | - | - |
| **25yr PWLB Rate** | | | | | | | | | | | | | | |
| Link | 1.80 | 1.90 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 | 2.40 | 2.40 | 2.50 | 2.50 |
| Capital Economics | 1.80 | 1.80 | 1.90 | 1.90 | 2.00 | 2.10 | 2.10 | 2.20 | 2.30 | - | - | - | - | - |
| **50yr PWLB Rate** | | | | | | | | | | | | | | |
| Link | 1.50 | 1.70 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.30 | 2.30 |
| Capital Economics | 1.40 | 1.50 | 1.60 | 1.70 | 1.80 | 1.90 | 2.00 | 2.20 | 2.30 | - | - | - | - | - |

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

1 **UK**. Covid-19 vaccines were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

2 A summary overview of the future path of **Bank Rate:**

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.

- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- Link have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

3 The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

4 The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

5 The disappointing 0.1% m/m rise in GDP in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

6 The labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's

more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.

7 These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

8 CPI inflation figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).

9 Other elements of inflation are also transitory e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

10 Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major economy wide expenditure unless it is very limited and targeted on narrow sectors like hospitality, (as announced just before Christmas). The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!

11 This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%.** What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

12 On the other hand, it did also comment that **"the Omicron variant is likely to weigh on near-term activity".** But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)

13 On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time,** which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.

14 These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only **a "modest tightening"** in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.

15 In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory,** and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.

16 As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

17 **US**. Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.

18 **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.

19 Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

20 **EU**. The slow role out of vaccines initially delayed **economic recovery** in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

21 **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth

remains subdued and there are no signs of a trend of faster wage growth which might lead to *persistently* higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection

22 **ECB tapering.** The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support

23 The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope

24 The EU has entered a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit.

25 **China**. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021

26 However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta

variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time. The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.

27 Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy

28 **Japan**. 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.

29 The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

30 **World growth**. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is 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, and vice versa. This is likely to reduce world growth rates from those in prior decades.

31 **Supply shortages**. The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have

contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

**Summary**

**32 In the December 2021 meeting, The Monetary Policy Committee voted by a majority of 8-1 to increase the interest rate to 0.25%. The action was taken as inflation continues to climb and expected to peak in April at 6%. The MPC have also indicated that further bank rate increases are likely in 2022. However, this could depend on how adversely, or not, the economy is affected by Omicron. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE.**

**33 There is a question of whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available the impact of which may stagger the economic recovery.**

Link Asset Services
01 December 2021

## 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 2021 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 2021 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 valueof 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.<br>Sale of Assets at a benchmarked threshold.<br>Annual Valuation. |
| Upturn in property market | Purchase cost of potential assets increases. | 4 | 3 | 12 | Continued monitoring of markets.<br>Adjusting purchase criteria to reflect market movement.<br>Consider sales of assets for capital gain.<br>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.<br>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.<br>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.<br>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.<br>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.<br>Look for guarantors or cash deposits where covenants are considered weak.<br>Consider multi-tenanted properties in order to diversify risk.<br>Ensure robust credit control procedures in place.<br>Monitor tenant company performance. |
| Void periods | Loss of rental income, holding costs incurred – rates, utilities etc.<br>Costs of re-letting. | 3 | 3 | 9 | Monitoring tenancies as described above.<br>Move quickly to appoint letting agents should a “void” period appear likely.<br>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.<br>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.<br>Appoint external professionals to manage landlord and tenant processes.<br>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**

**24 January 2022**

**Report of the Director of Finance and Transformation**

**Part 1- Public**

**Delegated**

## 1 ACCOUNTING POLICIES

**This report presents the Accounting Policies proposed for the 2021/22 Financial Statements for consideration and endorsement.**

### 1.1 Introduction

1.1.1 The Accounting Policies to be used in the preparation of the 2021/22 Financial Statements are attached at **[Annex 1]** for Members' consideration and endorsement.

1.1.2 A change proposed to be made to the previous Accounting Policies used for the 2020/21 Financial Statements is the accounting treatment in respect of the charge made for the garden waste service from a cash basis to an accruals basis. In addition, reference to the Kent Business Rates Pool has been removed for the year 2021/22.

1.1.3 This latest review found that no other changes were required to the Accounting Policies to be adopted for the 2021/22 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 2021/22 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 2021/22*. 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 based on the effective interest rate for the relevant investment rather than the cash flows for the redemption of the investment or interest due dates.
- Income from garden waste customers is apportioned between years to account for the service that they have paid for in the current and following financial years.

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, income from car parks, land charges income, licensing fees and planning application and building control 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.

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 30 September 2021.

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** | |
|---|---|---|
| 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 |
| Car Parks | 2021/22 | |

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**

**24 January 2022**

**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 2021. This latest review found that no changes were required at this time. It is therefore recommended that this policy is reviewed every two years. In the event any significant changes are required due to changes in legislation or risks this is brought to the next available Committee.

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 2021. This latest review found that a number of changes are required to bring it up to date with best practice.

1.3.2 A copy of the updated internal Whistleblowing Policy is attached at **[Annex 2]**. As well as the policy, it is best practice to publish to staff the procedure on how concerns of wrongdoing will be handled and progressed, therefore a new Whistleblowing Procedure is being recommended to be adopted as part of this policy review. The Whistleblowing Procedure can be found at [**Annex 3].**

1.3.3 In addition, and in line with best practice it is recommended that an external policy is made available to support those working externally to TMBC who may witness wrongdoing by employees or Members. This policy will provide the details on who and how to raise concerns. A copy of the policy is attached at **[Annex 4]**.

**1.4 Action Following Approval of the Policies**

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

**1.5 Legal Implications**

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

**1.6 Financial and Value for Money Considerations**

1.6.1 Fraud prevention and detection is an area subject to central government focus with initiatives such as the National Fraud Initiative and 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 employees, Members and the public 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 **[Annex 2]** and accompanying Whistleblowing Procedure **[Annex 3]** and external Policy **[Annex 4]** are approved by the next General Purposes Committee.

Background papers: contact: James Flannery

Nil

Sharon Shelton
Director of Finance and Transformation

Adrian Stanfield
Director of Central Services
and Deputy Chief Executive

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# ANTI-FRAUD, BRIBERY & CORRUPTION POLICY

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|---|---|
| Document Owner: | Sharon Shelton<br>Director of Finance and Transformation |
| Version: | Version 11 |

**Document Review History**

| Version | Reviewed | Reviewer | Approver | Date Approved |
|---|---|---|---|---|
| Original | N/A | Audit Assurance Manager | Audit Committee | 24 January 2011 |
| 9 | December 2019 | Audit Assurance Manager | Audit Committee | 20 January 2020 |
| 10 | December 2020 | Audit Assurance Manager | Audit Committee | 18 January 2021 |
| 11 | December 2021 | Audit Assurance Manager | Audit Committee | 24 January 2022 |

**January 2022**

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**Tonbridge & Malling Borough Council**
**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 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 taxpayer £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 & 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 & 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 & 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 Audit Assurance Manager.

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 & 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 Audit Assurance Manager is assessing 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 is 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 the Counter Fraud Team.

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

**Tonbridge & 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 Audit Assurance Manager and Counter Fraud are 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 Audit Assurance Manager 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 councils 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 of Work and 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. 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 & Malling Borough Council participates in the National Fraud Initiative (NFI). This requires public bodies to submit data sets to the Cabinet Office, for example electoral roll, Council Tax, Pension, and Accounts Payable (but not limited to these) which are 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 & 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 the Council 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 consider 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 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 Assurance Manager on her behalf.

11.2. The Anti-Fraud, Bribery & Corruption Policy will be reviewed and endorsed at least every two years by the Audit Committee at their January meeting. The most recent review was undertaken in January 2022 with the next review due January 2024.

## 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<br>Director of Central Services and Deputy Chief Executive |
| Version: | Version 7 |

**Document Review History**

| Version | Reviewed | Reviewer | Approver | Date Approved |
|---|---|---|---|---|
| Original | N/A | Audit Assurance Manager | Audit Committee | 27 January 2014 |
| 5 | December 2019 | Audit Assurance Manager | General Purposes Committee | 27 January 2020 |
| 6 | December 2020 | Audit Assurance Manager | General Purposes Committee | 25 January 2021 |
| 7 | December 2021 | Audit Assurance Manager | General Purposes Committee | 31 January 2022 |

**January 2022**

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**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*

*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

- 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 Councillor 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
- 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 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 Audit Assurance Manager 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 Assurance Manager.

6.4 Individuals may also contact the Audit Assurance Manager 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 act. 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 raise the concern with. 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 raising a concern 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 concern to 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 the Audit Assurance Manager and Counter Fraud Manager 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 Audit Assurance Manager and Counter 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; email: paul.dossett@uk.gt.com)
- Public Concern at Work (Tel: 020 7404 6609, www.pcaw.co.uk), a registered charity whose services are free and confidential
- The local Citizens Advice Bureau
- Relevant professional bodies, Trade Unions or regulatory organisations

- Unison Whistleblowing 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 Audit Assurance Manager 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 Audit Assurance Manager 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 2022 with the next review due January 2023.

**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……..

# Whistleblowing Procedure
# Speaking Up About Wrongdoing

| | |
|---|---|
| Document Owner | Adrian Stanfield<br>Director of Central Services & Deputy Chief Executive |
| Version | Version 2 |

| Version | Reviewed | Reviewer | Approver | Date Approved |
|---|---|---|---|---|
| Original | | | | |
| 2 | 08 November 2021 | Counter Fraud Manager | Audit Committee | |
| | | | | |
| | | | | |
| | | | | |

## 1. Introduction

1.1. It is important for individuals (employees, agency workers, volunteers and those contractors working on TMBC premises) to have an appropriate means to raise concerns if they believe that something is seriously wrong within Tonbridge & Malling Borough Council.

