

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 19 November 2018
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Bartlett, Coulling (Parish Representative), Cox, Daley, Garland, Harvey (Vice-Chairman), McLoughlin (Chairman), Perry, Purle and Webb

The Chairman will assume that all Members will read the reports before attending the meeting. Officers are asked to assume the same when introducing reports.

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Issued on Friday 9 November 2018

Continued Over/:

Alison Broom

Alison Broom, Chief Executive

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PUBLIC SPEAKING AND ALTERNATIVE FORMATS

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In order to speak at this meeting, please contact Democratic Services using the contact details above, by 5 p.m. one clear working day before the meeting (i.e. Thursday 15 November 2018). If asking a question, you will need to provide the full text in writing. If making a statement, you will need to tell us which agenda item you wish to speak on. Please note that slots will be allocated on a first come, first served basis.

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MAIDSTONE BOROUGH COUNCIL

Audit, Governance and Standards Committee

MINUTES OF THE MEETING HELD ON MONDAY 17 SEPTEMBER 2018

Present: Councillor McLoughlin (Chairman), and
Councillors Bartlett, Coulling, Daley, English, Harvey,
McLoughlin, Perry, Purle and Round

Also Present: Mr Darren Wells, External Auditor,
Grant Thornton

29. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Cox, Garland and Webb.

30. NOTIFICATION OF SUBSTITUTE MEMBERS

The following Substitute Members were noted:-

Councillor English for Councillor Cox
Councillor Round for Councillor Garland

31. URGENT ITEMS

There were no urgent items.

32. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

33. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

34. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

35. EXEMPT ITEMS

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

36. MINUTES OF THE MEETING HELD ON 30 JULY 2018

RESOLVED: That the Minutes of the meeting held on 30 July 2018 be approved as a correct record and signed.

37. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

38. COMMITTEE WORK PROGRAMME 2018/19

The Committee considered its work programme for 2018/19.

In response to questions by Members, Mr Mark Green, the Director of Finance and Business Improvement, advised that:-

- the Contract Monitoring Update would come to the Committee in November
- the Maidstone Property Holdings Governance Arrangements would come to Committee in November

The Committee was reminded that a report on the Appointment of a Public Open Space and Recreation Delivery Officer was on the Work Programme as Members were interested to know what effect the post would have on the underspend of Section 106 monies.

39. ANNUAL COMPLAINTS REPORT 2017/18

Mrs Angela Woodhouse, the Head of Policy, Communications and Governance, introduced her report which gave an overview of how the Council had performed in responding to complaints in 2017/18.

Mrs Woodhouse explained that:-

- The Council had received 728 Stage 1 complaints in 2017/18 compared to 584 in the previous year which represented an increase of 25%. The increase had been partly due to the severe weather which had resulted in additional complaints due to the disruption in service provision.
- Of the 728 Stage 1 complaints received in 2017/18, 108 had been escalated to Stage 2.
- In an effort to improve the Council's overall service, the Policy and Information Team would be implementing complaint training so lessons could be learnt.

Mrs Woodhouse also drew attention to the copy of the Annual Review Letter 2018 from the Local Government & Social Care Ombudsman, attached at Appendix 4 to the report, which set out the number of complaints and enquiries that had been received about the Council.

In response to questions, Mrs Woodhouse advised Members that:

- The Council categorised more issues as complaints than some other Councils, which made our figures look high. However she was happy to get the Policy and Information team to revisit this.
- Requests for service from Members were not categorised as a complaint.
- The Council policy on responding to a Stage 1 complaint was within 10 working days of receipt and Stage 2 complaints were

investigated by the Head of Policy, Communications and Governance and a response would be provided within a further 20 working days.

- The change in the Summer of last year for the management of environmental enforcement had not had much of an effect on the number of complaints in that area.
- The telephone system did not allow for prioritisation of calls. A who's who list was sent out to all Councillors to encourage direct dialling.
- Complaints about the telephone system were not particularly high, more complaints were generated about not being able to get through to the back office.

