

AGENDA

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING



Date: Monday 18 January 2016

Time: 6.30 p.m.

Venue: Town Hall, High Street,
Maidstone

Membership:

Councillors Butcher (Parish Representative),
Butler, Clark, Daley, Garland,
Mrs Gooch, McLoughlin (Chairman),
Perry, Mrs Riden (Parish
Representative), Ross and Vizzard

Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers

Continued Over/:

Issued on Friday 8 January 2016

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**Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone, Kent ME15 6JQ**

5.	Disclosures of Lobbying	
6.	To consider whether any items should be taken in private because of the possible disclosure of exempt information	
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MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 23 NOVEMBER 2015

Present: Councillor Mrs Gooch (in the Chair) and Councillors Butler, Daley, Perry, Ross, Springett and Vizzard

Also Present: Keith Hosea of Grant Thornton (External Auditor)

32. CHAIRMAN OF THE MEETING

In the absence of the Chairman, the Vice-Chairman (Councillor Mrs Gooch) took the Chair.

33. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Butcher (Parish Representative), Garland, McLoughlin and Mrs Riden (Parish Representative).

34. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Springett would be substituting for Councillor Garland. In the event, Cllr Springett was not present for all of the meeting as she was looking after a colleague who was unwell.

35. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

36. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

37. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

38. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed.

39. MINUTES OF THE MEETING HELD ON 21 SEPTEMBER 2015

RESOLVED: That the Minutes of the meeting held on 21 September 2015 be approved as a correct record and signed.

40. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 21 SEPTEMBER 2015

Minute 30 – Review of the Council’s Whistleblowing Policy

The Head of Audit Partnership reminded Members that the Chairman had requested that a report reviewing the Council’s Whistleblowing Policy be submitted to this meeting of the Committee. In correspondence with the Chairman, who was unable to attend this meeting, but would like to be present when the report was discussed, it had been agreed that the report should be submitted to the Committee in January 2016. This would provide an opportunity to expand the scope of the work to include comparative information from Ashford and Tunbridge Wells Borough Councils.

41. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

The Committee considered the report of the Senior Solicitor (Corporate Governance) setting out details of the number of complaints received under the Members’ Code of Conduct during the current Municipal Year to date. It was noted that since the last report to the Committee on 20 July 2015, there had been no new complaints. There were two complaints in existence as at 20 July 2015. Following consultation with the Independent Person, the Monitoring Officer found that there had been no breach of the Code of Conduct. However, a recommendation was made to the Parish Council that training be arranged for all Members to cover management of meetings and conduct of the Council.

RESOLVED: That the report be noted.

42. ANNUAL GOVERNANCE STATEMENT 2015/16 ACTION PLAN UPDATE

The Committee considered the report of the Head of Policy and Communications updating progress against the Annual Governance Statement 2015/16 Action Plan. It was noted that:

- Progress against the Action Plan was being monitored by the Corporate Governance Working Group.
- Since the Annual Governance Statement was approved in July 2015 to accompany the Statement of Accounts, action had been taken in all areas highlighted for further development. For example, teams across the Council had been involved in developing the corporate risk register. Common themes had been identified across services relating to financial and staffing pressures, and there would be a workshop for Members and senior Officers on 14 December 2015. Agreement had been given to the disaggregation of Tunbridge Wells Borough Council from the Mid-Kent Planning Support Shared Service, and arrangements were now in place to manage this process. A formal review of the effectiveness of the new Committee system of governance would be carried out by the Democracy Committee in the New Year. The Democracy Committee was also reviewing the process

for appointing the Mayor, and would be making recommendations to the Council. The residents' survey was underway, and the results would be shared with Members and used to inform the refresh of the Strategic Plan and the Medium Term Financial Strategy.

- Audit work had identified that emergency planning had weak controls in place to mitigate its risks and achieve its objectives and that there were weak controls in place for achieving compliance with Data Protection requirements. Action plans and implementation dates had been agreed and put in place, and sufficient progress had been made to enable the rating to be reassessed as sound in both cases.

Whilst noting that it was considered that there were no community safety implications associated with this report, a Member reiterated the need for vigilance generally in the light of recent events.

RESOLVED: That the update on progress against the Annual Governance Statement 2015/16 Action Plan be noted.

43. MID-KENT AUDIT INTERIM INTERNAL AUDIT REPORT 2015/16

The Committee considered the report of the Head of Audit Partnership providing a mid-year update on work conducted by Mid-Kent Audit in pursuance of the audit plan agreed by the Audit Committee in March 2015 and a commentary on the broader objectives of the Internal Audit service in helping to ensure good governance at the Council. In introducing the report, the Head of Audit Partnership highlighted the following issues:

Safeguarding Arrangements

The Head of Audit Partnership explained that this audit review covered the specific statutory obligations the Council had under the Children Act 2004 for ensuring the safeguarding of children and vulnerable adults in its areas of responsibility. Whilst the Council did not have the same level of responsibility as an authority providing education and social services, it did have a responsibility to remain vigilant and make referrals.

It had been concluded from the audit work that there were weak controls over the Council's safeguarding arrangements. Although the Council was satisfying its statutory obligations for safeguarding, and there were no immediate concerns to report, areas had been identified where improvements were needed to provide greater resilience and to ensure safeguarding risks were being adequately managed. These included introducing a Deputy Local Authority Designated Officer to provide resilience and introducing a central database of all safeguarding referrals submitted to ensure that when issues did come to light, the Council was recording and passing on the information consistently and accurately.

The actions arising from the audit work would provide the Head of Service and the Safeguarding Working Group with the necessary support to ensure that in time the Council would be able to restore its safeguarding

arrangements to the level of effectiveness that Members would wish to see.

In terms of timeframes, the majority of the recommendations were due for implementation by not later than 31 March 2016. Some of the recommendations were quite substantial, and included the development of policies and processes. An update on implementation of the recommendations would be included in the Internal Audit Annual Report to the Committee in July 2016.

Risk Management

The Head of Audit Partnership advised the Committee that work was underway towards establishing a comprehensive risk register covering service, project and corporate risks. To help identify the risks that could impede the Council's ability to achieve its corporate objectives, the Council had commissioned Grant Thornton to lead the risk workshop scheduled to be held on 14 December 2015.

Mid-Kent Audit Service Update

The Head of Audit Partnership drew the Committee's attention to changes which had been made to the structure of Mid-Kent Audit to provide greater capacity at all levels of the service, but particularly at management level to increase the ability to respond rapidly to changing risks and priorities and to deliver focused strategic reviews. The revised team structure included the appointment of Russell Heppleston as Deputy Head of Audit Partnership.

In response to questions by Members, the Head of Audit Partnership explained that:

- The National Fraud Initiative (NFI) was an exercise that matched electronic data within and between public and private sector bodies to prevent and detect fraud. Matches were anomalous items in the data which potentially on investigation could identify cases of fraud or error. All matches were investigated as each match could be a potential fraud. Mid-Kent Audit would be taking on direct examination of non-benefits matches rather than just co-ordination from January 2016.
- In addition to the NFI, the Kent Intelligence Network, a local data matching service, was coming on-line now. Historically, the Council operated a Fraud team that focused on revenues and benefits and there had not been a corporate Counter Fraud team dedicated to looking at fraud in its broadest sense. He was optimistic that in the New Year, the Council could establish a corporate Counter Fraud team possibly using the skills available within Mid-Kent Audit.
- In terms of performance across the Partnership, the % of projects completed within the budgeted number of days was currently 57% against a year-end target of 60%. This was an improvement on the

outturn for 2014/15 (47%), and could be attributed to the team's ability to more accurately scope the budget for the work undertaken and to more closely scope the work to a specific number of days. There was also a tendency for the team to help Officers with Internal Audit recommendations, and this needed to be recognised in drawing up the audit plan. The team would be looking to achieve further improvements in this measure of performance and hoped to achieve nearer 100% in a few years' time.

- With regard to an attempted fraud at the Council involving the use of a "spoof" email account, spoof emails were a risk, but the Council had in place a range of additional controls to frustrate these attempts, and on this occasion these controls had worked effectively. The matter had been reported to the Police, but the amount involved and the methodology did not meet the threshold to prompt the Police to be involved.
- In terms of the Council's resilience to cyber-attack, a report had been prepared by the ICT team considering the risks. The report had concluded that the Council was adequately and proportionately protected. The Head of ICT would be asked to circulate the report to Members in order to provide a fuller explanation. These risks were also considered when the Audit Plan was being drawn up.
- The change from a Cabinet to a Committee system of governance had not made any particular difference to the way in which the Internal Audit team carried out its work. The team's primary relationship with Members was through its work with the Audit, Governance and Standards Committee.

RESOLVED:

1. That progress against the Internal Audit Plan 2015/16 be noted.
2. That Russell Heppleston be congratulated on his appointment as Deputy Head of Audit Partnership.
3. That the Internal Audit team be congratulated on its achievements.

44. TREASURY MANAGEMENT HALF YEARLY REVIEW 2015/16

The Committee considered the report of the Head of Finance and Resources setting out details of the activities of the Treasury Management function as at 30 September 2015 in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It was noted that:

- All new investments during the first six months of 2015/16 had been short term (less than one year). As at 30 September 2015, the Council held investments totalling £34.55m. Income generated on these investments was £116k, and the average rate of return on investments over this period was 0.75%. The Council had used highly rated institutions to invest its funds and had kept the majority of

investments under one year in case funds were needed to fund potential property purchases and to react to potential changes in market rates.

- The use of property funds was looked at during 2014/15, but the net returns (after deducting management fees) were judged to be insufficient to justify the level of risk associated with this type of investment and the length of time that funds would have been tied up. However, due to the increase in returns, the use of property funds was being reviewed again.
- During the first six months of 2015/16, the Council had to borrow on two occasions for short term liquidity reasons at a total cost of £139.73.
- The Council's investment priorities were security of capital, liquidity and yield. The aim was to achieve the optimum return on investments with proper levels of security and liquidity.

In response to questions by Members, the Accountant (Systems) explained that:

- The Council's treasury advisor, Capita Asset Services, had provided an interest rate forecast over the period December 2015 – June 2018. Capita would be reviewing the forecast in December 2015 as there were expectations of a rate increase in the USA which could have a knock on effect on predictions for the UK Bank rate.
- A key element of the 2015/16 Treasury Management Strategy was the inclusion within the Council's counter party list of overseas institutions where the country's sovereignty rating was equal to or better than the UK's AA+ rating and the institution itself was of a high credit quality. In this connection, the Council had invested £1m in the Commonwealth Bank of Australia, a highly rated institution, for a period of ten months at a rate of 0.71%.

RESOLVED:

1. That the mid-year review which has been undertaken of the activities of the Treasury Management function in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities be noted.
2. That no amendments to the current procedures are necessary as a result of the review which has been undertaken of the activities of the Treasury Management function in 2015/16 to date.