1.2. You may become aware of, or directly witness, situations or conduct that makes you feel uncomfortable, or you regard as inappropriate. The Whistleblowing Procedure provides a means for you to raise concerns about matters not related to your own employment or your work within TMBC but which you feel need to be examined. Examples of the type of matters that could lead to you wishing to raise a whistleblowing concern are:

- Conduct which is, has been or is likely to be an offence or breach of law
- Conduct that has occurred, is occurring or is likely to occur the result of which the Council fails to comply with a legal obligation. For example, unauthorised use of public funds, possible fraud and corruption, sexual or physical abuse of clients, or other unethical conduct discrimination of any kind and waste/frivolous expenditure
- A concern that a TMBC employee (or someone working with us) or a service user may be at risk of being drawn into extremism and terrorism (See para 10.1)
- Disclosures related to past, current or likely miscarriages of justice
- Past, current or likely health and safety risks, including risks to the public as well as other employees (see below)
- Past, current or likely damage to the environment
- Concerns about any aspect of service provision
- Other concerns regarding the conduct (including breaches of known standards or TMBC's Standing Orders) of officers or TMBC Members or others acting on behalf of TMBC

1.3. This document outlines the process that will be followed in the event of a whistleblowing concern being raised.

## 2. Other Procedures

2.1. This procedure is separate from the Council's Complaints Procedures and other statutory reporting procedures applying to some Directorates. Managers are responsible for making service users aware of these procedures.

2.2. Any investigation into allegations of potential malpractice under this procedure will not influence or be influenced by any disciplinary or redundancy procedures that already affect an individual.

2.3. Tonbridge & Malling Borough Council's Safety Complaints Procedure should be used to raise any issues, concerns or complaints of a health and safety nature and which are not confidential.

2.4. If, as an employee, you wish to raise a concern regarding issues relating to your own employment TMBC has a Resolution Policy and Procedure that you can use. Further information on these documents can be found on StaffNet.

## 3. How to Raise a Concern

### General

3.1. Concerns can be raised verbally or in writing. A concern should:

- Set out the background and history of the concern, giving names, dates, and places where possible
- Give the reason why you are particularly concerned about the situation

3.2. The earlier a concern is raised the easier it is to act. Although you are not expected to prove beyond doubt the truth of an allegation, you need to demonstrate to the person contacted that there are sufficient grounds for your concern. A trade union or professional association may raise a matter on your behalf.

3.3. If you intend to raise a whistleblowing concern you are encouraged to include your name. If you specifically request for your name not to be released during the examination of your concern, all efforts will be made for this information to remain confidential. However, if you are required to participate in the process as a witness, it may not be possible for your name to be withheld.

3.4. In the event of anonymous allegations being received, this should be sent to one of the Senior Management contact points and/or Internal Audit who will determine whether it is possible and appropriate for the allegations to be examined.

### Step One – Raising a Concern

3.5. Whenever possible you should raise your concern with your immediate manager or his/her manager, who can, if needed, seek guidance and advice from one of the Senior Management Contact Points. If this is not appropriate or you feel your concerns are not being addressed, you should approach the following officers and Senior Management contact points who support Corporate Directors according to the nature of the concern:

| Directorate | Contact Name | Email |
|---|---|---|
| **Chief Executive** | **Julie Beilby** | Julie.Beilby@tmbc.gov.uk |
| **Director of Central Services & Deputy Chief Executive** | **Adrian Stanfield** | Adrian.Stanfield@tmbc.gov.uk |
| **Director of Finance & Transformation** | **Sharon Shelton** | Sharon.Shelton@tmbc.gov.uk |
| **Director Street Scene, Leisure & Tech Services** | **Robert Styles** | Robert.Styles@tmbc.gov.uk |

| | | |
|---|---|---|
| **Director of Planning, Housing and Environmental Health** | **Eleanor Hoyle** | Eleanor.Hoyle@tmbc.gov.uk |
| **Audit and Assurance Manager** | **Richard Benjamin** | richard.benjamin@kent.gov.uk |
| **Counter Fraud Manager** | **James Flannery** | james.flannery@tmbc.gov.uk |

**Recording Concerns**

3.6. Each directorate will be responsible for maintaining their own whistleblowing log. Managers who receive a concern should send details to their relevant directorate contact as above. The log will include the area of business that have been affected, a summary of the concerns being raised, action taken and the resulting outcome.

3.7. Audit Assurance maintains a central record of whistleblowing concerns. Directorates will be required to provide a copy of their whistleblowing log on a quarterly basis to the Audit Assurance Manager for inclusion into the central log to ensure a complete record is maintained.

3.8. Managers that receive Whistleblowing concerns must report the matter to the above departmental contacts and Internal Audit for inclusion on the central record by sending the details to fraud@tmbc.gov.uk with the subject line 'Whistleblowing'.

3.9. Tonbridge & Malling Borough Council has an Anti-Fraud and Corruption Policy and all suspected financial irregularities must be reported to the Audit Assurance Manager.

**Whistleblowing Hotline**

3.10. Audit Assurance is independent and provides objective assurance and consulting activity designed to add value and improve an organisation's operations. If you wish to raise any type of Whistleblowing concern directly with the Audit Assurance Manager (anonymously if necessary) please call the Whistleblowing helpline on 03000 414500 or email fraud@tmbc.gov.uk.

**Step Two - How Tonbridge & Malling Borough Council will respond**

3.11. The action TMBC takes will depend on the nature of the concern. The matters raised may:

- Internal investigation by management, the Audit Assurance Manager or via disciplinary or other internal process/es
- Referral to the Police
- Referral to the External Auditor
- The subject of an independent inquiry.

3.12. You will be contacted in writing within ten working days of your concern being raised

- Acknowledging that the concern has been received
- Indicating how the Council proposes to deal with the matter
- Giving an estimate of how long it will take to provide a final response
- Informing you if any initial enquiries have been made
- Whether further investigations will take place and, if not, why not.

3.13. To protect individuals and TMBC, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations which fall within the scope of specific procedures (e.g., child protection or discrimination issues) will normally be referred for consideration under those procedures.

3.14. An appropriate manager will conduct preliminary enquiries into the matters you have raised. In order to determine whether your concern needs to be formally investigated the manager will seek advice from the People and Communication Team and, where appropriate, safeguarding professionals, Audit Assurance or the Counter Fraud Manager.

3.15. When any meeting is arranged you have the right to be accompanied by a trade union representative or a workplace colleague who is not involved in the area of work to which the concern relates.

3.16. The formal investigation will identify what, if any, action is required to address the concerns you identified via the Whistleblowing Procedure. This may involve disciplinary action against another TMBC employee or the involvement of agencies such as the Police or the External Auditor.

3.17. Some concerns may be resolved by agreed action without the need for investigation. If urgent action is required, this will be taken before any investigation is conducted.

**Protection from Reprisals and Victimisation**

3.18. Tonbridge & Malling Borough Council does not tolerate reprisals, victimisation or harassment and will take all reasonable action to protect you if you raise a concern via the Whistleblowing Procedure. The Council will treat any reprisals, victimisation or harassment as a serious matter and if this involves a TMBC employee it will be investigated in accordance with the Disciplinary Procedure. In the event of a disciplinary case being found, this could potentially result in the person's dismissal.

**Public Interest Disclosure**

3.19. Public Interest Disclosure Act 1998 gives employees two safeguards in respect of disclosures of information.

- An employee is entitled not be subjected to any detriment by virtue of having made a protected disclosure.
- The dismissal of any TMBC employee directly due to the individual having made such a disclosure will automatically be unfair

**Support**

3.20. Tonbridge & Malling Borough Council will take steps to minimise any difficulties you may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings, TMBC will advise or arrange for you to have advice about the procedure.

3.21. TMBC accepts that you need to be assured that concerns will be properly addressed and, subject to legal constraints, will provide information about the outcomes of any investigations.

**Contact**

3.22. The amount of contact between the officers considering the issues and you will depend on the nature of the matters raised, the potential difficulties involved, and the clarity of the information provided. If necessary, further information will be sought.

## 4. How the Matter can be taken further

4.1. This procedure is intended to reassure you and provide clear information to help you raise concerns in confidence and directly with the Council.

4.2. The Council hopes you will be satisfied with its response. If you are not, or if you feel for any reason, you can't raise the matter directly with TMBC then alternative points of contact points are listed below.

4.3. Please be assured that we would rather you raised a matter with an appropriate regulator or outside body than not at all.

| Contact Details (External Organisations) | Details |
|---|---|
| Grant Thornton<br>(The Council's external auditors) | Address: 30 Finsbury Square, London, EC2A 1AG<br>Tel no. 020 7383 5100 |
| The Local Government and Social Care Ombudsman | Address: PO Box 4771, Coventry, CV4 0EH<br>Email: advice@lgo.org.uk<br>Website: www.lgo.org.uk<br>Tel no. 03000 061 0614 |
| The Equalities and Human Rights Commission | Address: FREEPOST Equality Advisory Support Service<br>FPN4431<br>Email: correspondence@equalityhumanrights.com<br>Website: www.equalityhumanrights.com<br>Tel no. 0808 800 0082 |
| The Health and Safety Executive<br>(Regional Office) | Address:<br>Health and Safety Executive, International House<br>Dover Place<br>Ashford<br>Kent<br>TN23 1HU |

| | |
|---|---|
| | Website: www.hse.gov.uk<br>Tel no. 0845 345 0055 |
| The Environment Agency (Regional Office) | Address: National Customer Contact Centre<br>PO Box 544<br>Rotherham S60 1BY<br>Email: enquiries@environmentagency.gov.uk<br>Website: www.environment-agency.gov.uk<br>Tel No. 0370 850 6506 |
| Citizens Advice | Please refer to website for local information<br>Website: www.citizensadvice.org.uk |
| Police | Please refer to website for local information<br>Website: www.kent.police.uk<br>Tel No. Non emergencies 101 |
| Your local councillors (if you live in Kent) | Website: www.kent.gov.uk |
| Protect – Free Confidential Whistleblowing advice | Tel No: 020 3117 2520<br>Website: www.protect-advice.org.uk |
| Whistleblowing: List of prescribed people and bodies | Website: https://www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies--2/whistleblowing-list-of-prescribed-people-and-bodies |