The Chairman requested that Members of the Committee try to ring into the Council over the next few weeks and then report back to the next meeting on their findings.

Resolved to Recommend to Council: That the Council's performance on complaint management in 2017/18 and the Local Government and Social Care Ombudsman's review letter for the year ending 31 March 2018 be noted.

40. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

Mrs Estelle Culligan, the Principal Solicitor (Contentious and Corporate Governance) introduced her report which provided an update to the Committee on complaints received under the Members' Code of Conduct for the period 1st March 2018 to 31st August 2018.

The Committee noted that during that period there had been 8 complaints against Parish Councillors and one against a Borough Councillor.

RESOLVED: That the report be noted.

41. CIPFA POSITION STATEMENT ON AUDIT COMMITTEES IN LOCAL AUTHORITIES AND POLICE

Mr Rich Clarke, the Head of Audit Partnership presented his report on the CIPFA Position Statement on the role of Audit Committees in local authorities and how they could best undertake the role.

The Committee noted that the Chartered Institute of Public Finance & Accountancy (CIPFA) published its revised Position Statement on Audit Committees in May 2018 which set out a review of good practice in an effective Local Authority Audit Committee.

Members felt that this was something they wished to pursue and respected the views of CIPFA.

Mr Clarke explained that the next step would be to draw up a work programme with proposals, which would include a workshop, and he would circulate that to Members for comment.

In response to a question from a Member, Mr Clarke confirmed that he would circulate the email to all Members and Substitute Members of the Committee.

RESOLVED:

- 1) That the CIPFA Position Statement on Audit Committees in Local Authorities be noted.
- 2) That a further report be submitted to a future meeting reflecting on the Committee's work in considering CIPFA's Position Statement.

42. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER

Mr Mark Green, the Director of Finance and Business Improvement introduced his report which summarised the main findings from the work undertaken by the External Auditor for the year ended 31st March 2018 and brought the audit process for 2017/18 to a close.

Mr Darren Wells from Grant Thornton was in attendance to present the Annual Audit Letter.

In response to questions from Members, Mr Wells explained that:-

- He felt the phrase 'Thought Leadership' was a fair reflection of the way Grant Thornton advised Councils.
- The revenue figures used when calculating materiality levels included housing benefit revenue. If a case was made, that could be excluded.

The Committee gave a vote of thanks to Mr Wells for his services to the Council as this would be his last meeting.

RESOLVED: That the External Auditor's Annual Audit Letter for the year ending 31st March 2018, attached at Appendix 1 to the report, be noted.

43. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

Mr Mark Green, the Director of Finance and Business Improvement, introduced his report which provided an update on the budget risks facing the Council.

The Committee noted that:-

- In terms of local government funding the 2019/20 settlement could be more favourable than expected for Maidstone as the government had indicated that they were minded to levy a negative revenue

support grant.

- It would be prudent for the one-off saving of £1.6 million from the likely waiver of the negative revenue support grant to be held in reserve.
- The government was minded to set a Council Tax referendum limit of 3%.
- Business rates income was slightly up on projections for Kent and Medway as a whole for the first quarter, but slightly down for Maidstone as an authority.
- Although the Council would share in an additional 50% of the growth in business rates income this year, this would be jeopardised if business rates income did not in fact grow across the Kent and Medway area.

Following a discussion on the presentation of the risks using a two dimensional matrix and the proposal to also show them using a linear scale, Mr Green undertook to circulate a copy of Councillor Coulling's email which illustrated his proposal to all Members and Substitutes of the Committee.

RESOLVED: That the updated risk assessment of the Budget Strategy provided at Appendix A to the report be noted.

44. DURATION OF MEETING

6.30 p.m. to 7.35 p.m.