45. **EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER**

The Committee considered the External Auditor's Annual Audit Letter summarising the main findings from the work undertaken by the External Auditor for the year ended 31 March 2015. It was noted that:

- The External Auditor had issued an unqualified opinion on the Council's 2014/15 financial statements and an unqualified Value for Money conclusion for 2014/15. Work on the Council's 2014/15 housing benefit subsidy claim was largely complete and a summary of the main issues would be reported to the January meeting of the Committee.
- One of the key messages from the audit work related to slippage in the capital programme. The Council spent £4.427m on capital projects in 2014/15 compared to an original estimate of £11.67m, which was a significant variance.

In response to questions by Members, the Officers explained that discussions were taking place to identify a more robust process for prioritising capital projects and delivering them within the planned timeframe to ensure the use of resources to the best effect. Quarterly budget monitoring reports were submitted to the Policy and Resources Committee to enable comparisons to be made of expenditure against the capital budget/programme throughout the year.

RESOLVED: That the External Auditor's Annual Audit Letter for the year ended 31 March 2015, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

46. AUDIT COMMITTEE UPDATE - NOVEMBER 2015

The Committee considered the report of the External Auditor on the progress to date against the 2015/16 Audit Plan. The report also included a summary of emerging national issues and developments that might be relevant to the Committee together with a number of challenge questions in respect of these emerging issues.

The Interim Chief Accountant drew the Committee's attention to proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. She confirmed that in preparation for this it was hoped to close the 2015/16 accounts on a certified basis by 31 May 2016 rather than 30 June 2016, with Member approval by the end of September 2016.

In response to questions by Members, the Officers/representative of the External Auditor explained that:

- It was recognised that elected Members were very busy, and at the forefront of unprecedented change, both within their own authority and as part of a wider local public sector agenda. The External Auditor was keen to support Members in their role and had teamed up with the Centre for Public Scrutiny to produce a Member training programme on governance and had published material on its website to help Members ask the right questions on subjects such as devolution and setting up successful local authority trading companies.
- In terms of the Chancellor's "devolution revolution" announcement on 5 October 2015, the Council was currently in a pooling arrangement

with other local authorities in order to minimise the levy payment due to the Government and thereby maximise the local retention of locally generated business rates. This had benefitted the Council by an additional £614k above the business rates it was allowed to retain. The pool was set for another year, but the Government could change the rules.

RESOLVED: That the External Auditor's update report, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

47. DURATION OF MEETING

6.30 p.m. to 7.55 p.m.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

18 JANUARY 2016

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Grant Claim Certification

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Stephen McGinnes
Lead Officer and Report Author	Stephen McGinnes
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

1. That the Committee notes the Grant Thornton assurance that the Council maintains a strong control environment for the preparation and monitoring of grant claims and returns.

This report relates to the following corporate priorities:

In maintaining effective financial controls the Council is able to confidently progress it's priorities.

- Keeping Maidstone Borough an attractive place for all -
- Securing a successful economy for Maidstone Borough -

Timetable

Meeting	Date
Audit, Governance and Standards Committee	18 th January 2016

Grant Claim Certification

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 To consider the outcome of the Grant Thornton work to certify the subsidy claim that the Council submitted during 2014-2015.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 Grant Thornton undertook work to certify the Housing Benefit grant claim that was submitted by the Council with a value of £46.6 million, with the process completed in advance of the 30th November deadline set by the Department for Work and Pensions.
- 2.2 The level and form of testing reflect the value and specific requirements of the grant paying body, as detailed within Appendix A.
- 2.3 Whilst the work gave rise to minor amendments (99.96% accuracy) the overall assurance confirmed that the Council continues to have good systems in place to ensure the accuracy of its grant claim.
-

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 Report is provided for information only.
-

4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 4.1 Report is provided for information only.
-

5. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	In maintaining effective financial controls the Council is able to confidently progress its priorities.	Head of Revenues and Benefits
Risk Management	Certification provides external assurance to the Council on the effectiveness of its controls around accurate payment and recording of benefit	Head of Audit Service

	expenditure.	
Financial	The financial considerations have been outlined within the body of the report and attached appendices.	Section 151 Officer
Staffing	No impact.	Head of Revenues & Benefits
Legal	No impact.	Deputy Head of Legal Partnership
Equality Impact Needs Assessment	No impact.	Head of Revenues & Benefits
Environmental/Sustainable Development	No impact.	Head of Revenues & Benefits
Community Safety	No impact.	Head of Revenues & Benefits
Human Rights Act	No impact.	Head of Revenues & Benefits
Procurement	No impact.	Head of Revenues & Benefits
Asset Management	No impact.	Head of Revenues & Benefits

6. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix I: Grant Thornton Certification letter

7. BACKGROUND PAPERS

None



Grant Thornton

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06 January 2016

Dear Paul

Certification work for Maidstone Borough Council for year ended 31 March 2015

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

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for the certification of the Housing Benefit Subsidy claim using the HB COUNT methodology issued by the Audit Commission in February 2015.

We certified one return, the Council's Housing Benefit Subsidy for the financial year 2014/15 relating to grant payable of £46.6 million. Further details are set out in Appendix A.

We found the Council had put in place procedures to address the errors we identified in last year's claim relating to childcare costs and modified schemes.

- Officers reviewed all cases where childcare costs were taken into account in calculating benefit and reformed a sample of cases. We were satisfied from our work that errors of the type we identified last year were corrected, and we identified no such errors in this year's claim
- We did not identify any cases this year, which were erroneously classified as modified schemes.

However, this year's testing identified errors in respect of the classification of overpayments relating to non-HRA rent rebates. In a number of cases, where the Council had paid rent in advance and the claimant had moved out, the overpayment was erroneously classified as eligible (which attracts subsidy) rather than technical (which does not). Officers reviewed all cases of this type and we reformed a sample of their work. They concluded that the majority of overpayments were misclassified, resulting in a reduction to subsidy payable of £22,552.

Officers have agreed that they will review all overpayments relating to such properties raised during 2015/16 to ensure that these are correctly classified before completing that year's subsidy return.

The indicative fee for 2014/15 for the Council was based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission regime (such as the national non-domestic rates return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £13,910. We do not propose to vary the scale fee. This is set out in more detail in Appendix B.

Yours sincerely

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2014/15

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£46,632,124	Yes	-£22,552	No	Amendment arose from the misclassification of overpayments relating to non-HRA rent rebates as eligible rather than technical.

Appendix B: Fees for 2014/15 certification work

Claim or return	2013/14 fee (£)	2014/15 indicative fee (£)	2014/15 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£15,224	£13,910	£13,910	(£1,314)	Reduction year on year reflects improvements in processes and lower volume of errors identified.
Total	£15,224	£13,910	£13,910	(£1,314)	

Agenda Item 9

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

**Monday 18th
January 2016**

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Audit Committee Update – January 2016

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Head of Finance and Resources
Lead Officer	Paul Riley
Report Author	Janette Gill
Is this a key Decision	No
Classification	Public
Wards affected	N/A

This report makes the following recommendations to this Committee:

1. It is recommended that the Audit, Governance and Standards Committee notes the External Auditor's update report attached at Appendix A.

Issues for Consideration:

To consider the report of the External Auditor on the proposed Audit Programme for 2015/16. Representatives from Grant Thornton UK LLP will be present at the meeting to present their report and answer any questions.

This report relates to the following corporate priorities:

- Securing a successful economy for Maidstone Borough Council – delivery of Value for Money services

Timetable

Meeting	Date : 18 January 2016
Audit, Governance and Standards Committee	

Audit Committee Update – January 2016

1. PURPOSE OF REPORT

- 1.1 This report is to communicate to the Audit, Governance and Standards Committee a report on the progress in delivering the responsibilities of the Authority's External Auditors.
 - 1.2 The report also includes emerging issues and developments relevant to the Authority along with any questions that may arise as a result of those emerging issues. A copy of the Audit Committee Update Report is attached at Appendix A.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 The Audit Committee Update Report will provide a report on the progress of the work of the External Auditor's Grant Thornton UK LLP, in discharging their responsibilities as outlined in the above at Paragraph 1.
-

3. REASONS FOR RECOMMENDATIONS

- 3.1 External Audit Services are provided by Grant Thornton UK LLP who successfully tendered for the five year contract from 2012/13 following the abolition of the Audit Commission's audit practice.
- 3.2 Members have previously indicated that they found this type of report to be useful.
- 3.3 Representatives of Grant Thornton UK LLP will be at the meeting to present the report and answer any questions.

Alternative Action and why not Recommended

- 3.4 In accordance with the respective responsibilities of both the External Auditor and the Audit, Governance and Standards Committee, a progress report update of this nature is judged to be appropriate for consideration. To not consider the report could weaken the Audit, Governance and Standards Committee's capacity to discharge its responsibilities in relation to External Audit and governance.
-

4. IMPLICATIONS

The implications to consider as a result of this report are as follows:

Issue	Implications	Sign-off
Impact on Corporate Objectives	The report is focused on ensuring that the Auditor's Opinion on the 2015/16 Financial Statements is issued by the Statutory deadline of the 30 th September 2016.	Head of Finance & Resources
Risk Management	This report supports the Committee in the delivery of its Governance responsibilities. It also helps to mitigate the risk of non-compliance with the statutory timetable for production and audit of the annual accounts through timely communication of any potential issues.	Chief Accountant
Financial	The financial implications arising from the proposed work will be contained in the Audit Plan referred to in the Report at Appendix A	Head of Finance & Resources

5. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Audit Committee Update January 2016

6. BACKGROUND PAPERS

There are no background papers for this report.

Maidstone Borough Council Audit Committee Update

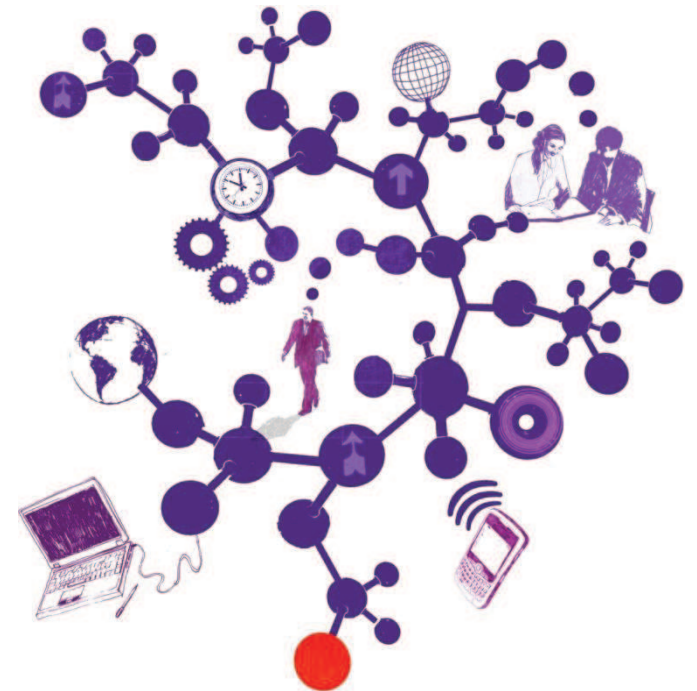
Year ended 31 March 2016

January 2016

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

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Introduction

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

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

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

Progress at January 2016

Work	Planned date	Complete?	Comments
<p>Fee Letter We are required to issue a planned fee letter for 2015/16 by the end of April 2015.</p> <p style="text-align: center;">23</p>	April 2015	Complete	<p>The Audit Commission published the work programme and scales of fees for the audit of the 2015/16 accounts of principal audited bodies, including the lists of fees for individual bodies before it's closure. This included reduced scale audit fees for Councils by 25%. There are no changes to the work programme for 2015/16.</p> <p>The fee letter confirmed the 2015/16 scale audit fees as £50,475.</p> <p>After the Commission's closure, the 2015/16 work programme and fees is accessible from the PSAA website.</p>
<p>Accounts Audit Plan and interim audit We are required to issue a detailed accounts Audit Plan setting out our proposed approach to give an opinion on the Council's 2015/16 financial statements.</p> <p>Our interim fieldwork visit will include:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing. 	January - March 2016	Not yet due	The findings from this work will be presented in our Audit Plan, presented to the March Committee.