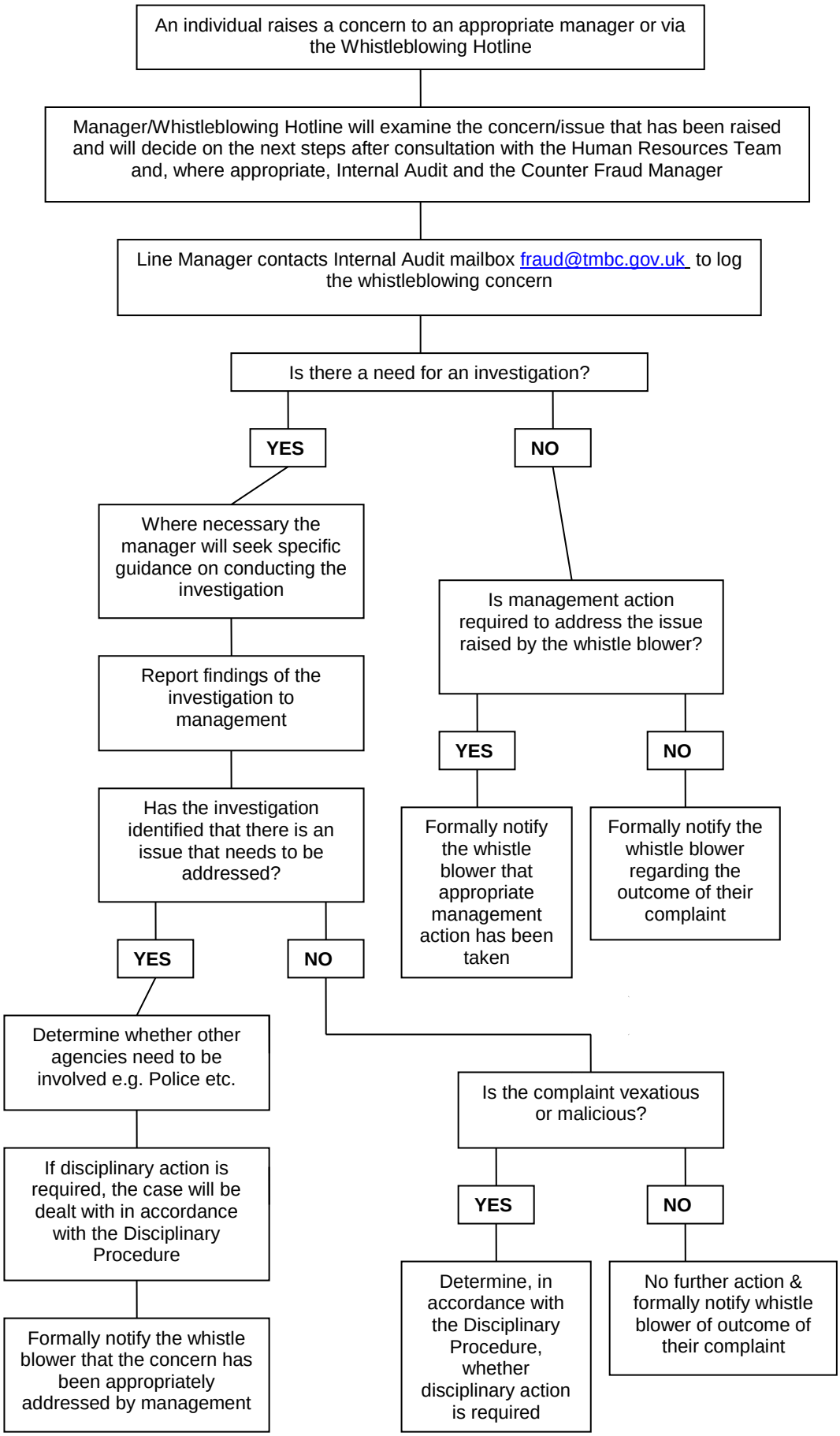
## 5. Reporting

5.1. Anonymised information on the number of referrals, concerns and outcomes will be reported by the whistleblowing policy owner on a yearly basis to the Audit Committee. This is to provide assurance on the communication strategy and current awareness of whistleblowing across the organisation.

## 6. False or Malicious Allegations.

6.1. Disciplinary action will only be taken against individuals who make malicious or vexatious allegations.

**Whistleblowing Procedure**



**Speaking Up About Wrongdoing:**

**Arrangements for the Public**

## How do I raise a concern?

Ring the Whistleblowing Hotline 03000 414500

Or

## Email / Write

- fraud@tmbc.gov.uk
- Audit Assurance Manager
  Tonbridge & Malling Borough Council, Gibson Building, Gibson Dr, Kings Hill, West Malling ME19 4LZ

Or

Contact a senior officer directly. A list of officers can be found in Annex 1 or on our website or by telephoning Customer Services on 01732 844522

## What information should I provide?

- Background and history of the concern.
- Names, dates and places where possible,
- The reason why you are particularly concerned about the situation

You are not expected to prove the truth of your raised concern. You will need to demonstrate to the person contacted that there are reasonable grounds for your concern.

The earlier you express the concern the easier it will be to take appropriate action.

## 1. Introduction

1.1. Tonbridge & Malling Borough Council is committed to the highest possible standards of openness, honesty, integrity and accountability. As part of this commitment, the Council is keen that any activity which falls below these standards is reported to the Council, in order that it can be dealt with promptly. The Council, whilst making every effort to deal fairly and honestly in providing public services, acknowledges that there may be occasions when members of the public suspect that there is or may be something wrong regarding the activities of the Council which needs prompt action to correct it.

1.2. The Council recognises the need to encourage anyone with concerns about any aspect of the Council's work to come forward and voice those concerns. Usually, these are easily resolved. However, when these are about unlawful conduct, financial malpractice or dangers to the public, people or the environment, it can be difficult to know what to do. Specific examples could include:

- A criminal offence (e.g., fraud, theft, bribery, corruption etc.) may have or has been committed
- A miscarriage of justice has been or is likely to occur
- The health or safety of an individual has been or is likely to be endangered
- Public funds are being used in an unauthorised manner
- The environment has been or is likely to be damaged
- The Council's own rules have been or are being breached
- Abuse (e.g., physical or verbal) of someone receiving a council service, or council employee is taking place, and
- Someone receiving a Council service is being discriminated against (e.g., on the grounds of disability, race, gender).

1.3. The Council has created this Policy, 'Speaking Up About Wrongdoing: Arrangements for the Public', specifically to enable you, as a member of the public, to raise your concerns about suspected malpractice at an early stage and in the right way. We would rather that you raised the matter when it is just a concern rather than wait for definite proof. This Policy is intended to encourage and enable you to be able to communicate serious concerns with the council rather than overlooking a problem.

1.4. If something is troubling you, which you think we should know about, or consider, please use this policy.

**Don't ignore the concern. If in doubt – speak up!**

## 2. Scope and objectives

### Scope

2.1. This policy is provided for use by anyone who is not employed by the council (staff have their own policy). This includes any:

- Member of the public
- Elected councillors
- Other local authorities
- Council service:
    - Consultants
    - Contractors
    - Customers
    - Partners
    - Providers
    - Recipients
    - Suppliers

2.2. It is not intended that this policy, and its associated procedures, be used to raise concerns which fall within the scope of other council procedures, where these are available and more appropriate, for example complaints about service delivery (please see the Complaints Procedure on the Council's website).

### Objectives

2.3. The objectives of this policy are to encourage you as a member of the public or someone who engages with TMBC to:

- Feel confident about raising serious concerns
- Feel reassured that, if you raise any concerns and reasonably believe them to be true (i.e., "Whistle blow"), your concerns will be taken seriously
- Have a range of ways in which to raise concerns and to receive appropriate feedback on any action taken
- Ensure that you receive an appropriate response from the council to the concerns you have raised and, if not satisfied, show how you may take the matter further if you are dissatisfied with the response.

## 3. Safeguards

### Harassment or victimisation

3.1. The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the fear of possible reprisals. The Council will not tolerate victimisation and will act to prevent this when you raise a concern.

**Confidentiality**

3.2. The Council will do its best to protect your identity when you raise a concern and do not want your name to be disclosed (information relating to the investigation will be strictly controlled on a need-to-know basis). However, it is not easy for the Council to act on concerns s that are made anonymously. If you ask us for your identity to be kept confidential, we will not disclose it without your consent or unless we are required to do so by a Tribunal, Court of Law or an Act of Parliament. If the situation arises where we are not able to resolve the concern without revealing your identity (e.g. a statement by you may be required as part of the evidence), we will discuss with you whether and how we can move forward.

**Concerns raised anonymously**

3.3. This policy strongly encourages you to put your name to your concern. Concerns expressed anonymously will be much more difficult for us to consider or to give you feedback. Concerns raised anonymously are much less powerful and less likely to be effective, but they will be considered at the discretion of the Council.

3.4. In exercising discretion, the factors considered will include the:

- Seriousness of the issues raised
- Credibility and plausibility of the concern
- Likelihood of confirming the allegation from the available sources.
- How to raise a concern directly with the council
- As a first step, you should normally call the Whistleblowing Hotline,
- 03000 414500.
- You can also raise your concern directly with the Council's Audit Assurance Manager, the Head of Paid Service, Section151 Officer, or relevant Senior Manager of the service area involved. This depends, however, on the seriousness and sensitivity of the issues involved and who is thought to be involved in the malpractice. For example, if you believe that management of the service area is involved then, alternatively, the following individuals can be contacted.