2018/19 WORK PROGRAMME

	Committee	Month	Lead	Report Author
Review of Standards Procedures in the Constitution	AGS	Jan-19	Patricia Narebor	Patricia Narebor
Complaints Received under the Members' Code of Conduct	AGS	Jan-19	Patricia Narebor	Estelle Culligan
Budget Strategy - Risk Assessment (Regular Update)	AGS	Jan-19	Mark Green	Mark Green
Housing Benefit Grant Claim	AGS	Jan-19	Sheila Coburn	Liz Norris
CIPFA Position Statement on the Role of Audit Committees	AGS	Jan-19	Rich Clarke	Rich Clarke
Internal Audit Charter	AGS	Jan-19	Rich Clarke	Rich Clarke
Treasury Management Strategy 2018/19	AGS	Jan-19	Ellie Dunnet	John Owen
Audit & Assurance Plan	AGS	Mar-19	Rich Clarke	Rich Clarke
External Audit Update Report March 2019	AGS	Mar-19	Mark Green	Ellie Dunnet
Budget Strategy - Risk Assessment (Regular Update)	AGS	Mar-19	Mark Green	Mark Green
External Auditor's Audit Plan 2018/19	AGS	Mar-19	Mark Green	Ellie Dunnet
Appointment of a Public Open Space and Recreation Delivery Officer (s106 monies)	AGS	TBA		

AUDIT GOVERNANCE AND STANDARDS COMMITTEE

19 November 2018

Investigatory Powers Commissioner’s Office Inspection Report

Final Decision-Maker	Audit Governance and Standards
Lead Head of Service/Lead Director	Patricia Narebor, Head of Legal Partnership
Lead Officer and Report Author	Estelle Culligan, Principal Solicitor, Corporate Governance
Classification	Public
Wards affected	All

Executive Summary

The Investigatory Powers Commissioner’s Office recently conducted a desktop inspection of the Council’s use of powers under Part II of the Regulation of Investigatory Powers Act 2000 (RIPA). The Inspector expressed her satisfaction with the arrangements that are in place to manage surveillance and other covert activity, which are supported by a well-written corporate policy. The Inspector found there were two extant recommendations from the previous inspection relating to the central record of urgent oral authorisations and the training of Authorising Officers and other key personnel. The Inspector further identified that a number of amendments should be made to the RIPA Policy in order to clarify the Council’s approach to the monitoring or recording of private information available on the internet and social media during investigations. This report sets out proposals to address the Inspection Report’s recommendations.

This report makes the following recommendations to Audit, Governance and Standards Committee: That

1. This report be noted.
2. The proposals to address the Inspection Report’s recommendations are approved.

Timetable

Meeting	Date
Audit Governance and Standards Committee	19 November 2018

Investigatory Powers Commissioner's Office Inspection Report

1. INTRODUCTION AND BACKGROUND

- 1.1 The Regulation of Investigatory Powers Act (RIPA) was enacted in 2000 to regulate the manner in which certain public bodies may conduct surveillance and access a person's electronic communications and to ensure that the relevant investigatory powers are used in accordance with human rights. The provisions of the Act include:
- the interception of communications;
 - the acquisition of communications data (e.g. billing data);
 - directed and intrusive surveillance (on residential premises/in private vehicles);
 - covert surveillance in the course of specific operations;
 - the use of covert human intelligence sources (Known as "CHIS") (agents, informants, undercover officers); and
 - access to encrypted data.
- 1.2 The Council very rarely uses RIPA and, in fact, there have been no RIPA authorisations since 2011. Prior to 2011, most authorisations were used to obtain evidence to support allegations of benefit fraud. Evidence-gathering activities are now co-ordinated through the National Anti-Fraud Network, (NAFN). This means that the total number of RIPA authorisations across all local authorities is significantly reduced.
- 1.3 The Chief Executive is the person responsible for RIPA. She acts as the Senior Responsible Officer referred to in Part 3 of the revised Code of Practice. The Monitoring Officer maintains a register of authorisations applied for and granted.
- 1.4 The Council receives regular inspections from the Investigatory Powers Commissioner's Office (IPCO). The most recent inspection was earlier this year. The Inspector's Report was issued on 25 June 2018. The Council takes account of the IPCO's conclusions and recommendations when formulating and revising RIPA practice and policy.
- 1.5 The Inspector's Report made the following recommendations :
- Recommendation 1 - The Senior Responsible Officer should ensure that RIPA training is refreshed for all relevant officers undertaking the role of applicant or Authorising Officer, at regular intervals. Such training should include discussion of CHIS recognition and management issues and the use of the internet and social media during investigations.
 - Recommendation 2 - The Central Record should be updated to ensure it contains all the matters highlighted at paragraph 8.1 of the Covert Surveillance and Property Interference Revised Code of Practice.