Progress at January 2016 (continued)

Work	Planned date	Complete?	Comments
<p>Final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts 	July 2016	Not yet due	The findings from this work will be presented within our Audit Findings Report, presented to the Audit Committee.
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2015/16 VfM conclusion has recently been subject to consultation from the National Audit Office (NAO). The consultation closed at the end of September and finalised Auditor guidance has recently been issued and is available on the NAO website.</p> <p>Auditor's are required to consider whether a body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources with reference to the following criteria:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties. 	Jan 2016 – July 2016	Not yet due	<p>Our planned approach will be set out in the Audit Plan.</p> <p>The findings from this work will be presented within our Audit Findings Report, presented to the Committee.</p>

Progress at January 2016 (continued)

Work	Planned date	Complete?	Comments
<p>Housing Benefits</p> <p>We are required to certify the Housing Benefit Claim in accordance with HBCOUNT approach as agreed between the Audit Commission and the Department for Work and Pensions.</p>	<p>August 2016 – October 2016</p>	<p>Yes</p>	<p>We certified the 2014/15 claim by end November 2015 deadline and the claim was unqualified. More detail is provided in the Certification Report presented to the Audit Committee alongside this Update Report.</p>

Code of Audit Practice

Accounting and audit issues

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the NFM conclusion).

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which has been finalised in November 2015 and is available on the NAO website. Under the final guidance auditor's are required to consider whether a body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources with reference to the following criteria:

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

The new guidance will be applicable to the 2015/16 audit.

New local audit framework – length of transitional period

Audit and accounting issues

The implementation of the new local audit framework under the Local Audit and Accountability Act 2014 (the 2014 Act) is subject to transitional arrangements which include measures taken to ensure that the audit contracts originally let by the Audit Commission can continue under saved duties and powers that are exercised on behalf of the Secretary of State by Public Sector Audit Appointments Ltd (PSAA).

The existing contracts could be extended by one, two or three by decision of the relevant government departments which determines when local appointment should come into effect and so when the transitional period should come to an end.

The Department of Communities and Local Government (DCLG) have announced the the Secretary of State's decision about the timetable for local government bodies.

Smaller local government bodies (such as parish and town councils) will move to local appointment for the reviews of 2017/18 annual returns. We understand that progress is being made towards establishing a sector-led body to procure and appoint auditors on behalf of smaller authorities. Larger local government bodies, including fire and rescue authorities, police bodies and other local government bodies, will move to local appointment for the audits of the 2018/19 accounts, extending the current contract by one year. At present, it is not clear yet whether there will be a sector-led body to carry out procurements and appointments of auditors on behalf of local government bodies, but the longer timescale allows more time to establish such arrangements.

CIPFA has been asked by DCLG to prepare guidance for local government bodies on developing local auditor panels.

Knowing the Ropes – Audit Committee Effectiveness Review

Accounting and audit issues

This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



Growing healthy communities: The Health and Wellbeing index

Grant Thornton market insight

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live. Our index assesses 33 key health determinants and outcomes of health for the 324 English local authorities, to provide a coherent, national story on health and wellbeing. It highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes.

The purpose of this report is to help stakeholders – NHS providers and clinical commissioning groups (CCGs), local authorities, health and social care providers, housing associations, fire authorities and the police – to improve collaboration through a better understanding of the correlation between the economic, social and environmental health determinants and the health outcomes within their locality. It includes a concluding checklist of questions to help facilitate discussions in the light of joint service needs assessments.

The data behind the index also allows segmentation which reveals areas around the country with similar health determinants, but better outcomes. This underscores the need to work in collaboration with peers that may not be 'next door' if there is an opportunity to learn from 'others like us'.

Hard copies of our report are available from your Engagement Lead and Audit Manager.



Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

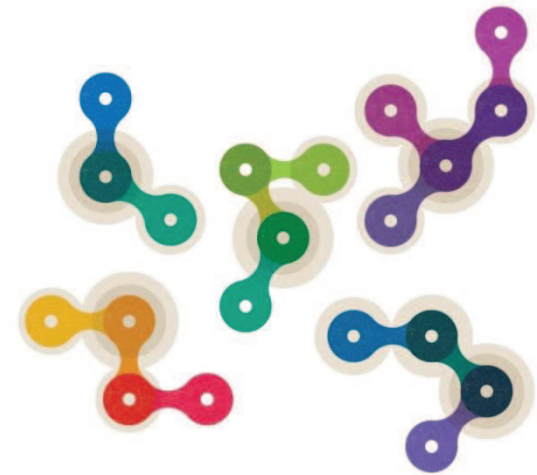
With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

Hard copies of our report are available from your Engagement Lead and Audit Manager.



Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.

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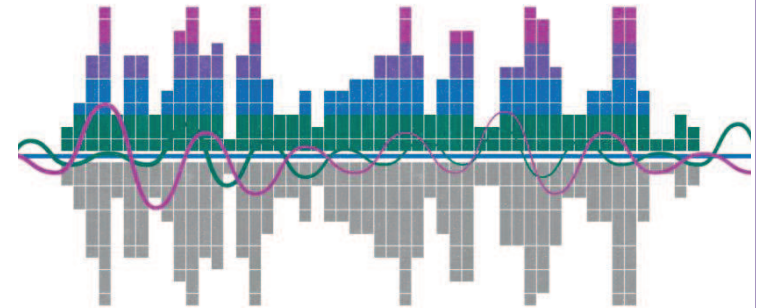
Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

Hard copies of our report are available from your Engagement Lead and Audit Manager



Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager



George Osborne sets out plans for local government to gain new powers and retain local taxes

Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their Local Enterprise Partnerships, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

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There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

Improving efficiency of council tax collection

Local government issues

DCLG have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax. The consultation is aimed specifically at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closed on 18 November.

The Government proposes to extend the data-sharing gateway which currently exists between HMRC and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor. The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.

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Agenda Item 10

Audit Governance & Standards Committee

18th January 2016

Is the final decision on the recommendations in this report to be made at this meeting?

No

Treasury Management Strategy 2016/17

Final Decision-Maker	Council
Lead Director or Head of Service	Paul Riley, Head of Finance & Resources
Lead Officer and Report Author	John Owen, Finance Manager (Systems)
Classification	Non-Exempt
Wards affected	All Wards

This report makes the following recommendations to the this committee:

That the Audit, Governance and Standards Committee recommends to Council the adoption of the Treasury Management Strategy for 2016/17 at Appendix A, in accordance with CIPFA's Code of Practice on Treasury Management subject to the possible amendments set out in paragraph 2.7 and Appendix C of this report, following approval of the capital programme for 2016/17 onwards by Policy & Resources Committee on 27th January 2016.

This report relates to the following corporate priorities:

The Treasury Management Strategy impacts upon all corporate priorities through the resource it provides from the investment of the council's balances and the security and control it provides for decisions on borrowing and investment. These resources are incorporated in the council's budget

Timetable

Meeting	Date
Policy and Resources Committee	27 th January 2016
Council	2 nd March 2016

Treasury Management Strategy 2016/17

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Audit, Governance & Standards Committee considers the draft Treasury Management Strategy Statement as set out in Appendix A and associated appendices to this report, for recommendation to Council
 - 1.2 The Council adopted CIPFA's Code on Treasury management (the Code) which requires an annual report on the strategy and plan to be pursued within the coming year to be made to full Council. This report considers the proposed strategy for 2016/17 onwards along with current guidance from CIPFA and the Department for Communities and Local Government (DCLG).
-

2. INTRODUCTION AND BACKGROUND

- 2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The Treasury Management Strategy assists the Council in achieving this objective while maintaining value for money.
- 2.2 The first function of the Council's treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 2.3 The second main function of the Council's treasury management operation is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

CIPFA defines treasury management as:

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

- 2.4 The strategy for 2016/17 has not altered significantly from the 2015/16 strategy, which was reviewed by this Committee and agreed by Council in March 2015 then monitored by his Committee mid-year.
- 2.5 The strategy is set out at **Appendix A** to this report. It is consistent with the requirements of the CIPFA and DCLG. It has been developed in line with currently approved spending and financing proposals.

- 2.6 The Policy & Resources Committee will consider a capital programme for the period 2016/17 to 2020/21 at its meeting on 27th January 2016. This programme proposes a significant increase in prudential borrowing to support the regeneration and commercial objectives of the Council. Should this programme be endorsed the prudential borrowing limits set out in the attached strategy will require amendment before consideration by Council.
- 2.7 The maximum prudential borrowing and other funding that will be proposed in the draft capital programme is as follows:

	2016/17 £	2017/18 £	2018/19 £
Prudential Borrowing	11,950,000	16,000,000	11,000,000
Other Funding Streams	10,027,400	4,077,000	2,865,000
Total Programme	21,977,400	20,077,000	13,865,000

- 2.8 Should the Policy and Resources Committee approve this change to the requirement for prudential borrowing then the current prudential indicators set out in the strategy attached at **Appendix B** will be amended. These are shown within **Appendix C**.

3. AVAILABLE OPTIONS

- 3.1 **Option 1:** The Committee could decide not to recommend the strategy to Council. The Council must adopt a strategy for 2016/17 and should the Committee decide not to recommend the attached strategy it would need to recommend an alternative to Council. The strategy is in line with the necessary codes and practice guides and takes a low risk approach favouring liquidity over return and as such is considered suitable for this Council.
- 3.2 **Option 2:** Subject to any legal obligations placed upon the Council, the Committee could amend the strategy prior to recommendation to Council. The Committee would need to provide Council with detailed reasons for the amendment and the risks and benefits that the proposed amendment provides in order for the Council to make a fully informed decision on the recommendation. Areas where amendments could be made include the following, which are detailed along with current reasons for not changing the current strategy.
- 3.2.1 Limits - the proposed strategy allows maximum investments with certain institutions of £8m. The current limit could be retained, increased or reduced. Given the difficulty in identifying opportunities to lend at suitable rates within the counterparty list, it is considered appropriate to incorporate sufficient flexibility by retaining the current limit for investments with the most secure organisations.