- **Director of Central Services & Deputy Chief Executive** – if the wrongdoing is about standards of behaviour
- **Audit Assurance Manager** - if the wrongdoing is thought to be illegal
- **Director of Finance & Transformation** – if the wrongdoing is about improper payments
- **Counter Fraud Manager** – if the wrongdoing is a fraud
- **Chief Executive** - if the wrongdoing is a children's safeguarding issue
- **Chief Executive** - if the wrongdoing is an adult safeguarding issue

3.5. Please say if you want to raise the matter in confidence, so the person you contact can make appropriate arrangements.

3.6. Specific contact details for Council officers can be found on our web site www.tmbc.gov.uk or by ringing Customer Services on. Key officer contacts appear in Annex one below, along with several external contacts in Annex 2.

3.7. Concerns are better raised in writing. If you choose to do this, you should write:

- An email to fraud@tmbc.gov.uk or,
- A letter to the Audit Assurance Manager, Tonbridge & Malling Borough Council, Gibson Building, Gibson Dr, Kings Hill, West Malling ME19 4LZ

3.8. You are invited to set out:

- The background and history of the concern
- Names, dates and places where possible, and
- The reason or reasons why you are particularly concerned about the situation

If you do not feel able to put your concern in writing, you can telephone or meet the appropriate officer.

3.9. Further advice and guidance on what to do if the matter relates to the safeguarding/financial abuse of children or adults can be found in:

- Protecting children - Kent County Council
- https://www.kent.gov.uk/leisure-and-community/consumer-protection/Spot-the-signs-of-financial-abuse
- TMBC Safeguarding Policy & Reporting Procedure

**The earlier you express the concern the easier it will be for the Council to act.**

3.10. You are not expected to prove the truth of your concern, but you will need to demonstrate to the person contacted that there are sufficient grounds for your concern.

## 4. How the Council will respond

4.1. The action taken by the Council will depend on the nature of the concern. The matters raised may be:

- Investigated internally
- Referred to the police
- Referred to the council's external auditor; or
- Form the subject of an independent enquiry

4.2. To protect individuals and the Council, initial enquiries will be made to decide what form an investigation should take. Concerns or allegations which fall within the scope of specific procedures (for example, child protection) will

normally be referred for consideration under those procedures. Some concerns may be resolved by agreed action without the need for investigation.

4.3. Within ten working days of a concern being received, the Council will contact you to:

- Acknowledge that the concern has been received
- Indicate, in overall terms, how it proposes to deal with the matter

4.4. The amount of contact between you and the Council officers considering the issues will depend on the nature of the matters raised, the potential difficulties involved, and the clarity of the information provided. If necessary, they may contact you for further information.

4.5. The Council will take steps to minimise any difficulties which you may experience because of raising a concern.

4.6. The Council accepts that you need to be assured that the matter has been properly addressed and will inform you of the action it is taking or has taken.

## 5. How the matter can be taken further

5.1. This policy is intended to reassure you and provide clear information to help you raise concerns in confidence and directly with the Council.

5.2. We hope you will be satisfied with its response. If you are not, or if you feel for any reason, you can't raise the matter directly with the Council then possible alternative points of contact points are listed at Annex 2. Please be assured that we would rather you raised a matter with an appropriate regulator or outside body than not at all.

## 6. The responsible officer

6.1. The Director of Central Services has overall responsibility for the maintenance and operation of this Policy for the public. The Monitoring Officer will maintain a corporate register of the number and nature of the concerns raised and the outcomes (but in a form which will protect your confidentiality) and will report as necessary to the Chief Executive and the council, where appropriate.

6.2. The policy will be reviewed on a regular basis to ensure that it remains up to date and effective. The review will be carried out by:

- Director of Central Services & Deputy Chief Executive
- Audit Assurance Manager
- Counter Fraud Manager

Responsible Officer: Director of Central Services & Deputy Chief Executive
Date: 08 November 2021 Review Date: November 2023

**Annex 1 – List of key contacts**

| Directorate | Contact Name |
|---|---|
| **Chief Executive** | **Julie Beilby** |
| **Director Street Scene, Leisure & Tech Services** | **Robert Styles** |
| **Director of Central Services & Deputy Chief Executive** | **Adrian Stanfield** |
| **Director of Finance & Transformation** | **Sharon Shelton** |
| **Director of Planning, Housing and Environmental Health** | **Eleanor Hoyle** |
| **Audit and Assurance Manager** | **Richard Benjamin** |
| **Counter Fraud Manager** | **James Flannery** |

## Annex 2 – External Contacts

| Contact Details (External Organisations) | Details |
|---|---|
| Grant Thornton<br>The Council's external auditors | Address: 30 Finsbury Square, London, EC2A 1AG<br>Tel no. 020 7383 5100<br>https://www.grantthornton.co.uk/contact-us/ |
| The Local Government and Social Care Ombudsman | Address: PO Box 4771, Coventry, CV4 0EH<br>E-mail: advice@lgo.org.uk<br>Web: www.lgo.org.uk<br>Tel no. 03000 061 0614 |
| The Equalities and Human Rights Commission | Address: FREEPOST Equality Advisory Support Service FPN4431 Email: correspondence@equalityhumanrights.com<br>Web: www.equalityhumanrights.com<br>Tel no. 0808 800 0082 |
| The Health and Safety Executive<br>(Regional Office) | Address: Health and Safety Executive, International House<br>Dover Place<br>Ashford<br>Kent<br>TN23 1HU :<br>Web: www.hse.gov.uk<br>Tel no. 0845 345 0055 |
| The Environment Agency (Regional Office) | Address: National Customer Contact Centre PO Box 544 Rotherham S60 1BY<br>E-mail: enquiries@environmentagency.gov.uk<br>Web: www.environment-agency.gov.uk<br>Tel No. 0370 850 6506 |
| Citizens Advice Bureau | Please refer to web for local information Web: www.citizensadvice.org.uk/ |
| Police | Please refer to web for local information Web: www.kent.police.uk<br>Tel No. non emergencies 101 |
| Your local councillors (if you live in Kent) | Web site: www.kent.gov.uk |
| Protect – Free Confidential Whistleblowing advice | Tel No: 020 3117 2520<br>Website: www.protect-advice.org.uk |
| List of Prescribed People and Bodies | Website: https://www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies--2/whistleblowing-list-of-prescribed-people-and-bodies |

**TONBRIDGE & MALLING BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**24 January 2022**

**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 Anti-Money Laundering Policy and supporting guidance notes were last reviewed by the Committee in January 2021. This latest review found that no changes were required at this time. It is therefore recommended that this policy is reviewed every two years. In the event any significant changes are required due to changes in legislation or risks this is brought to the next available Committee.

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

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

### 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 every two years by the Audit Committee at their January meeting. The most recent review was undertaken in January 2022 with the next review due January 2024.

January 2022

# Anti-Money Laundering Reporting Form

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

| | |
|---|---|
| Name : | |
| Service / Post Title | |
| Email: | |
| Contact Telephone: | |

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

| |
|---|
| |

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

| |
|---|
| |

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

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

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

| |
|---|
| |

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

| |
|---|
| |

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

| |
|---|
| |

**Please give any other information that you feel is relevant.**

| |
|---|
| |

Signed _____

Dated _____

**THE REPORTER SHOULD NOT WRITE ANYTHING BELOW THIS LINE**

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

Date report received _____

Date receipt of report acknowledged _____

**Consideration of disclosure:**

| Action Plan: |
| --- |
| |

**Outcome of Consideration of disclosure:**

| |
| --- |
| |

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

Date report sent _____

Date receipt of report acknowledged _____

Notice Period From _____ to _____

Moratorium Period From _____ to _____

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

| |
|---|
| |

Date consent received from NCA _____

Date consent given by MLRO to employee _____

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

| |
|---|
| |

**Date of consent given by MLRO to proceed with transaction**

_____

**Any other relevant information:**

| |
|---|
| |

**Signed** _____

**Dated** _____

**THIS REPORT IS TO BE RETAINED FOR AT LEAST 5 YEARS**

**TONBRIDGE & MALLING BOROUGH COUNCIL**

**GUIDANCE NOTE - Anti-Money Laundering**

## 1. INTRODUCTION

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

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

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

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

## 2. GENERAL

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

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

These are;

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

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

## 3. THE OFFENCES

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

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

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

Money Laundering Offences

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

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

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

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

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

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

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

Examples of money laundering activity

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

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

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

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

Possible signs of money laundering

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

Legal and financial

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

Property

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

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

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

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

Failure to report money laundering offences.

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

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

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

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

## 4. CONSIDERATION OF DISCLOSURE REPORT BY MLRO

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

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

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

## 5. RELEVANT GUIDANCE

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

## 6. INTERNAL PROCEDURES

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

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

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

## 7. CLIENT IDENTIFICATION PROCEDURE

Where the Council -

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

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

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

## 8. SATISFACTORY EVIDENCE OF IDENTITY

Satisfactory evidence is that which:

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

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

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

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

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

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

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

## 9. TRAINING

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

## 10. CONCLUSION

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

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

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**TONBRIDGE & MALLING BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**24 January 2022**

**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 2021.**

**The report contains a recommendation to close a recommendation and accept the risk. Details are contained in paragraph 1.3.7.**

***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 2021/22 Plan

1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2021/22 was approved by Members of the Audit Committee on the 6 April 2021. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2021/22 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 2021/22 Internal Audit Plan is currently slightly behind target. This is, in part, due to 3 audits being postponed to quarter 4 of the year, either by request of the business or proximity to a previous review in the same area.

Unfortunately, it has not been possible to re-prioritise and move other audits to earlier in the year to balance this.

1.2.3 From the 1 October 2021, the provision of Internal Audit has been delegated to Kent County Council and the subsequent increase in resources pool has allowed all remaining audits to be allocated and there is confidence in delivering the Plan to inform the Internal Audits annual opinion.