- Recommendation 3 - Changes should be made to the draft Covert Surveillance and Access to Communication Data Policy and Guidance Note in accordance with paragraph 6.2 of this report.

- 1.6 The Inspector identifies Recommendation 1 as being the more critical of the three recommendations. It is proposed that this recommendation should be discharged by the relevant Service departments with input of the legal team. A cost effective method of delivering training may be to commission an external firm which specialises in RIPA training, as it is a specialised area requiring expertise that we do not have within the legal team.
- 1.7 To give effect to recommendation 2 the Council's RIPA policy will be updated to remove reference to urgent authorisations which are no longer available to Councils and to include the date a request for RIPA approval was authorised by the court or otherwise.
- 1.8 Recommendation 3 will, as suggested by the Inspector, be dealt with as part of the RIPA training covering the use of social media and internet information during investigations. In addition, the social media guidance contained within the RIPA policy will be refreshed to make clear what its staff are and are not permitted to do online. The updated draft policy will then be finalised.
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2 AVAILABLE OPTIONS

- 2.1 That the actions proposed to address the recommendations within the IPCO's report are approved. This option meets the Inspector's requirements.
- 2.2 AGS could approve such additional or alternative actions that it deems appropriate, provided that alternative actions meet the Inspector's requirements.
- 2.3 Despite the infrequency of the Council's use of RIPA, the opportunity for the Council to use the legislation remains and, while it remains, the Council must respond to the Inspector's recommendations and maintain proper oversight of its use of the powers within the legislation. Therefore there is no alternative possible to "do nothing".
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3 PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 Option 1 is the preferred option as it would implement the Inspector's recommendations.
-

4 RISK

- 4.1 Currently the risk implications are low as the Council has not authorised any activity under RIPA for some time. However, there is risk of litigation and

challenge if authorisations are incorrectly given in the future without proper understanding of the current requirements. The actions set out in the Inspector’s report and recommended in this report will mitigate any such risks.

4.2 It is appropriate for this Committee to have oversight of the Inspector’s report and recommendations, as the Committee’s terms of reference state:

4.3 “To consider whether safeguards are in place to secure the Council’s compliance with its own and other published standards and controls”.

5 CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 Not applicable.

6 CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council’s overall achievement of its aims.	Principal Solicitor, Contentious and Corporate Governance
Risk Management	The risk implications are set out in section 4 of the report.	Principal Solicitor, Contentious and Corporate Governance
Financial	There will be some minor cost implications of external training.	Section 151 Officer & Finance Team
Staffing	The recommendations will be delivered with our current staffing.	Principal Solicitor, Contentious and Corporate Governance
Legal	Accepting the recommendations will fulfil the Council’s duties under RIPA 2000 as amended.	Principal Solicitor, Contentious and Corporate Governance

Privacy and Data Protection	There are no specific privacy or data protection issues to address.	Principal Solicitor, Contentious and Corporate Governance
Equalities	There are no equality implications arising from the report.	Principal Solicitor, Contentious and Corporate Governance
Crime and Disorder	The purpose of the use of RIPA is to assist with control of crime and disorder.	Principal Solicitor, Contentious and Corporate Governance
Procurement	There are no procurement implications arising from the report.	Principal Solicitor, Contentious and Corporate Governance

7 REPORT APPENDICES

Investigatory Powers Commissioner's Report issued 25 June 2018

8 BACKGROUND PAPERS

None

IPCO/INSP/075

The Rt. Hon. Sir Adrian Fulford
Investigatory Powers Commissioner
Investigatory Powers Commissioner's Office
PO Box 29105
London SW1V 1ZU

25 June 2018

OSC INSPECTION – MAIDSTONE BOROUGH COUNCIL

1 Date of Inspection

A desktop review of Maidstone Borough Council was undertaken on Monday 25th June 2018.