- 3.2.2 Counterparties - the proposed strategy allows non-specified investments with other local authorities and the top five building societies. The strategy could propose to utilise additional counterparties from the non-specified investments group. However, due to the fact that this would involve an increased level of risk to the security of the council's cash, this is not considered to represent a prudent course of action.
- 3.2.3 Alternative use of cash - the resources invested in expenditure could be utilise to deliver key priority outcomes. However the core cash held by the Council is either set aside for future expenditure, such as the capital programme, or held as a form of risk mitigation, such as the minimum level of revenue balances. To utilise these resources for alternative projects could compromise liquidity and put the Council at future risk should an unforeseen event occur.
- 3.2.4 External Fund Managers – by appointing external managers local authorities may possibly benefit from security of investments, diversification of investment instruments, liquidity management and the potential of enhanced returns. Managers do operate within the parameters set by local authorities but this involves varying degrees of risk. This option has been discounted on the basis of the risk which would make it difficult to ascertain a suitable sum to assign to an external manager.

3.3 **Option 3:** The Committee could agree the attached strategy and recommend it to Council. The attached strategy has been produced in line with current guidance from CIPFA and the Department for Communities and Local Government (DCLG) and has been reviewed by the Council's Treasury Management Advisors and their recommended amendments have been taken into account.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The recommended option is Option 3, to recommend to Council the strategy set out in Appendix A. In agreeing the proposed or any other recommendation the Committee should note the potential change in the level of prudential borrowing as set out in paragraph 2.7 and the amended indicators set out in paragraph 2.8.
 - 4.2 The amendments are expected maximum levels and the final decision of Policy and Resources could be a level of prudential borrowing somewhere in between the current £6m and the figures set out above. Any such changes would need to be made to the strategy prior to presentation to Council.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The attached strategy is in line with current guidance and will be considered by Policy & resources Committee when that committee considers the future capital programme.
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 The final decision on the strategy will be made by Council on 2 March 2016 when it considers the 2016/17 budget and strategic plan update. All three strategies are interlinked and the Council meeting will be able to consider the cross strategy implications of each decision.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Treasury Management Strategy impacts upon all corporate priorities through the resource it provides from the investment of the council's balances and the security and control it provides for decisions on borrowing and investment. These resources are incorporated in the council's budget	Head of Finance & Resources
Risk Management	Risk Management is included within the Treasury Management Practices which the council adheres to. The main risks to the council are counterparty risk, liquidity risk and interest rate risk which are closely monitored on a regular basis using the council's treasury advisors and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken immediately through delegated authority.	Head of Finance & Resources
Financial	Financial implications are dealt with in the strategy	Head of Finance & Resources
Staffing	None	Head of Finance & Resources
Legal	Legal implications are set out in the body of the strategy.	Head of Finance & Resources
Equality Impact Needs	None	Head of Finance &

Assessment		Resources
Environmental/Sustainable Development	None	Head of Finance & Resources
Community Safety	None	Head of Finance & Resources
Human Rights Act	None	Head of Finance & Resources
Procurement	None	Head of Finance & Resources
Asset Management	None	Head of Finance & Resources

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Treasury Management Strategy 2016/17
- Appendix B: Prudential Indicators – Current Strategy
- Appendix C: Prudential Indicators – Proposed Strategy

9. BACKGROUND PAPERS

None

Treasury Management Strategy Statement
Minimum Revenue Provision Policy Statement and
Annual Investment Strategy

Maidstone Borough Council
2016/17

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1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management service is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

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

1.2 Reporting requirements

The Council is required to receive and approve, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

The following reports are not required to be approved by Council but are to be reported and scrutinised to the relevant Committee. The Council has delegated this function to the Audit, Governance and Standards Committee.

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

A quarterly update on the Council's treasury management position is also provided through budget monitoring reports presented to Policy & Resources Committee.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- the investment strategy; and
- creditworthiness policy.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Treasury management consultants

The Council uses Arlingclose Limited as its external treasury management advisors.

Responsibility for treasury management decisions ultimately remains within the organisation and officers will not place undue reliance on the advice of external service providers.

The terms of appointment and value gained through use of treasury management consultants will be subject to regular review.

1.5 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. A treasury management training session was delivered by Capita, the Council's previous treasury management advisors in July 2015 and was open for all members to attend. Further training will be arranged as required.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study

professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

2 THE CAPITAL PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Capital expenditure forecasts are shown below:

2015/16	2016/17	2017/18	2018/19	2019/20
£,000	£,000	£,000	£,000	£,000
4,413	27,043	4,220	3,932	3,291

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes the liability for the arrangement with Serco Paisa for leisure centre improvements. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

CFR projections are shown in the table below:

2015/16	2016/17	2017/18	2018/19	2019/20
£,000	£,000	£,000	£,000	£,000
472	6,472	6,472	6,472	6,472

2.3 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %	2020/21 %
-1.3	-1.4	-1.5	-2.0	-2.0	-2.0

The estimates of financing costs include current commitments and the proposals in this budget report.

2.4 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Council tax - band D	-2.10	2.12	-0.01	-0.22	-0.29

2.5 Minimum Revenue Provision

Where spend is financed through the creation of debt, the Council is required to pay off an element of the accumulated capital spend each year. The total debt is identified as the capital financing reserve and ensures that the Council includes external and internal borrowing along with other forms of financing considered to be equivalent to borrowing.

The payment is made through a revenue charge (the minimum revenue provision - MRP) made against the Council's expenditure.

Although the Council has maintained a capital financing reserve based upon the prudential borrowing limit previously set, the MRP was based upon the actual payments made under the Serco Paisa arrangements for the capital works completed by Serco at Maidstone Leisure Centre. Debt repayment is made by annual installments over the 15 year life of the contract and it is therefore considered appropriate to base MRP payments on this value and no additional voluntary provision is deemed necessary.

With the real potential for the use of prudential borrowing it is felt appropriate that a policy statement is approved by Council in line with the requirements of the Code. The Code states that there is a choice between two options, or a combination of methods based on the nature of different arrangements:

Asset life method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

Depreciation method – MRP will follow standard depreciation accounting procedures.

Due to the requirement to split assets into component parts and depreciate different components at different rates, the asset life method of calculating MRP would provide a more stable and transparent method for the Council to use.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Debt	0	6,000	6,000	6,000
Other long term liabilities	4,971	4,514	4,033	3,526
Total	8,971	10,514	10,033	9,526

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Debt	4,000	10,000	10,000	10,000
Other long term liabilities	4,971	4,514	4,033	3,526
Total	8,971	14,514	14,033	13,526

3.2 Prospects for interest rates

The Council's advisors, Arlingclose Ltd, have provided the following interest rate forecast:

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Average
Official Bank Rate														
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.31
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.12
Downside risk			-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-0.73
3-month LIBID rate														
Upside risk	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.36
Arlingclose Central Case	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.50	1.60	1.65	1.70	1.75	1.24
Downside risk		-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20	-1.20	-0.83
1-yr LIBID rate														
Upside risk	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.41
Arlingclose Central Case	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15	2.15	1.82
Downside risk	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25	-1.25	-0.88
5-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	1.30	1.38	1.45	1.53	1.60	1.68	1.75	1.83	1.90	1.98	2.05	2.13	2.20	1.75
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
10-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	1.90	1.95	2.00	2.05	2.10	2.15	2.20	2.25	2.30	2.35	2.40	2.45	2.50	2.20
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
20-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	2.50	2.53	2.55	2.58	2.60	2.63	2.65	2.68	2.70	2.73	2.75	2.78	2.80	2.65
Downside risk	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20	-1.20	-0.89
50-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	2.50	2.55	2.60	2.63	2.65	2.68	2.70	2.73	2.75	2.78	2.80	2.83	2.85	2.69
Downside risk	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15	-1.15	-0.84

Forecast:

- § Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.
- § The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- § The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

3.3 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has been funded using cash supporting the Council's reserves, balances and cash flow as a temporary measure, rather than through loan debt. This strategy is prudent as currently investment returns are low and counterparty risk is relatively high.

The authority to borrow up to £6m for the financing of capital expenditure is included in the current capital programme and the current prudential indicators. The 2016/17 strategy includes the continuation of that authority within the calculation of the indicators. If the Council is to borrow then the affordability of the capital programme must include an assessment of the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.

Should rates move quicker than the forecast predicts, the current and proposed strategies do allow the Head of Finance and Resources to take advantage of external borrowing. The Council's policy on borrowing in advance of need is set out at section 3.4 of this strategy.

Sources: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK public and private sector pension funds (except the Kent County Council Pension Fund)

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

3.4 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £20 and £45 million.

Objectives: Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Strategy: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2016/17. This is especially the case for the estimated £8m that is available for longer-term investment. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit, money market funds and cash enhanced funds. This diversification will represent a continuation of the new strategy adopted in 2015/16.

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£8m 20 years	£8m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£8m 10 years	£8m 25 years	£3m 10 years	£3m 10 years
AA	£3m 4 years	£8m 5 years	£8m 15 years	£3m 5 years	£3m 10 years
AA-	£3m 3 years	£8m 4 years	£8m 10 years	£3m 4 years	£3m 10 years
A+	£3m 2 years	£8m 3 years	£3m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£8m 2 years	£5m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£8m 13 months	£5m 5 years	£3m 13 months	£3m 5 years
BBB+	£2m 100 days	3m 6 months	£2m 2 years	£2mm 6 months	£3m 2 years

BBB	£2m next day only	3m 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	£8m 25 years	£50,000 5 years	£3m 5 years
Pooled funds	£8m per fund				

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified Investments: Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in the table below.

Non-Specified Investment Limits

	Cash limit
Total long-term investments	£8m
Total investments without credit ratings or rated below A-	£5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£5m
Total non-specified investments	£18m

The council will maintain a counterparty list to identify institutions suitable for investment. The counterparty list will be maintained using the following principles:

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment Limits: In order that available reserves will not be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £8m million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	Cash limit
Any single organisation, except the UK Central Government	£8m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£8m per group
Any group of pooled funds under the same management	£8m per manager
Negotiable instruments held in a broker's nominee account	£8m per broker
Foreign countries	£8m per country
Registered Providers	£8m in total
Unsecured investments with Building Societies	£5m each
Loans to unrated corporates	£5m each
Money Market Funds	£8m each fund or fund group

Liquidity Management: The Authority uses a cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Accounting treatment of investments.

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

In-house funds. The majority of investments will be made with reference to the cash flow requirements so invested for short-term interest rates (i.e. rates for investments up to 12 months). However, there is a provision of funds that can be used for longer term investments (greater than 12 months) if it deemed to be prudent by the Head of Finance & Resources.

4.2 Investment strategy

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
	2016/17 £000	2016/17 £000	2017/18 £000
Principal sums invested > 364 days	8,000	8,000	8,000

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2016/17	2017/18	2018/19
Upper limit on fixed interest rate exposure	-£39m	-£39m	£-39m
Upper limit on variable interest rate exposure	-£40m	-£40m	-£40m

The upper limit on fixed interest rates incorporates expected borrowing of £6m within the strategy which reduced the negative investment limit. The upper limit on variable interest rate exposure is calculated as being 80% of the projected highest level of investments during 2016/17.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

4.3 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report as previously stated within 1.2.