1.2.4 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 not resulted in changes to the 2021/22 Plan, although the current recruitment process for the vacant specialist IT auditor post is progressing, this may require the Cyber Security audit to be delayed. Instead, it is proposed that the time in the Plan set for assurance mapping will focus on the cyber security risk.

1.2.5 The majority of audits on the 2021/22 Internal Audit Plan have now been commenced. 3 final reports have been issued so far this year; and a further 2 audits are at draft report stage. There are another 7 audits in progress and 1 that is being planned. A summary of the current status of all audits on the 2021/22 Plan, including a summary of findings where finalised, is attached at **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.

1.2.6 In line with the PSIAS, Internal Audit has arrangements in place to follow up on all recommendations agreed with management and to report to the Audit Committee on a regular basis with the responses received. An escalation process should 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.

1.2.7 Sixty one recommendations were due for implementation during 2021/22 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 2021. Progress is as follows:

18 have been closed as implemented.

5 were closed due to being superseded by other developments in the service or council.

1 has been closed as the service has accepted the risk. Details are contained in **[Annex 4]** for the Committee's consideration.

A further 37 remain open. Of which:

17 are in progress and a revised implementation date has been agreed with the business.

12 have not been followed up as they are part of upcoming audit engagements.

Internal Audit have not had responses to the remaining 8 recommendations.

Details of the 25 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. The level of implementation of these recommendations is also a key consideration in the Annual Opinion for the year.

## 1.3 Quality Assurance and Improvement Programme and Conformance with the Public Sector Internal Audit Standards (PSIAS)

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 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 undertaken in early 2021. It is a requirement for an EQA to be undertaken every 5 years. The EQA produced a number of recommendations to ensure better compliance with the professional standards and the final report and subsequent Action Plan were presented to Audit Committee in July 2021.

1.3.3 The action plan consists of 18 recommendations incorporating 13 issues and 5 enhancements. There are 16 due for implementation by December 2021, of which 12 are complete and 4 are still in progress.

1.3.4 Where actions that were due for implementation and are still in progress, this is primarily as the recommendations are common to recommendations raised in the KCC EQA and therefore a response is being coordinated across KCC. Updates to these recommendations will be reported to subsequent Audit Committees. Detail on the progress against the Action Plan is contained in **[Annex 5]**.

*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 2021/22 to date.

1.4.2 Work continues to support the assessment of Business Rates grants with the Counter Fraud Team supporting in conducting pre-payment checks on grants. This is being achieved through data matching against company house data to ensure the business is active. Further work on post payments checks are due to commence in January 2022 with grant payments being subject to a National Fraud Initiative (NFI) check.

1.4.3 Reviewing of the NFI matches continues, a breakdown of matches received and progress against them can be found at **[Annex 6]**. The annual data match between Council Tax Single Person Discount and the Register of Electors has been uploaded and results are due in January 2022.

1.4.4 The Kent Intelligence Network continues to support Local Authorities in Kent in preventing and detecting fraud. The key focus area for 2021/22 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.

1.4.5 The total amount of underpayments identified for Quarter 1 & 2 to date is:

Removal of Small Business Rate Relief **- £109,183** (+£38,038 in future income)

Unrated Business Rates - **£84,488** (+£83,084 in future income)

Removal of Council Tax Discounts/ Exemptions - **£163,878** (+£82,559 in future income) .

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 other discount and exemption has progressed during quarter two with reviews against, student and awaiting probate exemptions/ discounts. Further reviews will be progressed through the remainder of the financial year on the other exemption/ discount types.

## 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 2021/22 to end of November, the Counter Fraud Team have received a total of 70 referrals, the majority of which relate to referrals relating to Housing Benefit & Council Tax reduction. Cases where there is a Housing Benefit entitlement are being referred to the Department for Work and Pension for investigation, however their Counter Fraud Service is still not fully operational following Covid-19. Civil penalties (net) in the amount of £2,660 were also applied.

**1.6 Legal Implications**

1.6.1 The Accounts and Audit Regulations place a statutory requirement on local authorities to undertake an adequate and effective internal audit of systems of risk management, governance and control in line with the PSIAS.

1.6.2 The Council has a legal duty under s151 of Local Government Act 1972 and the Accounts and Audit Regulations to ensure that there are appropriate systems in place to prevent and detect fraud.

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

**1.7 Financial and Value for Money Considerations**

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

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

**1.8 Risk Assessment**

1.8.1 This report, summarising the work of the Internal Audit function, provides a key source of assurance for the Council on the adequacy and effectiveness of its framework for governance, risk management and control.

1.8.2 Failing to have an efficient and effective Counter Fraud function could lead to an increased level of fraud. This report, summarising the work of the Counter Fraud function, provides a key source of assurance for the Council on the adequacy and effectiveness of its counter fraud arrangements.

Background papers: contact: Richard Benjamin

Nil

Jonathan Idle
Chief Audit Executive

| Audit Review Title | Planned Quarter | Current Status | Audit Opinion | Scope of Audit and Findings |
|---|---|---|---|---|
| **Ethical Culture** | **1** | **Draft Report** | | |
| **BCP** | **1** | **Complete** | **High** | The overall objective of the audit was to provide assurance as to the adequacy, effectiveness and reliability of the controls in place around business continuity arrangements. This is to ensure that the Council is identifying, documenting and taking action on learning opportunities arising from business continuity incidents.<br><br>In order for an event to be considered to be a Corporate BCP event, it would be expected that it would affect more than one service. Therefore, besides the Covid Pandemic, there have been three incidents which have been considered as BCP events during 2020/21.<br><br>Testing established that for each of the three BCP events officers took appropriate action as soon as practical to return services back to normal. In the days immediately after each incident, officers identified any learning opportunities arising as a result of the incident, and also in the action taken post incident while returning services back to normal. Officers have documented those learning opportunities.<br><br>Elected Members and Senior Management have been provided with suitably detailed, post incident, reviews which not only contained an overview of the circumstances surrounding each incident, but more importantly, the actions taken by officers to reduce the likelihood of a similar incident taking place again.<br><br>The actions taken by officers in the short term to return to normal service provision, are considered to be appropriate. Similarly, the longer-term action of moving the provision of IT services to a cloud-based environment is scheduled to be complete by January 2022. This will mean that even in the event of a full loss of the Gibson building, officers should be able to continue to work remotely to provide services as normal with little or no disruption. |

| | | | | |
|---|---|---|---|---|
| **Corporate Governance** | **4** | | | |
| **Waste Contract** | **2** | **Delayed until Q4** | | |
| **Local Plan** | **Ongoing** | **Fieldwork** | | |
| **Cyber Security** | **3** | | | |
| **Prevention of Homelessness** | **2** | **Fieldwork** | | |
| **Achievement of identified Savings** | **2** | **Delayed Q4** | | |
| **GDPR/Record Retention** | **2** | **Draft Report** | | |
| **Building Control** | **3** | **Delayed to Q4** | | |
| **Customer Services Review** | **Ongoing** | **Fieldwork** | | |
| **Council Tax Administration** | **3** | **Fieldwork** | | |

| | | | | |
|---|---|---|---|---|
| **Breathing Space** | **2** | **Complete** | **High** | The audit was undertaken as part of the agreed 2021/22 Audit Plan. The overall objective of the audit is to provide assurance as to the adequacy, effectiveness and reliability of the controls in place to ensure that the suitable action is taken to ensure compliance with the recently implemented Breathing Space regulations.<br><br>Our testing established that relevant officers across the Council were aware of the introduction of the Breathing Space scheme. A suitably detailed guidance note was circulated in advance of the introduction of the scheme which gave officers details of what the Council is required to do in order to ensure compliance with the relevant regulations.<br><br>Officers responsible for dealing with Breathing Space notifications were found to be sufficiently aware of the requirements of the regulations as a whole. Importantly, officers were found to be aware of the obligation to undertake a search across all Council Services to identify any additional debts which the individual might have and the then notify the Debt Advisor of any debts identified as a result of the search.<br><br>Testing was undertaken on a sample of notifications where it was identified that:<br><br>• All relevant officers across the Council are informed of a new notification as soon as practical.<br>• All officers undertake a check of their debtors database to identify any other debts held by the individual which were not listed on the Breathing Space notification.<br>• Debt Advisers are notified of any debts identified as part of the search which are not listed on the Breathing Space Notification.<br>• Recovery is paused on all relevant debts held by the individual for the sixty -day Breathing Space period.<br>• Recovery is commenced after the sixty-day Breathing space period has ended. |
| **Safeguarding** | **3** | | | |

| | | | | |
|---|---|---|---|---|
| **Public Open Spaces Inspection regime** | **1** | **Complete** | **Substantial** | The audit was undertaken to provide assurance on the inspection regime of Public Open Spaces.<br><br>Areas falling within the responsibility of Leisure Services have been given a Substantial assurance for the following reasons:<br>• Officers are aware of which areas they are responsible for.<br>• Officers are aware of what items and equipment requires inspection and testing in those areas and have an inspection routine in place.<br>• Infrastructure and equipment in open spaces is tested and inspected in accordance with the inspection routine.<br>• The open spaces considered high risk according to the Open Spaces Inspection Policy are subject to regular and detailed inspections.<br>• Defects arising from inspections are rectified as soon as practical. When an immediate repair cannot be completed, areas or equipment are taken out of use so as to prevent harm to the public from defective equipment or items such as fallen trees.<br>• Certification is obtained and retained as required by legislation or recommended best practice.<br>• Insurance claims as a result of accidents on public open spaces are considered be low in numbers and value. Where a claim is received, suitable steps are put in place to mitigate further accidents.<br><br>There is, however, some scope of improvement in areas which Leisure Services are responsible for.<br>• Officers have developed a draft Open Spaces Policy Statement which explains the methodology and reasons why some open spaces are subject to documented inspections. It does not however make Management Team aware that the sites not considered to be the highest risk are not subject to any documented inspection routine.<br>• Faults identified as part of the inspection process are not normally given a rating in terms of either the level risk arising from the fault, or a priority rating for the time to remedy the defect.<br>• The role of the Corporate Health and Safety officer is primarily focussed on workplace health and safety. The highest risk open spaces where employees are based e.g. country parks will continue to be subject to inspections by the Corporate Health and Safety officer. While it is acknowledged that the inspections undertaken by Leisure Services are robust and comprehensive; they are not considered to be independent. This means that Senior Management are not receiving an independent assurance that open spaces are safe for members of the public to access. |

| | | | | |
|---|---|---|---|---|
| **Payroll** | **3** | **Planning** | | |
| **Home Working / Office Accommodation & New Ways of Working** | **Ongoing** | **Fieldwork** | | |
| **Animal Licensing** | **4** | | | |
| **Recruitment & Retention Strategy** | **4** | **Fieldwork** | | |
| **Delivery Against corporate plan** | **4** | | | |
| **Climate Strategy** | **3** | | | |
| **Housing Allocation Scheme** | **Ongoing** | **Fieldwork** | | |
| **Assurance Mapping** | **Ongoing** | | | |