2 Inspector

Mrs Gráinne Athorn.

3 Introduction

- 3.1 Maidstone Borough Council (MBC) employs more than 500 staff and serves the residents of the county town, which is situated halfway between the City of London and the Channel Ports, and an area covering 40,000 hectares. The Council shares core services with other local councils under the Mid Kent partnership including Legal Services who oversee the application and use of the Regulation of Investigatory Powers Act 2000 (RIPA).
- 3.2 The senior leadership team is comprised of the Chief Executive Alison Broom, Director of Regeneration and Place, William Cornell and Director of Finance and Business Improvement, Mark Green. Stephen McGinness is the Director of Shared Services within the Mid Kent Partnership including the Legal Partnership which is overseen by the Monitoring Officer Patricia Narbor who also acts as Senior Responsible Officer (SRO) for RIPA matters.
- 3.3 Maidstone BC was last inspected during June 2012 by Surveillance Inspector Clare Ringshaw-Dowle. A shortfall in available Inspectorate resources has meant the Council could not be inspected until now.
- 3.4 The address for correspondence is Maidstone House, King Street, Maidstone, Kent, ME15 6JQ. The Chief Executive of the Council may be contacted by e mail: alisonbroom@maidstone.gov.uk

4 Inspection Approach

- 4.1 The purpose of the inspection was to examine policies, procedures, operations and administration in respect of directed surveillance and covert human intelligence sources (CHIS) under the Regulation of Investigatory Powers Act 2000 (RIPA). In the period since the 2012 Inspection Maidstone Borough Council has not utilised directed surveillance or CHIS powers.
- 4.2 This report has been prepared without visiting Maidstone Borough Council, however to assess the ongoing compliance of the Council, information provided by the SRO has been reviewed which included a copy of the Covert Surveillance and Access to Communications Data Policy and Guidance Notes and a copy of the Central Record.

5 Actions Taken on Past Recommendations

- 5.1 In her report of 2012 Surveillance Inspector Clare Ringshaw-Dowle made four recommendations:
- 5.2 Recommendation 1 - *The RIPA policy document should be reviewed to ensure that it remains fully up to date with legislative and procedural developments.*

A draft amended policy has been produced to address the matters identified within the Inspection Report. This has been reviewed as part of the Inspection and further discussed in section 6 below. Recommendation **discharged**.

- 5.3 Recommendation 2 - *The Central Record should be updated to ensure it contains all the matters highlighted at paragraph 8.1 of the Covert Surveillance and Property Interference Revised Code of Practice.*

The Central Record of authorisations continues to make reference to urgent oral authorisations, a legal provision that has not been available to local authorities since 2012. Furthermore there is no reference to the need to record when authorisation was granted at court, also a requirement since 2012 and a critical factor on calculating the expiry date of an authorisation. Recommendation **extant**.

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- 5.4 Recommendation 3 - *The Senior Responsible Officer should ensure that RIPA training is refreshed for all relevant officers undertaking the role of applicant or Authorising Officer, at regular intervals. Such training should include discussion of CHIS recognition and management issues.*

Refresher training was provided to a number of key Council staff, including legal services personnel in 2015, however it is acknowledged that there is a requirement to provide further training for the three nominated Authorising Officers (AOs) and Chief Executive. As a consequence this recommendation remains extant but is altered in light of the information above. Recommendation **extant**.