4.4 Other Items

It is a requirement of the Prudential Code of Practice for Treasury Management that Authorities have a policy on use of financial derivatives. Local authorities have previously made use of financial derivatives

embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

PRUDENTIAL INDICATORS - CURRENT STRATEGY

Ratio of Financing Costs to Net Revenue Stream

2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %	2020/21 %
-1.3	-1.4	-1.5	-2.0	-2.0	-2.0

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. As estimated investment income is higher than interest costs, this results in a negative total.

Incremental Impact of Capital Investment Decisions on the Council Tax

	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
i) Forecast of total budgetary requirement no changes to capital programme	20,058	11,224	5,528	5,310	5,086	5,086
ii) Forecast of total budgetary requirement after changes to capital programme	4,413	27,043	4,220	3,932	3,291	4,271
iii) Additional Council Tax Required	-2.10	2.12	-0.01	-0.22	-0.29	-0.12

Demonstrates the affordability of the capital programme. It demonstrates the impact of the proposed capital programme upon the Council Tax.

Current Financial Plan

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
4,413	27,043	4,220	3,932	3,291	4,271

This prudential indicator is a summary of the Council's current capital expenditure plans.

Capital Financing Requirement

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
472	6,472	6,472	6,472	6,472	6,472

This is a measure of the capital expenditure incurred historically by the council that has yet to be financed. It is a measure of the Council's borrowing need to fund the agreed capital programme.

TREASURY MANAGEMENT INDICATORS - CURRENT STRATEGY

Authorised Limit for External Debt

	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Borrowing	4,000	10,000	10,000	10,000	10,000	10,000
Other Long Term Liabilities	4,971	4,514	4,033	3,526	3,005	3,005
Total	8,971	14,514	14,033	13,526	13,005	13,005

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003.

Operational Boundary

	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Borrowing	0	6,000	6,000	6,000	6,000	6,000
Other Long Term Liabilities	4,971	4,514	4,033	3,526	3,005	3,005
Total	4,971	10,514	10,033	9,526	9,005	9,005

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day basis.

Upper Limit for Fixed Interest Rate Exposure

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-45,000	-39,000	-39,000	-39,000	-39,000	-39,000

This is the maximum amount of net borrowing and investment that can be at a fixed rate. Variable rate call accounts may be cleared during periods of high payments eg Precept so fixed rate can peak during these periods.

Upper Limit for Variable Interest Rate Exposure

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-40,000	-40,000	-40,000	-40,000	-40,000	-40,000

This is the maximum amount of net borrowing and investment that can be at a variable rate. The limit set reflects the fact that during the year there can be excess surplus funds available for short term investment. These arise from timing differences between receipts received and payments made.

Maturity Structure of New Fixed Rate Borrowing during 2014/15

	Upper Limit %	Lower Limit %
Under 12 months	100	0
12 months to under 24 months	100	0
24 months to under 5 years	100	0
5 years to under 10 years	100	0
10 years and over	100	0

This indicator is set to control the Authority's exposure to refinancing risk.

Principal Invested for more than 364 Days

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
8,000	8,000	8,000	8,000	8,000	8,000

Total principal funds invested for greater than 364 days

PRUDENTIAL INDICATORS - PROPOSED STRATEGY

Ratio of Financing Costs to Net Revenue Stream

2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %	2020/21 %
-1.3	0.6	3.2	4.5	4.5	4.4

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. Negative figures shows more investment interest than prudential borrowing interest, positive figures the opposite is true.

Incremental Impact of Capital Investment Decisions on the Council Tax

	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
i) Forecast of total budgetary requirement no changes to capital programme	20,058	11,224	5,528	5,310	5,086	5,086
ii) Forecast of total budgetary requirement after changes to capital programme	4,623	21,977	20,077	13,865	2,394	1,975
iii) Additional Council Tax Required	-2.08	8.11	15.69	22.74	20.66	20.39

This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the Council's existing approved commitments and current plans.

Current Financial Plan

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
4,623	21,977	20,077	13,865	2,394	1,975

This prudential indicator is a summary of the Council's proposed capital expenditure plans.

Capital Financing Requirement

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-4,945	11,276	24,905	35,600	35,574	35,643

This is a measure of the capital expenditure incurred historically by the council that has yet to be financed. Its a measure of the Council's borrowing need to fund the proposed capital programme

TREASURY MANAGEMENT INDICATORS - PROPOSED STRATEGY

Authorised Limit for External Debt

	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Borrowing	4,000	15,950	31,950	42,950	42,950	42,950
Other Long Term Liabilities	4,971	4,514	4,033	3,526	3,005	3,005
Total	8,971	20,464	35,983	46,476	45,955	45,955

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003.

Operational Boundary

	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
Borrowing	0	11,950	27,950	38,950	38,950	38,950
Other Long Term Liabilities	4,971	4,514	4,033	3,526	3,005	3,005
Total	4,971	16,464	31,983	42,476	41,955	41,955

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day basis.

Upper Limit for Fixed Interest Rate Exposure

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-45,000	-33,050	-17,050	-6,050	-6,050	-6,050

This is the maximum amount of net borrowing and investment that can be at a fixed rate. The upper limit on fixed interest rates incorporates expected borrowing which reduced the negative investment limit.

Upper Limit for Variable Interest Rate Exposure

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
-40,000	-40,000	-40,000	-40,000	-40,000	-40,000

This is the maximum amount of net borrowing and investment that can be at a variable rate. The upper limit on variable interest rate exposure is calculated as being 80% of the projected highest level of investments during 2016/17

Maturity Structure of New Fixed Rate Borrowing during 2014/15

	Upper Limit %	Lower Limit %
Under 12 months	0	0
12 months to under 24 months	0	0
24 months to under 5 years	0	0
5 years to under 10 years	0	0
10 years and within 20 years	0	0
20 years and within 30 years	0	0
30 years and within 40 years	0	0
40 years and within 50 years	100	15
50 years and within 60 years	100	50
70 years and within 80 years	100	100

This indicator is set to control the Authority's exposure to refinancing risk.

Principal Invested for more than 364 Days

2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000
8,000	8,000	8,000	8,000	8,000	8,000

Agenda Item 11

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

18 January 2016

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

Whistleblowing Review

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Head of Audit Partnership
Lead Officer and Report Author	Rich Clarke – Head of Audit Partnership
Classification	Public
Wards affected	ALL

This report makes the following recommendations to this Committee:

1. That the Committee request officers via the Corporate Governance Working Group to consider the findings of this review and report back to Members of this Committee on a proposed implementation to refresh the Council's approach to raising concerns at work.

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all -
- Securing a successful economy for Maidstone Borough -

The report considers effectiveness of the Council's governance and in particular its ability to identify and respond to concerns identified by members of staff. Consequently it affects both corporate priorities.

Timetable

Meeting	Date
Committee (Audit, Governance & Standards Committee)	18 January 2016

Whistleblowing Review

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report follows a request from the Chairman of this Committee in September 2015 for internal audit to review and consider the effectiveness of the Council's arrangements for raising concerns at work
- 1.2 We agreed a detailed brief with the Chairman in late November 2015, by which time we had obtained agreement from s.151 and monitoring officers at Ashford BC and Tunbridge Wells BC to share our survey amongst their staff to provide a greater degree of comparative information.
- 1.3 The report's detailed findings are summarised within the "Summary Report" on its second page. While the report does identify a policy in place, and the survey confirms the willingness of staff to raise their concerns and a confidence in doing so it also make a number of comments that should be considered by officers to improve arrangements:
- Clearly establish overall responsibility for whistleblowing at an officer level, including amending the constitution and/or audit charter where necessary.
 - Revise and refresh the Whistleblowing charter with reference to Public Concern At Work's identified best practice.
 - The revised charter should in particular give staff clear expectations on the Council's response including investigation approaches and timescales.
 - Undertake relevant training and awareness raising periodically.
 - Report monitoring information to Members on progress towards raising awareness of whistleblowing, quantitative information on concerns raised and headline narrative on what the Council has learned from matters brought to its attention through whistleblowing.

2. INTRODUCTION AND BACKGROUND

- 2.1 All organisations are encouraged by the Public Interest Disclosure Act 1998 to create and maintain procedures to facilitate their staff raising concerns and to protect them from detrimental treatment.
- 2.2 Maidstone BC's own procedure was most recently set out in a whistleblowing charter. This charter, and whistleblowing arrangements generally, represent a key line of defence for an organisation in its ability to identify and correct problems in its operation.

3. AVAILABLE OPTIONS

- 3.1 The Council's arrangements have not been reviewed for some considerable time and in particular do not reflect changes in the Council's structure or developments in regulations around whistleblowing.

- 3.2 Consequently it is advisable for a review of the arrangements to take place if only to refresh and restore currency.
- 3.3 A more wide ranging review, as noted by the report, could be conducted through the Corporate Governance Group of officers, with detailed proposals to be brought before Members.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Revising whistleblowing arrangements, particularly where there may be additional training needs, will require detailed consideration to ensure effective implementation. The scope of the audit review was not to recommend any particular approach but the recommendation of this report is that work is taken forward by an appropriate officer group.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 This is the first detailed review of whistleblowing arrangements .
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The Corporate Governance Group meets quarterly and may consider this at its next meeting in March. Consequently, we suggest that the June meeting of this Committee might be the most appropriate point at which to consider more detailed proposals (and, if required, make recommendations onward to Policy and Resources Committee if a new or revised policy results).
-

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

The key recommendation of this report is that further, detailed, proposals will be developed. Consequently the cross cutting issues and implications are more appropriately considered once those proposals are developed.

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Whistleblowing review
-

9. BACKGROUND PAPERS

None.

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WHISTLEBLOWING REVIEW

DRAFT REPORT

January 2016

Audit Code	MBC-CON01(15-16)	Service	Audit, Governance & Standards Committee (MBC)
Audit Lead	Rich Clarke	Audit Sponsor	CLlr Steve McLoughlin
Audit Review	Russell Heppleston		



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Summary Report

1. This report represents the first systematic attempt to examine the effectiveness of arrangements at Maidstone BC for raising concerns at work ('whistleblowing'). It was commissioned by Maidstone's Audit, Governance and Standards Committee in September 2015 and subsequently joined by Tunbridge Wells BC and Ashford BC.
2. Encouraging staff to identify and raise concerns is a key component for all organisations in being able to ensure they are consistently well governed and effective. A council's staff are its first and, in some instances, only line of defence against bad or illegal practice. While the Council offers a range of methods for staff to raise concerns, one significant path is the formal Whistleblowing policy which – uniquely – provides a statutory protection to concerned employees shielding them from discrimination as a result of speaking up.
3. In our examination of the policy and practice of whistleblowing across the authorities we conclude that there are a number of encouraging aspects. All three authorities have legally compliant policies, although Maidstone in particular has some way to go to meet the best practice set out by Public Concern At Work. Also, while shallow, there is a broad awareness among staff and Members of the basics and principles of raising concerns and a clearly expressed willingness to not ignore troubling events and behaviours.
4. However, our work identified significant opportunities to update and refresh Maidstone's approach (in particular) and to raise its profile among staff. This will be needed to reduce what is, according to the survey, a significant minority (almost 1/5) of staff who have noted concerns but not raised them.