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## Definitions of Audit Opinions

| | |
|---|---|
| **High** | There is a sound system of control operating effectively to achieve service/system objectives.<br>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.<br>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.<br>This means we are unable to form a view as to whether objectives will be achieved. |

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| Audit | High | Medium | Status |
|---|---|---|---|
| Discretionary housing payments | 1 | | Revised Implementation date of 31/03/2022 |
| Licensing | | 3 | Awaiting response |
| Payroll | | 1 | Revised Implementation date of 30/04/2022 |
| Information Governance | 1 | 1 | Awaiting response |
| Prevention of Homelessness | | 1 | Revised Implementation 31/03/2022 |
| Asset Utilisation | 1 | 1 | Revised implementation date 30/04/2022 |
| Public Health | 2 | 1 | Revised Implementation 31/03/2022 |
| IT Network access and security | | 1 | Awaiting response |
| Facilities management | 1 | 2 | Revised Implementation 31/03/2022 |
| Corporate Credit Cards | | 1 | Awaiting response |
| Community safety unit | | 1 | Awaiting response |
| General Ledger | | 1 | Revised Implementation 31/03/2022 |
| Enforcement | 1 | 2 | Revised Implementation 31/03/2022 |
| Land Charges | | 2 | Revised Implementation 31/03/2022 |

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Annex 4 - Closed Recommendation, risk accepted

| Audit | Recommendation title | Finding/Issue | Recommendation | Origional Client Response to Recommendation | Priority |
|---|---|---|---|---|---|
| Parking - Residential permits and PCN's | Validation of permit application documents | Permits are being issued without the documentation being verified by the parking team. The receipt of payment triggers the generation and issue of the virtual the permit automatically, regardless whether the Team have verified the documents or checked if documentation has been provided at all. The Team ran a report to identify unchecked/unapproved documents in June, but nothing has been run since. The Auditor run the report for all valid permits between 01/01/2020 and the time of the audit which identified the following; (see report for detail) | Run the permit proof document check report regularly to identify applicants with documentation awaiting approval prior to permits being granted<br>Investigate the feasibility of amending the process for generating the permit to following approval of checks rather than receipt of payment | The system can be configured 2 ways. By receipt of payment or not until the permit has been checked.<br>Following advice from other Local Authorities decided to grant permits following payment as others have had a lot of unsatisfied residents complaining about delays with issuing permits when the benefits of a digital system should be to speed up the process.<br>The Parking Team will be looking to run more checks as resources allow. In the first year every permit was effectively a new application and presented a significant workload – as these turn in to renewals there should be more facility for checking. | High |

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## External Quality Assessment Response

## ISSUES:

| Ref. | Issue | Recommendation | IACF Response and Action Plan | Action Progress |
|---|---|---|---|---|
| R1 | **Internal Audit Charter (IAC) (Review)**<br>The IAC requires an annual assurance opinion to be provided to the Audit Committee regarding governance, risk management and control.<br>The Annual Opinion for 2019/20 stated in para 1.2.4 the "The opinion on the framework for governance, risk management and control is principally based upon the evaluation of the findings, conclusions and assurances from the work of the Internal Audit function during 2019/20".<br>Best practice reflects using a wider basis for the opinion reflecting the full knowledge of the CAE including significant risks and information from other assurance sources. | Consider the need to develop the annual internal audit plan for approval by the Audit Committee on the basis of a programme of internal audit activity required to provide an annual opinion reflecting the changing risk environment in which the Council operates and where independent assurance from internal audit is required in order to support the Governance Statement. | **Response:**<br>Recommendation Agreed. Although not made explicit in the annual opinion areas of significant risk are considered in forming the opinion of the CAE.<br><br>**Action Plan:**<br>The Audit Pan for 2021/22 includes time allocated to an assurance mapping exercise. This will assist in forming the CAE's opinion for the coming financial year.<br><br>**Action Owner:**<br>Chief Audit Executive<br>Audit and Assurance Manager<br><br>**Due Date:**<br>March 2022 | |
| R2 | **Resources (Consider)**<br>The internal audit plan for 2020/21 does not provide an allowance for management time that is required to provide planning, oversight and reporting in relation to internal audit activity. (Consider) | Include an appropriate allocation of time for use by the CAE to deliver the specific managerial activities as outlined in the job description. | **Response:**<br>Recommendation Agreed<br><br>**Action Plan:**<br>Allocation time for Audit and Fraud Management has been included in the 2021/22 audit plan that was agreed at April Audit Committee. | **Complete**<br>The 2020/2021 Audit Plan was approved at Audit Committee and contained provision of 130 days for management resource |

| Ref. | Issue | Recommendation | IACF Response and Action Plan | Action Progress |
|---|---|---|---|---|
| | | | **Action Owner:**<br>Chief Audit Executive<br>Audit and Assurance Manager<br><br>**Due Date:**<br>Complete | |
| C1 | **Audit Universe (Review)**<br>The self-assessment states that the current model reflects a "basic audit universe' and an intention to "further develop an Authority wide audit universe to ensure key processes and systems are identified,"<br>Further development of this approach would enhance internal audits' ability to demonstrate a commitment to helping the Council achieve its objectives. | The development of a comprehensive internal audit plan that reflects the significant risks that are recorded with the risk management system represents an essential feature of both strategic and operational internal audit planning as it acts as a basis for both ensuring attention on significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance.<br>It would be beneficial therefore to increasingly align development of the internal audit planning system with the Councils risk management processes in order to ensure that resources were consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level | **Response:**<br>Recommendation Agreed<br><br>**Action Plan:**<br>The current needs assessment that is in place will be further developed and updated to ensure it is accurate and used in future annual planning exercises.<br><br>**Action Owner:**<br>Chief Audit Executive<br>Audit and Assurance Manager<br><br>**Due Date:**<br>October 2021 | **Complete**<br>Annual planning is currently being undertaken. The needs assessment is being utilised along with review and analysis of Council risk registers and wider emerging risks. |
| C2 | **Skills matrix/training (Consider)**<br>The team currently utilises a skills matrix that is aligned with both the Appraisals process and training needs. | It would be beneficial to extend the current skills matrix to reflect the needs of the Council and therefore the experience and training | **Response:**<br>Recommendation Agreed. The current matrix is based on a range of business skills but does not include | **Complete**<br>The training matrix has been completed for all audit and counter fraud staff. It covers mandatory |

| Ref. | Issue | Recommendation | IACF Response and Action Plan | Action Progress |
|---|---|---|---|---|
| | Consideration of the needs of the Council when compiling the Audit Plan would support decisions regarding the use of appropriate staff from KCC or when contracting in resources. | required to provide the specified services.<br>Extension of the matrix should include reference to mandatory training and whether this should be within the TMBC processes or reflected within the expectations of services provided by KCC. | specific council systems or mandatory training.<br><br>**Action Plan:**<br>Develop the training matrices to include mandatory training and knowledge of key TMBC systems.<br><br>**Action Owner:**<br>Audit and Assurance Manager<br><br>**Due Date:**<br>September 2021 | training including Information Governance, Data Protection. It also covers a range of key competence and knowledge areas, as well as identifying specific knowledge of TMBC processes. |
| C3 | **Specialist skills (Consider)**<br>Technical or complex audits require specific specialist skills which should be identified at the strategic planning stage. | We anticipate that the proposed new arrangements with KCC will allow a wider pool of staff to be made available to the Council. | **Response:**<br>Recommendation Agreed<br><br>**Action Plan:**<br>An Inter Authority Agreement is to be approved and move to an outsourced/shared service planned in the coming months. Once complete, there will be a significant increase pool of auditors, skills and expertise available to TMBC.<br><br>**Action Owner:**<br>Chief Audit Executive<br>Audit and Assurance Manager<br><br>**Due Date:**<br>**September 2021** | **Complete**<br>The Inter Agency Agreement with Kent County Council (KCC) for the delivery of Internal Audit and Counter Fraud came into effect on 1st October 2021. The KCC audit team currently has c14 audit staff and subsequently has a wider pool of knowledge and experience. There is a specialist IT auditor post which is currently being recruited to. |
| **C4** | **Internal Audit Engagement Planning (Review)** | Audit Plans and individual assignments should be increasingly constructed to reflect | **Response:**<br>Recommendation Agreed | **Complete** |