- 5.5 Recommendation 4 - *In relation to directed surveillance authorisations:*

- i, At review or renewal stages, applicants and Authorising Officers should ensure that they address afresh each time the key matters of necessity, collateral intrusion and proportionality, as these will tend to require further justification and comment the longer an operation has been in progress.*
- ii, Reviews must be completed on the correct forms.*
- iii, At cancellation, the Authorising Officer must provide his direction regarding any product obtained as a result of the surveillance (Note 145 of the OSC's 2011 Procedures & Guidance document).*

No use has been made of surveillance or CHIS powers since the last Inspection in 2012 and as a consequence it has not been possible to verify the above requirement. Given that a period of six years has elapsed, this recommendation will be discharged however any future applications will be reviewed against this criteria. Recommendation **discharged**.

6 Review of Policies and Procedures

- 6.1 Maidstone Borough Council maintains a Covert Surveillance and Access to Communications Data Policy and Guidance Note for personnel seeking to find out how RIPA powers may be applied for and utilised. This is a clear and comprehensive document which provides the reader with explanations of key principles such as proportionality and collateral intrusion. The policy has been updated to account for legislative changes introduced in 2012 which includes the requirement to seek authorisation at a Magistrates' Court.

6.2 There are two areas where the policy would benefit from being further updated:

- Paragraph 2.7.3 makes reference to the required headings for the Central Record which are no longer accurate (as is the record itself). They should not include reference to urgency provisions which are no longer available to Councils, and must reference the date a request was authorised by the court or otherwise.
- Within the policy there is reference to the monitoring of persons via social media and/or the internet potentially requiring an authorisation for directed surveillance, however there are no control measures outlined (for example by maintaining a register of covert online profiles utilised and a record of their use) or direction given as to whether the Council wishes to permit such activity. It is therefore recommended that prior to publication this section is further amended to address the points raised.

7 Training

7.1 With the continued ability to use RIPA powers comes an obligation to ensure preparedness by ensuring that key staff complete regular refresher training, thus ensuring their knowledge is up to date with recent developments in legislation, guidance and best practice. The most recent training made available to key personnel such as legal services officers and heads of units most likely to use surveillance techniques was in 2015. The value of such refresher training cannot be overstated in maintaining control over how RIPA powers are used, and as such the Council has already acknowledged the need to further roll this out to Authorising Officers (see Recommendation 1).

8. Reports to Members

8.1 To ensure that Members have an awareness of the Council's use of RIPA they should be informed on a regular basis how often these powers are requested and broadly why. An annual report, including RIPA matters, has been made to members of the Audit, Governance and Standards Committee. It appears that this is only the case if the Council utilises RIPA powers, however it should equally be a matter of scrutiny if RIPA is not used.

9 Liaison with the Magistrates' Court

9.1 Maidstone BC has not made any use of RIPA powers since prior to the last Inspection in 2012, however the corporate policy document sets out in detail the

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process that must be employed when seeking the authorisation of a court, including in urgent circumstances.

10 Authorising Officers

- 10.1 There are presently three nominated Authorising Officers which are Mark Green - Director of Finance and Business Improvement, William Cornell – Director of Regeneration and Place and John Littlemore - Head of Housing and Community Safety. The Chief Executive Alison Broom will act as AO where the use of a juvenile source is required or where confidential information may be obtained. All AOs are sufficiently senior to fulfil the requirements of SI 2010/521 which states that AOs must be of at least Director, Head of Service or Manager level.

11 CCTV and Technical Equipment

- 11.1 Maidstone Borough Council works in partnership with Medway Council and other local authorities in relation to the management and use of the local CCTV system. The local service covers Maidstone town centre only and is operated in accordance with the relevant Code of Practice.
- 11.2 The Council also maintains a small amount of surveillance equipment including five static cameras and noise monitoring equipment.