Next Steps

5. As noted in our audit brief, the scope of the review was not such that we would raise formal recommendations for implementation and follow up. However, there are a number of actions the Council may wish to consider to improve its arrangements:
 - Clearly establish overall responsibility for whistleblowing at an officer level, including amending the constitution and/or audit charter where necessary.
 - Revise and refresh the Whistleblowing charter with reference to Public Concern At Work's identified best practice.
 - The revised charter should in particular give staff clear expectations on the Council's response including investigation approaches and timescales.

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- Undertake relevant training and awareness raising periodically among staff and Members.
 - Report monitoring information to Members on progress towards raising awareness of whistleblowing, quantitative information on concerns raised and headline narrative on what the Council has learned from matters brought to its attention through whistleblowing.
6. Our overall 'recommendation', as expressed in the covering report, is that Members invite officers from Audit, Policy & Performance and Finance via the Corporate Governance Group to consider proposals for refreshing Maidstone's approach to whistleblowing with a view to bringing an implementation report back to the Audit, Governance and Standards Committee.

Independence

7. We are required by Public Sector Internal Audit Standard 1100 to act at all times with independence and objectivity. Where there are any threats, in fact or appearance, to that independence we must disclose the nature of the threat and set out how it has been managed in completing our work.
8. The current whistleblowing charter at Maidstone was originally written by Mid Kent Audit some years ago but adopted by the Council corporately. The charter does not clearly set out ongoing responsibility and such responsibility has never been part of approved audit plans for Mid Kent Audit, so we are satisfied this report does not present a risk of self review.
9. We have no other matters to report in connection with this audit project.

Acknowledgements

10. We would like to express our thanks to all those officers who assisted completion of this work in particular the 173 people who completed the survey and Roger Adley, Susanna Aiano and Adam Chalmers for their assistance in its publication.

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Detailed Findings

11. We completed fieldwork during December 2015 to the agreed objectives and using the tests set out in the final audit brief. We include the audit brief at appendix I.
12. We present the brief as originally agreed since we completed this review in line with original timing and budget expectations. We again thank officers and Members for support provided to enable efficient completion of our work.

Objective 1: Whistleblowing Policy Assessment

13. On initial inspection, the three polices vary significantly. The Ashford and Tunbridge Wells policies are logically and clearly laid out with apparent knowledge of the Whistleblowing Commission’s Code of Practice (‘the Code’), although there is a need to update some internal referencing in the Tunbridge Wells policy.
14. Maidstone’s policy, however, is significantly out of date having not been revised since 2008. Unsurprisingly given its age, the contact numbers and internal referencing is inaccurate. In particular, the extension number given for the Head of Audit (which is the only contact number in the document) is no longer valid. There is also no coherent structure to the document, which misses out key elements of the Code as noted in the table below.

Assessment against the Code’s Written Procedures guidance:

Code Section ¹ . The procedures should...	MBC	ABC	TWBC
4: ...be clear, available, well-publicised, easily understandable.	–	–	–
5a: ...identify types of concerns, including examples	✓	✓	✓
5b: ... include a list of persons with whom workers can raise concerns. The list should be sufficiently broad.	–	✓	✓
5c... give assurance that the worker will not suffer detriment unless it is later proved the information was false.	✓	✓	✓
5d... assure workers that his or her identity will be kept confidential if requested unless required by law	✓	✓	✓
5e... assure workers who will address their concern and how including an estimated timing and feedback method. Also that they should report any detriment for having raised a concern and that they are entitled to independent advice.	✘	–	–
6 state that the employer will sanction those who subject the worker to detriment for having made a disclosure.	✓	✓	✓

¹ References are to paragraph numbers in the Code, so not consecutive as the Code also includes explanatory and additional information.

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Key:

✘	Not meeting Code expectations
–	Partially meeting Code expectations
✓	Meeting Code expectations

15. We set out below further details on areas where policies do not fully meet Code expectations.

(Para 4) Clear, readily available and well publicised

16. The results of our survey (see objective two) give us reason to believe the procedures are not absolutely clear, readily available and well publicised at any authority. We include more details on the survey findings further on in this report.

(Para 5b) Include a broad list of people with whom workers can raise concerns

17. The Code includes an example list, comprising:
- The worker's line manager,
 - More senior managers
 - An identified senior executive/board member
 - Relevant external organisations
18. Maidstone's policy includes internal directions but, unlike the Ashford and Tunbridge Wells examples, does not provide any examples of external bodies to whom workers might raise concerns (such as Public Concern At Work, the police or appropriate regulators).

(Para 5e) Process of handling concerns

19. The Ashford and Tunbridge Wells policies both set out clear expectations to workers on how and by whom their concerns will be handled, including timescales and feedback. However, neither policy advisers workers to raise concerns about any detriments they suffer as a result of having raised a concern.
20. The Maidstone policy includes no details on how and by whom concerns will be investigated nor any indication of timescale or how (or whether) the worker will receive feedback.

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Training, Review and Oversight

21. The Code also includes guidance for how organisations should manage training, review and oversight of Whistleblowing arrangements. Although not directly part of our scope, we have nonetheless evaluated each authority against the Code using the information contained within the policies and our own experience in working with each Council.

Assessment against the Code's Training, Review & Oversight guidance:

Code Section ² . The employer should...	MBC	ABC	TWBC
7a:... identify how concerns should be raised and recorded	✘	✓	✓
7b:... ensure effective training at all levels	✘	–	✘
7c:... identify a person with overall responsibility for whistleblowing arrangements	✘	✓	✘
7d:... conduct periodic audits on the effectiveness of whistleblowing arrangements, including feedback from workers and review of incidents identified as a result of raised concerns.	–	–	–
7e:... provide for independent oversight of arrangements (e.g. by an Audit Committee)	✓	✓	✓
8: publish information on whistleblowing in an annual report, including number and types of concerns raised and staff awareness, confidence and trust in arrangements.	✘	–	✘

Key:

✘	Not meeting Code expectations
–	Partially meeting Code expectations
✓	Meeting Code expectations

(Para 7a) Identifying how concerns should be raised and recorded

22. Maidstone's policy is brief, without any detail on the process by which concerns could be raised. By contrast, Tunbridge Wells' runs through the process of investigation and recording of concerns in some detail, including specific commitments to whistleblowers (such as all concerns will be recorded and an initial response within 10 working days).

² References are to paragraph numbers in the Code, so not consecutive as the Code also includes explanatory and additional information.

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(Para 7b) Ensure effective training at all levels

23. None of the documents in themselves promise or suggest any specific training arrangements. We are aware that, in practice, there are no ongoing counter fraud training programmes for general staff at Maidstone or Tunbridge Wells (although there is some specific ad hoc training for particular staff, such as giving benefits officers information on how to identify fraudulent documents). Ashford's dedicated counter fraud team have embarked upon a series of awareness raising workshops in key at risk departments such as Housing but these are still in the process of rolling out across the Council.

(Para 7c) Overall responsibility

24. Ashford's document names a particular cabinet member as having responsibility at a member level with officer responsibility also assigned to named individuals. At both Maidstone and Tunbridge Wells, although the documents both name contacts who people can approach with concerns, neither names an individual with overall responsibility for setting and monitoring whistleblowing.

(Para 7d) Periodic audits

25. This review constitutes the first attempt to systematically assess the effectiveness of whistleblowing arrangements across the three authorities. It was conducted as a one-off commission rather than as part of a regular process (although assessing effectiveness of counter fraud, in general, is within the remit of internal audit at each authority).

(Para 8) Annual Reporting

26. Members at Maidstone and Tunbridge Wells receive an annual report from the revenues and benefits counter fraud team. However this report is, naturally, focussed on fraud in those areas and so does not comment on whistleblowing. At Ashford, whistleblowing reporting will be within the remit of the counter fraud team but they are yet to present their first annual report reflecting their broader scope.

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Objective 2: Whistleblowing Awareness

Online Survey: Methodology

27. Given the timescales available, we opted for an online survey as the principal vehicle for assessing awareness of whistleblowing policies and attitudes towards whistleblowing and raising concerns generally. Although an online survey has necessary and acknowledged limitations – most notably in only reaching those with regular IT access and skills – we were satisfied it was the most efficient means of reaching a wide audience quickly for a broad overview.
28. The most significant audience outside the scope of the online survey were staff employed at the Council's depot who generally have shared IT access only. We did not ask in the survey for information to identify participants and so do not know how many (if any) responses came from the depot but response rates there were likely to have been low. Consequently we also discussed whistleblowing with management at the depot for their impressions on the depth and extent of knowledge on this topic within their teams. Although information received by this method is limited and largely anecdotal we received no indications that awareness is greater at the depot than elsewhere, if anything the indication was that knowledge and awareness is low.
29. The survey was circulated to all officers and Members and each of the three authorities and available for completion for up to two weeks ending 14 December 2015 (dates of issue varied a little depending on authorities' internal communications). The survey used the *surveymonkey* platform used previously by all three authorities for internal (and some external) surveys. The questions were also trialled within the audit service prior to issue to assess clarity and ease of response which lead to some adaptations.
30. As a means of incentivising responses to an anonymous survey (meaning rewards direct to recipients cannot be offered) we invited respondents to nominate a charity to receive a £25 donation. This appeared to be a popular approach – the overall response rate of 173 completed surveys was significantly ahead of expectations and represents about a fifth of all recipients (noting the limitations in online access mentioned above). On a random draw [The Pickering Cancer Centre](#), a drop-in centre in Tunbridge Wells for cancer patients and their relatives, was selected to receive the donation. We note that, despite it being the only fill-in required question on the survey (which was otherwise tick box) more than 95% of recipients nominated a charity, suggesting this approach did act as a motivator for responses.