| Ref. | Issue | Recommendation | IACF Response and Action Plan | Action Progress |
|---|---|---|---|---|
| | Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends upon the maturity of the current risk management processes adopted by the Council, discussions with the Executive, Audit Committees and Auditee pre-audit meetings. It has been observed within the EQA that the maturity of risk management processes at TMBC is variable with development still required at a Business Unit level.<br>The degree to which principal inherent risks, key controls and assurances are identified will influence the degree to which risk-based audit can be developed; recognition of the three lines of defence methodology within the internal audit methodology will allow internal audit to increasingly identify the value of the 'Control Risk', being the difference between assessment of inherent and residual risk. This will allow internal audit resources to be more effectively targeted to areas of greatest potential risk exposure.<br>The Executive Summary of each Audit Report contains an analysis of key risks and associated controls relevant to the particular focus of the audit. | assessment of 'Control Risk' in order to focus reviews upon:<br>•Those risks where the assessment is that the combined impact/likelihood score has decreased most and where if assumptions are incorrect critical business risk exposure may exist,<br>•Risks where the value of 'Control Risk' is limited or zero and as a result suggesting the controls may be insufficient or ineffective, and<br>•Key Controls (rather than a wide hierarchy of controls which may have little impact on risk reduction or the achievement of business objectives).<br><br>By focusing on the risks and controls highlighted in the Engagement Plan for each review there may be efficiencies to be gained within assignment work through targeting resources to issues of greatest importance or concern. | **Action Plan:**<br>Control's risk will be considered during planning engagements to identify key controls. To assist development of Risk Management practices may have to occur. Discussion with management and the risk management lead will take place to enhance this.<br><br>**Action Owner:**<br>Chief Audit Executive<br>Audit and Assurance Manager<br><br>**Due Date:**<br>October 2021 | Discussion occurs with all managers in planning audit engagements in order to identify significant risks and key controls. This will evidence better evidenced now the Audit Management Software is being used to manage the audit process. Risk management at a business unit level has improved and has been reviewed during the initial planning for 2022/23 |
| **C5** | **Grading of recommendations (Review)**<br>Recommendations currently reflect 'priority' whilst being defined using terminology which is inconsistent with that used by the Council in its Risk Management Policy. | It would be beneficial to align future grading of recommendations with those impact definitions used within the risk management process relating to the finding being Critical, Significant, Marginal or Negligible. This would assist in both agreeing the specific risk focus of each engagement as well in assessing | **Response:**<br>Recommendation Agreed - to be reviewed and implemented appropriately.<br><br>**Action Plan:**<br>The Internal Audit Management Team will review the recommendations and consider whether enhancements to | **In Progress**<br>Grading of recommendations will be reviewed alongside those used for KCC and other clients. A recommendation on gradings will be made initially to management team and report to a subsequent Audit Committee |

| Ref. | Issue | Recommendation | IACF Response and Action Plan | Action Progress |
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| | | the relative importance of findings at the exit meeting and in assurance reports. | the grading of recommendations are beneficial for TMBC.<br><br>**Action Owner:**<br>Audit and Assurance Manager<br><br>**Due Date:**<br>October 2021 | |
| D1 | **Audit objective (Review)**<br>Engagement Plans currently contain a statement which reflects the objective of the audit, effectively being an intention to provide assurance regarding the area of review.<br>PSIAS 2201 gives guidance regarding planning considerations and states that "In planning the engagement, internal auditors must consider the objectives of the activity being reviewed and the means by which the activity controls its performance". | It would be beneficial to revise the definition to focus on the Management Objective for the area under review as this would provide a direct alignment with identification of the significant risks which may impact upon achievement of established objectives and upon which the assurance opinion should be based. | **Response:**<br>Recommendation Agreed<br><br>**Action Plan:**<br>Engagement plan templates will be amended to state service objectives rather than objectives set for the audit engagement.<br><br>**Action Owner:**<br>Audit and Assurance Manager<br><br>**Due Date:**<br>September 2021 | **Partially Complete**<br>This has been delayed due to the commencement of the shared service and the requirement for this to be action within KCC. A training session has been recently held for auditors on identifying service objectives as part of planning. Functionality exists in the audit management software to record and will be an area of focus during planning and file reviews.<br><br>Further changes to the system are being considered in order to capture these objectives |
| D2 | **Work Programme (Review)**<br>The current methodology is based upon use of a template which focuses on 'Scope areas' identified within the engagement plan rather than the Significant Risks that have been identified in the planning process.<br>PSIAS 2201 also states that internal audit must consider:<br>a) The significant risks to the activity, its objectives, resources and operations and | The internal audit service may benefit from introduction of a 'Control Matrix' style evaluation process in which there is a direct link between Management Objectives, Significant Risks upon which the audit will focus and the specific key controls that maintain the | **Response:**<br><br>Recommendation Agreed<br><br>**Action Plan:**<br>Once work programmes and audit documentation are recorded on the audit management software, Pentana, | **Complete**<br>The delegation of the Internal Audit service to KCC has meant that new audits that are started since 1st October 2021 are held on Pentana, the audit management software. Therefore, the previous word templates are no longer in use. |

| Ref. | Issue | Recommendation | IACF Response and Action Plan | Action Progress |
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| | the means by which the potential impact of risk is kept to an acceptable level; and<br>b) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant | risk within the risk appetite of the Council. | the need for word templates will be removed. Engagement plans and work programmes will be focused on Objectives/Risks/Controls as opposed to scope areas<br><br>**Action Owner:**<br>Chief Audit Executive<br>Audit and Assurance Manager<br><br>**Due Date:**<br>October 2021 | Work programmes in the system are set out with Objectives/Risks/Controls. |
| D3 | **Focus on risk (Consider)**<br>The PSIAS requires internal audit to provide a risk-based internal audit service. The current approach does recognise those risks contained in the Corporate Risk Register and provides for discussion of risks at an engagement level within planning meetings with responsible managers. | It appears that the use of the risk register process within the Council is variable. The provision of Internal Audit would benefit if managers were encouraged to identify risks, controls and assurances that exist at a local level as this would help to focus the attention of internal audit work. | **Response:**<br>Recommendation Agreed<br><br>**Action Plan:**<br>Internal Audit will continue to engage with service areas to promote the use of operational risk registers to improve risk based Internal Audit.<br><br>**Action Owner:**<br>Chief Audit Executive<br>Audit and Assurance Manager<br><br>**Due Date:**<br>December 2021 | **Complete**<br>Operational risk registers continue to be considered planning engagements. There has been a notable improvement in operational risk register in the past 12 months |
| D4 | **Working Papers (Consider)**<br>Current processes are based on the use of a template system which utilises standard Microsoft Office applications. | It is understood that a proposal to adopt the Pentana software approach under the future arrangements with KCC is currently going through approval and if approved will ensure that a | **Response:**<br>Recommendation Agreed. There is currently no audit management software in use at TMBC as it is cost | **Complete**<br>The delegation of the Internal Audit service to KCC has meant that new audits that are started since 1st October 2021 are held on Pentana, |

| Ref. | Issue | Recommendation | IACF Response and Action Plan | Action Progress |
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| | The review identified inconsistencies regarding completion of documentation and evidencing of supervision. | standard process can be evidenced in future. | prohibitive for the size of plan and budget of the function.<br><br>**Action Plan:**<br>Once an outsourced/shared service is in place TMBC will have access to Pentana software for the planning, execution, and reporting of audit engagements.<br><br>**Action Owner:**<br>Chief Audit Executive<br>Audit and Assurance Manager<br><br>**Due Date:**<br>September 2021 | the audit management software. Therefore, the previous word templates are no longer in use. |
| | **IA Opinions (Review)**<br>Internal Audit currently uses five levels of opinion –High, Substantial, Adequate, Limited and No –there appears only marginal difference in the supporting statements clarifying the differences between the latter levels.<br>CIPFA guidance on setting definitions relating to opinions suggests there is general recognition that four levels is sufficient with some organisations now using three.<br>Within the profession, we believe it to be increasingly rare to find use of the latter category of 'No' on the basis that no system is totally flawed. We therefore believe the profession is moving towards acceptance of the use of three levels with the highest two levels confirming assurance, albeit with a caveat if other than significant control risk issues are found, and a single negative | Internal Audit should consider whether there is merit to moving towards three levels of opinion – Substantial, Adequate and Limited and aligning this terminology with used within the Council's risk management process.<br>Consider rewording basis of overall opinions to provide increasing clarity regarding how internal auditors should assess the assurance level provided based on the significance of the risks identified.<br>Where a risk/recommendation of a 'Critical' nature is identified by internal audit this would indicate that a 'Limited Assurance' opinion should be used. | **Response:**<br>Recommendation Agreed<br>This will be considered while acknowledging that stakeholder and client expectations are also relevant to the review. As a shared service a key factor should also be that having one basis for reporting opinions is paramount to consistency and efficiency of the service.<br><br>**Action Plan:**<br>The Internal Audit Management Team will review the recommendation and consider whether moving to three levels of opinion and updating the | **In Progress**<br>Audit Opinions will be reviewed alongside those used for KCC and other clients. Information has been sort from other local authorities and is being reviewed. A recommendation on gradings will be made initially to management team and report to a subsequent Audit Committee |

| Ref. | Issue | Recommendation | IACF Response and Action Plan | Action Progress |
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| | opinion indicating that management action is required to restore the position within the risk appetite defined by the Board. | | issue grading definitions are beneficial for TMBC and external clients.<br><br>Dependent upon this review, any proposed changes would be discussed with senior management from TMBC, proposed to Audit Committee.<br><br>**Action Owner:**<br>Head of Internal Audit<br>Audit and Assurance Manager<br><br>**Due Date:**<br>December 2021 | |
| | **HoIA Annual Report (Review)**<br>The terminology used by the HoIA to express an Annual Opinion is correct as this reflects opinion regarding risk management, governance and control.<br>Standard 2060 does however also include reference to bringing the attention of the Audit Committee regarding assessment of the significant risks facing the organisation and any other assurance sources that have been recognised.<br>CIPFA guidance has been issued in November 2020 regarding opinions in 2020/21 taking account of the impact of COVID. | It would be good practice to support the assurance opinion in relation to risk management, governance and control with broader reference to significant risks and other sources of assurance that are available, including reference to those within the risk management process and future assurance mapping.<br>In this form, the opinion would also better align with the required content of the Governance Statement. | **Response:**<br>Recommendation Agreed. This will enhance the Annual Internal Audit Report and Opinion.<br><br>**Action Plan:**<br>For the 2020-21 Annual Opinion, other sources of assurance will be considered where known, and included within the overall assessment for the Head of Internal Audit Opinion.<br><br>Moving forward, the Internal Audit service will work closely with services in developing assurance mapping across the Council. There is time | **Complete**<br>The Chief Audit Executives (CAE)opinion for last year was amended to include reference to knowledge of other significant risks and assurance providers. This will be strengthened this year with the addition to assurance mapping on the Audit Plan which will assist in identifying other types of assurance that can inform the CAE's annual opinion. |

| Ref. | Issue | Recommendation | IACF Response and Action Plan | Action Progress |
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| | | | included in the 2021/22 Audit Plan to undertake this work.<br><br>**Action Owner:**<br>Audit and Assurance Manager<br><br>**Due Date:**<br>August 2021 | |