12 Conclusions

- 12.1 Despite the fact that Maidstone Borough Council has not used its RIPA powers for some time it has maintained a good level of preparedness which includes maintaining a Central Record and comprehensive policy document, albeit the former still requires amendment.
- 12.2 The Council acknowledges that there is a requirement to train additional officers including the nominated Authorising Officers which is therefore also the subject of a continued recommendation. It would be helpful if this training could address the use of social media and internet information during investigations as an area of growing use among local authorities. This may assist in further developing the social media guidance contained within the RIPA policy which is the subject of a further recommendation, in order that the Council makes clear what its staff are and are not permitted to do online.

13 Recommendations

- 13.1 Recommendation 1 - The Senior Responsible Officer should ensure that RIPA training is refreshed for all relevant officers undertaking the role of applicant or Authorising Officer, at regular intervals. Such training should include discussion of CHIS recognition and management issues and the use of the internet and social media during investigations.
- 13.2 Recommendation 2 - The Central Record should be updated to ensure it contains all the matters highlighted at paragraph 8.1 of the Covert Surveillance and Property Interference Revised Code of Practice.
- 13.3 Recommendation 3 - Changes should be made to the Covert Surveillance and Access to Communication Data Policy and Guidance Note in accordance with paragraph 6.2 of this report.

Gráinne Athorn
Surveillance Inspector

Agenda Item 12

Audit, Governance and Standards Committee

19 November 2018

Data Protection Act 2018 (GDPR) progress to compliance

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Angela Woodhouse, Head of Policy Communications and Governance
Lead Officer and Report Author	Anna Collier, Policy and Information Manager
Classification	Public
Wards affected	All

Executive Summary

The Data Protection Act 2018 became law in May 2018. An action plan has been in place for the past year to ensure the Council is prepared for the changes and compliant. This report provides the Audit, Governance and Standards Committee with an update on progress and sets out further actions required.

This report makes the following recommendations to Audit, Governance and Standards Committee: That

1. Progress and challenges to date be noted.
2. The next steps and new action plan be noted.

Timetable

Meeting	Date
Corporate Leadership Team	16/10/2018
Audit, Governance and Standards Committee	19/11/2018

Data Protection Act 2018 (GDPR) progress to compliance

1. INTRODUCTION AND BACKGROUND

- 1.1 The purpose of this report is to provide an update on the progress of preparation and compliance with the Data Protection Act 2018 (the General Data Protection Regulation (GDPR)) that became law on the 25 May 2018.
- 1.2 A report was presented in November 2017 which set out the proposed resources and actions required for compliance, alongside a detailed action plan. This action plan can be seen at Appendix 1.
- 1.3 This report provides an update on progress to date and highlights the areas where further work is required.

2. Achievements to date

- 2.1 The original action plan with delivery status can be seen at Appendix 1, but a summary of the key actions delivered are highlighted below.

Preparation, training and guidance

- 2.2 Audits have been completed across the authority to identify what personal data is requested, how it is collected, how it is stored, what its retention period is and how it is deleted.
- 2.3 A range of training has been undertaken by the Head of Policy Communications and Governance and the Policy and Information Manager and team on GDPR and related legislation and regulations; the Privacy and Electronic Communications Regulations and Regulation Investigatory Powers Act.
- 2.4 Briefings sessions were provided to Councillors and Team Talks were developed and run by managers or the Head of Policy Communications and Governance and the Policy and Information Manager.
- 2.5 New Data Protection Act training was developed on the internal Elms learning system and rolled out to all staff and Members.
- 2.6 A full range of guidance titled 'Need to Knows' have been developed and are available on the intranet. These offer guidance to staff on a variety of topics including dealing with access to information requests, data protection and redaction.

Statutory Changes

- 2.7 Within the legislation there are several requirements that the Council has to ensure are completed in order to be compliant.