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Online Survey: Responses

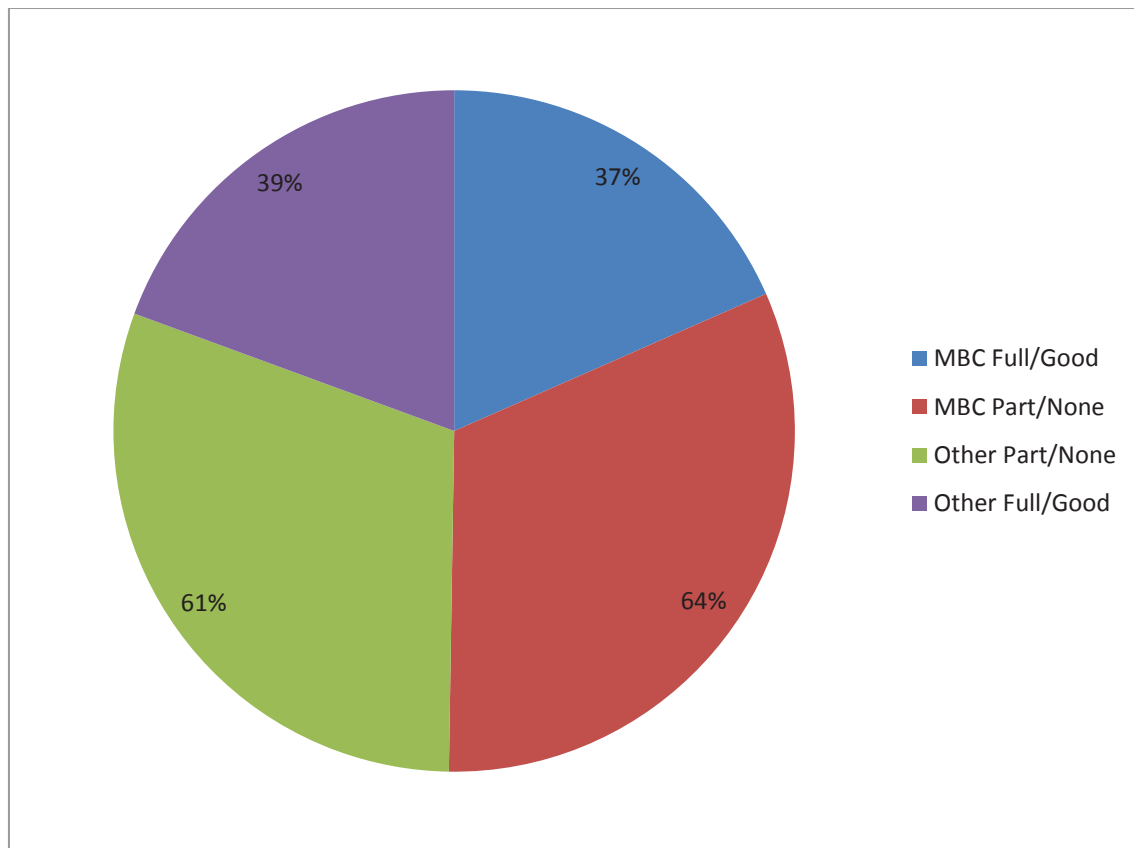
31. The table below shows total responses (thereafter, the graphs/tables show percentages). Note that we have grouped those working in shared services according to which authority they reported being most familiar with. We've also grouped Members and Senior Officers together because of (a) the relatively lower number of responses compared to officers and (b) there was no substantial difference in responses from the two groups.

Type of respondent	Ashford BC	Maidstone BC	Tunbridge Wells BC
Member/Senior Officer	26	23	16
Officer	43	42	23
Total	69	65	39

Source: Online Survey December 2015

Online Survey: Awareness

32. The chart below shows total levels of awareness recorded by the survey results, Maidstone on the right hand side and non-Maidstone on the left.



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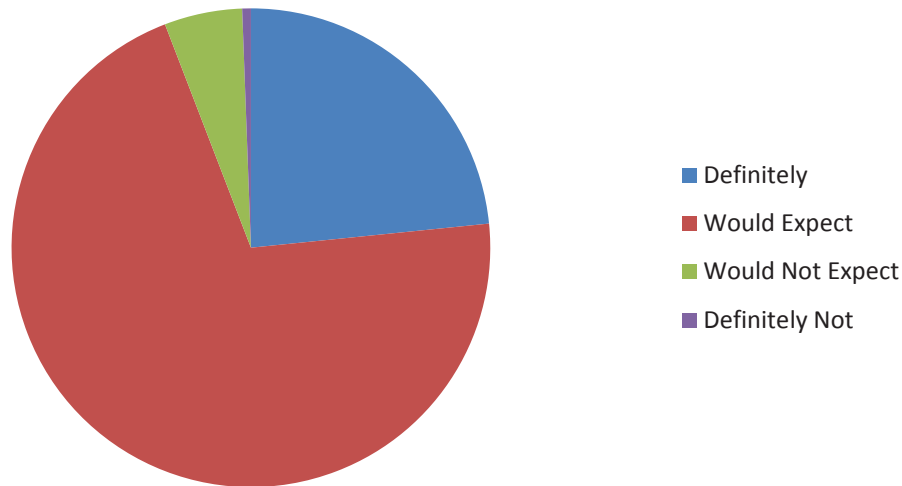
33. Headlines from the chart are that, across mid Kent, overall awareness is about level with **one third** of respondents claiming full or good knowledge of whistleblowing. This does not vary significantly depending on seniority either. Awareness is lower among officers than senior officers (29% against 35% claiming a good knowledge). We also note that there are very low numbers (5% in Maidstone) with no knowledge at all but even lower (a single respondent at Maidstone) claiming full knowledge.
34. For the large majority of respondents – 80% of all responses – whistleblowing is something where they profess at least an awareness of the basics if not the detail.

Online Survey: Knowledge

35. The next question in the survey sought to test that awareness by asking respondents to identify (or guess) what provisions whistleblowing charters contain. This question listed two provisions which are/should be present – contact details and a promise of investigation – one provision which is optional – a warning that disciplinary action could follow malicious false reports – and one that does not – guarantee of anonymity. This final provision (anonymity) is often erroneously cited as a component in whistleblowing policies but actually cannot feature in full since the key part of the legislation aims at protecting whistleblowers from discrimination and you cannot protect someone you cannot identify.
36. On the two definite provisions people knew, or could correctly guess, their presence with **100% of respondents** identifying their inclusion.
37. Regarding a provision regarding malicious false reports, this features prominently in Maidstone’s document and is mentioned in the other authorities. In our survey **92% of respondents** knew or believed that such a provision would be present. Maidstone’s results here were in line with the average but, in keeping with the overall lack of familiarity with the detail, only **11% of MBC respondents** reports that such a provision was definitely included, most (80%) assuming its presence.
38. However, the question on anonymity perhaps exposed the extent to which respondents were assuming provisions in the charters. The chart below shows responses to this question:

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Does the Whistleblowing Charter Guarantee Anonymity?



39. As noted in the chart, 93% of respondents expect to see a guarantee of anonymity in a whistleblowing charter – something which it cannot provide and be consistent with the legislation. In this aspect, there was no significant difference between authorities or seniority. It is also notable that all of the respondents who professed a detailed knowledge of the whistleblowing charter were mistaken (the only respondent who correctly identified that the charters cannot guarantee anonymity had declared in the first question to have no previous knowledge of whistleblowing).
40. The survey also asked respondents on by which route they would report certain circumstances. Under the Public Interest Disclosure Act there are a defined range of disclosure categories which fall within the protection of the legislation and thus within the scope of a whistleblowing policy. These are:
- A criminal offence (e.g. fraud),
 - Endangerment to health or safety,
 - Risk or actual environmental damage,
 - Miscarriage of justice,
 - Non-criminal law breaking, and
 - Covering up of wrongdoing.
41. Not among the categories of protected disclosures include such matters as workplace inefficiency, bullying or harassment (unless criminal) and safeguarding concerns (unless in present danger).

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42. One finding here is that there appears to be some misunderstanding about the types of concerns the whistleblowing policy is aimed at protecting. Almost half of respondents who would use the whistleblowing route to report cited one or more non-protected disclosures.

Online Survey: Raising concerns

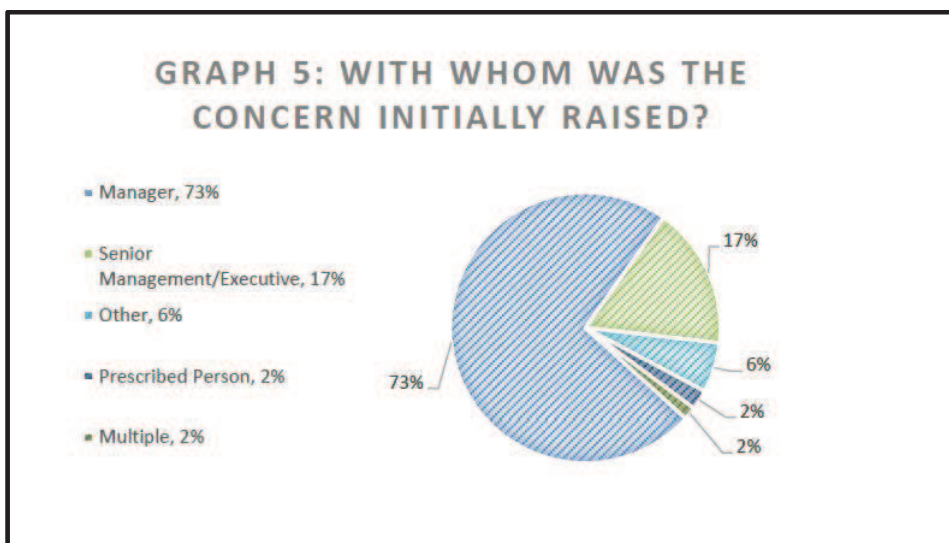
43. However, whatever misunderstanding may exist on where to report, that question did identify a strong willingness to report concerns. **90% of respondents** stated that they would report concerns across all of the listed categories. In response to the question of where people would raise those concerns:

Reporting route	First Call	Would Report	Would Not Report
Line Management	82%	91%	9%
Chief Exec/Director	16%	72%	28%
Internal Audit	6%	62%	38%
Regulators	3%	56%	44%
Trade Union	9%	50%	50%
Members	5%	35%	65%
Media	1%	16%	84%

Source: Online Survey December 2015. "Would Report" incorporates responses who would take that route first.

44. This pattern broadly correlates with research undertaken by Public Concern at Work in 2015, examining more than 2,500 tribunal referrals:

Public Concern at Work Graph

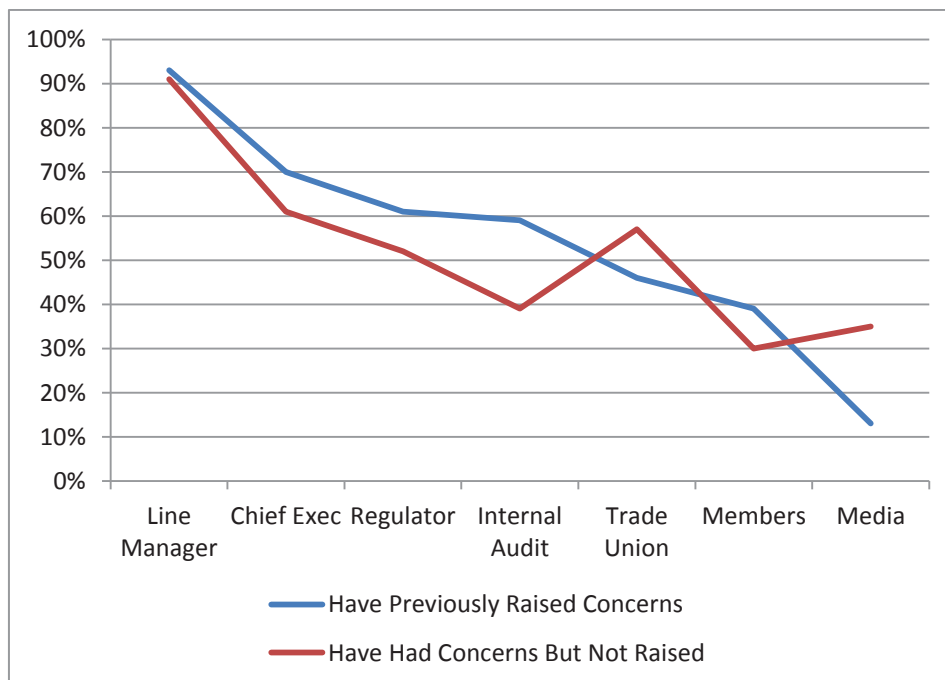


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45. Within the headline data, there were some interesting details from our survey:

- Among people who had reported concerns previously, line manager as first route was even more prominent (95% of these respondents). Conversely, of those who had identified issues but not raised concerns only 70% would go to their line manager first – suggesting that a strong relationship with immediate management is a significant factor in willingness to raise concerns.
- Willingness to report to Directors/Chief Exec showed variance between authorities and grades. For instance, at Ashford only 73% of officers would be willing to report concerns at this level, compared with 97% at Tunbridge Wells (Maidstone 80%). However 100% of senior officers and members would be willing to report here.
- There was no strong difference between authorities on willingness to report to Members, and only limited difference between seniority of officers. 28% of other officers would report concerns to members, against 40% of senior officers. All but one Member reported a willingness to raise concerns with colleagues.
- Willingness to report to the media was low across the board but higher in other officers (19%) than senior officers/members (9%). The highest subgroup on this analysis was those who had identified issues but not raised them (34%)

Looking solely at those who had identified issues of concern, the chart below shows where people with concerns indicated they were willing to raise them:



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46. As might be expected, people who have had concerns but not raised them are less willing generally, but it is interesting to note the only two exceptions to that general rule – trade unions and media – are both external, suggesting one motivating factor is a lack of confidence in internal processes to resolve the matter. This extends in particular to internal audit – the largest single difference between the groups – where 59% of those who have previously raised concerns would be willing to raise, but only 39% of those who have elected not to speak up.
47. The table below shows replies to the question on whether respondents had raised concerns in the past:

Previously raised a concern	Ashford BC	Maidstone BC	Tunbridge Wells BC
Yes	28%	25%	28%
No, but could have	10%	18%	10%
No, never considered	62%	55%	59%

Source: Online Survey December 2015.

48. Two immediately apparent results here – firstly that around a quarter of respondents have raised concerns (which is considered further in the next section). However secondly, and in particular at Maidstone, there is a significant group who have identified concerns but not spoken up. It may be that this is related to – as per objective one of this report – Maidstone having the least well developed approach to whistleblowing among the authorities.

Online Survey: Investigating Concerns

49. The first point to note here is that none of the three authorities have had issues raised formally under their whistleblowing policies in the recent past. Whether or not that makes them unusual as local authorities is difficult to say precisely since there is no centrally kept register of concerns that would enable national (or local) comparisons.
50. The charity Public Concern at Work undertook some research in 2015 looking at the results of around 2,500 employment tribunal cases where the plaintiff contended their employer had failed to protect their rights as a whistleblower³. PCaW's research identified a little over 200 such cases from 2011-2013 involving a local government employer.

³ "Is the Law Protecting Whistleblowers: A Review of PIDA Claims"
<http://www.pcaw.org.uk/files/PIDA%20REPORT%20FINAL.pdf>

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51. However, this research represents cases where the whistleblowing policies have arguably failed; in that they have (by the plaintiff's estimation) not offered sufficient protection. Therefore, these 200 or so cases are likely to represent only a small proportion of all the issues raised in local government. Therefore while it is reasonable to say it is unusual for a group of three authorities to have had no concerns raised we cannot say how unusual nor attempt any calculation at how many there 'should' have been.
52. However, our survey did identify that around 25% of respondents – 48 people – had raised concerns at work, presumably by other means. While a slim majority were satisfied with the outcome of their having spoken up (55% of respondents who had raised a concern), a significant amount were dissatisfied. Moreover, 25% of respondents who had raised a concern reported that – from their perspective – no action was taken at all.

Appendix I: Audit Brief

About the Governance Area

Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled. Broader than just financial controls, it is also concerned with how the Council maintains legal compliance and seeks to arrange its operations in order to achieve its objectives.

The [Public Interest Disclosure Act 1998](#) places specific responsibilities on organisations to support individuals who make certain disclosures of information in the public interest, in particular to protect them from subsequent victimisation. Maidstone Borough Council (“The Council”) seeks to fulfil these obligations through operation of its Whistleblowing Charter.

The Council’s [constitution](#) (as recently updated) assigns governance responsibility for monitoring policies on whistleblowing to the Audit Governance and Standards Committee with the ability to delegate that monitoring function to the Head of Audit Partnership. The constitution further assigns responsibility to the Head of Audit Partnership for acting on whistleblowing reports but does not specifically assign overall responsibility for the policy at officer level.

Successful management of its whistleblowing responsibilities will help the Council to:

- Ensure it remains in compliance with its legal obligations,
- Receive information and feedback on its performance to improve its services, and
- Support and encourage staff to speak up on matters of concern.

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About the Audit

This audit is a **corporate governance review** meaning that we will focus on how the Council manages the risks associated with this area, and uses governance to achieve its objectives.

As the review has been commissioned outside of our direct audit plan at specific request of the Audit, Governance & Standards Committee the timescale is somewhat more abbreviated than a more substantial review. For this reason the report will reach conclusions and make comments but not make formal recommendations for implementation nor an overall assessment on our usual scale. However, it is possible that the review will identify scope for subsequent, more detailed, audit work that may make formal recommendations. We have also, since original circulation of the draft, confirmed that Tunbridge Wells and Ashford BCs wish to participate. Consequently we will obtain and provide comparative information to all three councils that may suggest helpful ways forward.

Audit Objectives

1. To assess conformance of the Councils' whistleblowing documentation and formal procedures against the [Whistleblowing Commission's Code of Practice](#) (the Code) as published by Public Concern At Work in 2014.
2. To gather information on awareness and assess effectiveness of the whistleblowing procedures (including investigations into any declarations).

Audit Scope

1. The design and operation of whistleblowing procedures at the named Councils.

Audit Testing

1. Document review comparing the Councils' procedures against the Code.
2. Assess, by means of survey, the level of awareness among Council employees and Members of whistleblowing procedures and processes.
3. Consider whistleblowing disclosures made previously at the Councils and at councils more generally to assess whether they are learning points for the Council.

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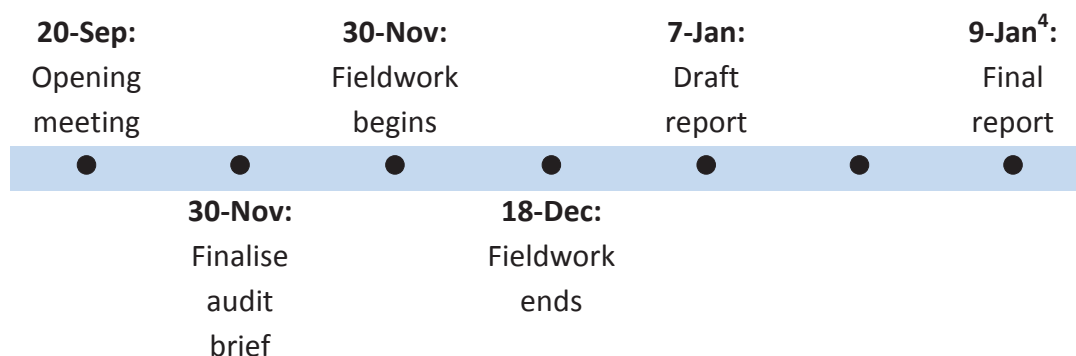
Audit Resources

Based on the objectives, scope and testing identified we expect this review will require **10 days** of audit resources broadly divided as follows:

Audit Task	Auditor/s	Number of Days (Projected)
Planning	Rich Clarke	1.5
Fieldwork	Rich Clarke/Ben Davis	6
Reporting	Rich Clarke	1.5
Supervision & Review	Russell Heppleston	1
Total		10

The review will be funded from the consultancy/contingency days allowance agreed by the then Audit Committee in approving the Audit Plan for 2015/16 at its meeting in March 2015. Any ancillary costs will be met from the audit budget. The £25 incentive for completing the survey was not drawn from Council funds.

Audit Timeline



Council Resources required by audit

Documents required
Whistleblowing Charters

⁴ Fixed date in order to meet Committee papers deadlines

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Appendix II: Survey Questions

We used the *Survey Monkey* platform to undertake the survey, which was emailed to all officers and members at each authority. The survey was open for between ten and fourteen days depending on site but period open did not significantly impact response numbers (90% of respondents replied in the first 5 days of availability). The available responses were presented in a randomly generated order for each user.

- 1. Which council do you work for or represent?**
 - a. Maidstone Borough Council
 - b. Ashford Borough Council
 - c. Tunbridge Wells Borough Council
 - d. Shared Service

- 2. If you work in a shared service, which Council are you most familiar with?**
 - a. Maidstone Borough Council
 - b. Ashford Borough Council
 - c. Tunbridge Wells Borough Council

- 3. Which best describes your position at the Council?**
 - a. Member
 - b. Officer – Manager or above
 - c. Other officer

- 4. Please rate your current knowledge of your Council’s whistleblowing charter?**
 - a. Very knowledgeable – I know it in detail
 - b. Somewhat knowledgeable – I know broadly what it covers and where to find more detail
 - c. Vague knowledge – I know it exists but am not familiar with its content
 - d. No knowledge – First I’ve heard of its existence.

- 5. Which of the following features in your Council’s whistleblowing charter?** (each response given the options “definitely features”, “uncertain, but would expect to see”, “uncertain but would not expect to see” and “definitely does not feature”)
 - a. Guaranteed anonymity for whistleblowers
 - b. Protection of whistleblowers from harassment
 - c. Contact details for where to raise concerns
 - d. A promise to investigate all concerns
 - e. A warning that malicious false reports could lead to disciplinary action

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6. If you had a serious concern in any of the following areas, how would you raise it?

(each response given the options “Through the whistleblowing procedure”, “Formally within the council via another route”, “Informally within the Council”, “To an external body”, “Wouldn’t raise such issues”. Respondents could select all that apply)

- a. Inefficient practice/poor value for money
- b. A breach of legal obligation
- c. Concealing information improperly
- d. Bribery or corruption
- e. Other criminal offences
- f. Bullying or harassment
- g. Environmental damage
- h. Safeguarding risk to a child or vulnerable adult
- i. Endangerment to health and safety
- j. Miscarriage of justice

7. If you had a serious concern, who would you raise it with? (each response given the options “I’d go here first”, “I’d be comfortable reporting here, but not first”, “I’d only report here if I had no response” and “I wouldn’t report a concern here”)

- a. Line manager/Head of Service
- b. Director/Chief Executive
- c. Internal Audit
- d. Trade Union representative
- e. Members
- f. External agencies
- g. Media

8. Have you ever raised a concern at work?

- a. Yes
- b. No, but I’m aware of issues I could have raised
- c. No, never encountered an issue I would want to raise

9. If you have raised a concern, were you satisfied with its handling?

- a. Yes, I got the outcome I wanted
- b. Yes, I didn’t get the outcome I wanted but understand why not
- c. No, although some action was taken I was dissatisfied with the outcome
- d. No, it did not appear that any action was taken