**SUGGESTED ENHANCEMENTS FOR CONSIDERATION**

| Ref. | Issue | Recommendation | IACF Response and Action Plan | |
|---|---|---|---|---|
| 1 | **Exit meeting template**<br>Discussions with management regarding the findings identified within engagements are discussed with management and based upon extracts of a first draft of the report.<br>A summary of the discussion is then recorded in a narrative note, although file review identified this was not on file in two cases. | It may be beneficial to introduce a standard template on which to record findings/recommendations along with draft management responses, as this will both formalise the approach as well as support timely feedback and verify any misunderstandings or factual inaccuracies.<br>This may represent a more efficient and effective use of time by all parties rather than wait for production of a draft report. | **Response:**<br>Recommendation Agreed<br><br>**Action Plan:**<br>A template will be prepared. It will be communicated to the team, incorporated in the Audit Manual and its' usage monitored during quality assurance reviews as business as usual.<br><br>**Action Owner:**<br>Head of Internal Audit<br>Audit and Assurance Manager<br><br>**Due Date:**<br>September 2021 | **Complete**<br>Template for exit meeting developed |
| 2 | **Client surveys**<br>Progress has been made in obtaining feedback from auditees following each audit. | Internal Audit may find it useful to utilise an application such as Survey Monkey for collecting feedback, as this can prove to be an efficient means which supports an early response. | **Response:**<br>Recommendation Agreed.<br><br>This can be considered. Another method has previously been reviewed, however there were data /GDPR issues associated with its usage.<br><br>**Action Plan:**<br>The use of MS Forms Survey will be progressed. The template will be prepared and utilised as part of the | **In Progress**<br>Response to survey's has been good and there is no immediate requirement to move to MS Forms. This is currently being developed |

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| | | | ongoing feedback arrangements relating to each audit at the earliest opportunity. Summary<br><br>**Action Owner:**<br>Head of Internal Audit<br>Business Support Officer<br><br>**Due Date:**<br>July 2021 | |
| 3 | **Contractual arrangements**<br>Present arrangements for compliance with matters relating to standards of an Attribute nature within the PSIAS currently reflect administration of practices within both the Council and KCC governance arrangements. These may include matters such as Health & Safety, Data Protection, Declarations and Conflicts of Interest and Appraisal processes. It is standard practice within outsourced arrangements for the SLA to include a broad statement that places the responsibility on the contractor to comply with the Councils arrangements and for the contractor to ensure that it has arrangements in place to adhere to these requirements. Those of a professional nature will be reflected in a standard Internal Audit Charter that is adopted by all its clients. | It may be more efficient and transparent to develop an appropriate Service Level Agreement for the provision of a future internal audit service by Kent County Council which could include expectations of the Council for compliance with Council procedures. Such requirements would then be managed using standard contract and performance monitoring arrangements. Matters of a professional nature regarding routine compliance with the Public Sector Internal Audit Standards should become matters covered within the Internal Audit Charter. | **Response:**<br>Recommendation Agreed. Management of the service has historically been in place under secondment agreements.<br><br>**Action Plan:**<br>An Inter Authority Agreement is currently being agreed that will formulise the management and running of the TMBC Internal Audit and Counter Fraud Team.<br><br>**Action Owner:**<br>Chief Audit Executive<br>Audit and Assurance Manager<br><br>**Due Date:**<br>September 2021 | **Complete**<br>An Inter Authority Agreement was sign and commenced on 1st October 2021 |
| 4 | **Internal Audit Plan**<br>Current arrangements recognise those risks reflected in the risk management processes implemented by the Council | As Council arrangements for risk management mature the internal audit service should ensure that appropriate consideration of details of risks, controls and assurances contained within the system is | **Response:**<br><br>Recommendation Agreed | |

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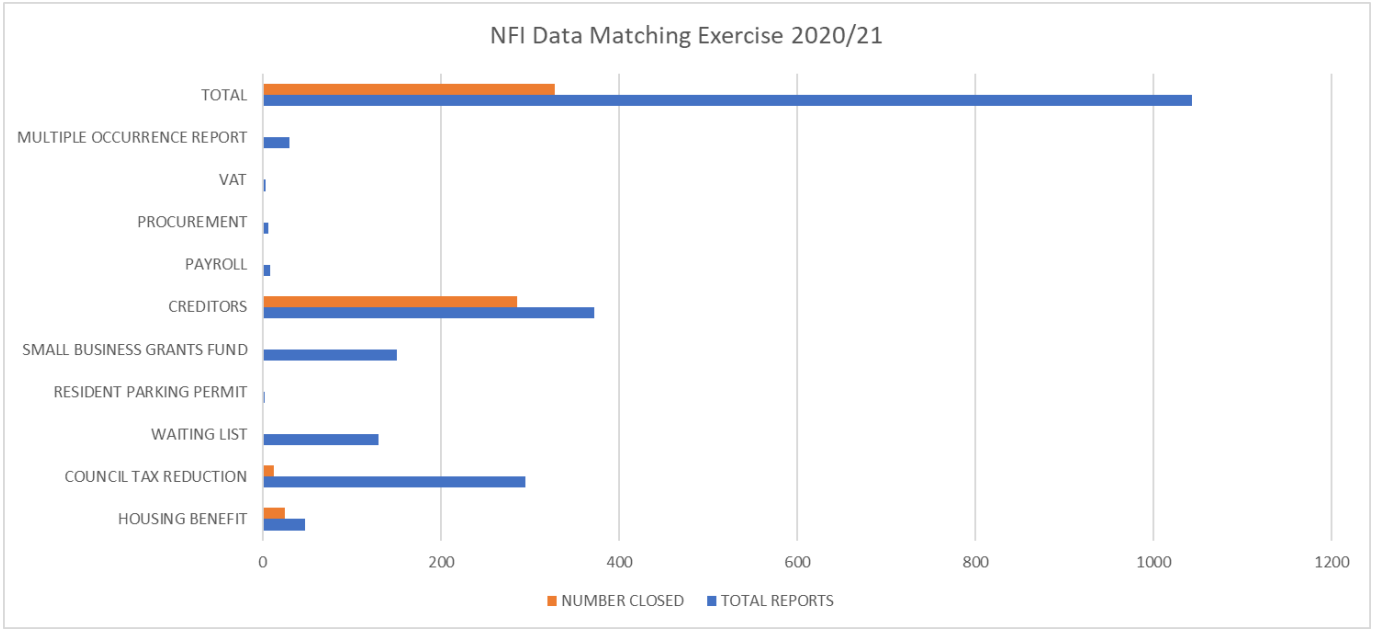
| | | transparent within the internal audit planning process in order to develop an evidenced alignment with the content of the Annual Governance Statement. | **Action Plan:**<br><br>Internal Audit will keep under consideration as practice develops.<br><br>**Action Owner:**<br><br>Chief Audit Executive<br>Audit and Assurance Manager<br><br>**Due Date:**<br><br>March 2022 | |
| 5 | **Internal Audit Reports**<br>Internal Audit Reports use a standard template, which would be regarded as 'comprehensive' rather than 'concise' by many organisations. Best practice is tending to move towards a risk focused approach which highlights significant risk and the actions that will be undertaken to remedy any weaknesses or control issues. Standard reports should contain a reference to:<br>a)The audit being conducted in accordance with professional standards (PSIAS), and<br>b)Any/no limitations being placed on the scope of the review. | We anticipate that the revised arrangements with KCC for the provision of a single standard audit process across all clients as this will help ensure a common standard is adopted by internal audit staff.<br>Review of the template should therefore include consideration of the matters raised as well as the requirements of the Council and KCC, from a service and training point of view. | **Response:**<br>Recommendation Agreed. This will enhance existing reporting arrangements.<br><br>**Action Plan:**<br>Relevant inserts will be incorporated into report templates.<br><br>**Action Owner:**<br>Chief Audit Executive<br>Audit and Assurance Manager<br><br>**Due Date:**<br>September 2021 | **Complete**<br>Both statements have been added to the report templates for new audits started |

Annex 6: National Fraud Initiative

| NFI DATA MATCHING EXERCISE 2020/21 | | |
|---|---|---|
| **REPORT GROUP** | **TOTAL REPORTS** | **NUMBER CLOSED** |
| HOUSING BENEFIT | 47 | 25 |
| COUNCIL TAX REDUCTION | 295 | 18 |
| WAITING LIST | 130 | 0 |
| RESIDENT PARKING PERMIT | 2 | 0 |
| SMALL BUSINESS GRANTS FUND | 150 | 0 |
| CREDITORS | 372 | 285 |
| PAYROLL | 8 | 0 |
| PROCUREMENT | 6 | 0 |
| VAT | 3 | 0 |
| MULTIPLE OCCURRENCE REPORT | 30 | 0 |
| **TOTAL** | **1,043** | **328** |




*Figures accurate as of 5th January 2022

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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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