- 2.8 All organisations are required to hold a Record of Processing Activity (ROPA). The first version has been developed using data collected from the Audits. The ROPA is a live document however and will need regular review. Councils that were the first to work with the ICO on preparations for GDPR have said that the development of the ROPA is iterative and refinements are continual.
- 2.9 The requirements around privacy notices have been significantly increased both in the information they contain and their appearance. Using data collected from the Audit and stored in the ROPA; privacy notices have been developed for all services and these are now held on the website.
- 2.10 A Data Protection Impact Assessment (DPIA) is a process to help you identify and minimise the data protection risks of a project. A template and screening questions have been developed and are available on the intranet along with guidance and support from officers being provided for the new projects that have emerged since May. Work is now required to raise awareness of the importance of ensuring a DPIA is required before the start of a project, to ensure data protection is taken account of.
- 2.11 There has been a change in timescale for dealing with Data Breaches and Subject Access Requests (SAR). Both processes were already well managed and established within the Council, but have been updated in accordance with the changes. Officers across the Council have demonstrated good understanding of how to manage these issues and maintain good communication with the Data Protection Officer and the Policy and Information Team.
- 2.12 The Council was part of a small working group that developed the new Kent and Medway Sharing agreement which sets the framework within which Kent partners must operate in order to appropriately and securely share information. All internal documentation has also been updated. Training needs now to be rolled out to ensure the new agreement is utilised properly and understood by those teams who share data.

3. Challenges

- 3.1 The Information Commissioners Office (ICO) has been slow in producing guidance for local authorities, in certain areas it has therefore been difficult to move with speed as the legislation has been challenging to interpret.
- 3.2 There has been an issue with capacity within the team due to competing priorities, however despite this good progress has been made by reviewing resources and upskilling members of the Policy and Information team.
- 3.3 Progress has been made through the diligence of the procurement and the legal team on ensuring contracts are compliant. This has been slower than we would have liked because of the workload pressure on legal in carrying out this task for three authorities
- 3.4 Whilst there was some fear that the volume of SARs would increase exponentially, this has not occurred; that said there has been an increase

and the volumes of Freedom of Information (FOI) requests remain high. Therefore the time required to redact information has become more evident. So we need more resource and support for this activity including PDF PRO software

4. Next Steps

- 4.1 The original action plan (shown at Appendix 1) has been reviewed and revised. The new updated action plan can now be seen at Appendix 2.
- 4.2 Whilst there has been significant progress and key activities have been implemented to ensure compliance, there are areas which need regular review or which need further attention to ensure they are sufficiently embedded.
- 4.3 The key areas of focus over the next year are:
 - Revisiting services to ensure actions identified are implemented
 - Implementing a programme of ongoing monitoring of the ROPA and Retention Schedule
 - Ensuring systems are compliant particularly in relation to retention, deletion and security
 - Updating the Information Asset Register
 - Implementing cultural changes to ensure that
 - DPIAs are being considered at the start of all projects
 - Information sharing is being consistently logged
 - Information is deleted at the end of retention periods
- 4.4 The Policy and Information Manager will, from January 2019, be acting as the Data Protection Officer (DPO) at Tunbridge Wells Borough Council. This will generate an income as support is being provided at a cost to Tunbridge Wells. As well as an income, this also offers more opportunity to collaborate on some actions. However it should be noted it will put additional strain on the resource available for implementing the Maidstone action plan.
- 4.5 In order to offset the burden, a temporary information management assistant post is being put in place in the Policy and Information Team. Progress is also underway to recruit the next National Management Trainee (NMT) on the National Graduate Development Programme (NGDP). At this stage it is envisaged that this post will support the DPOs at both Maidstone and Tunbridge Wells but it should be noted that this placement if approved will not start until September 2019.

5. AVAILABLE OPTIONS

- 5.1 The Audit, Governance and Standards Committee have previously expressed an interest in compliance and progress with meeting the requirements of the new Data Protection Act 2018. The Committee could however choose not to receive updates in their current format or frequency.

6. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 6.1 The Committee continue to receive the report annually until all actions become business as usual, continuing with updates to the Information Governance Group.
-

7. RISK

- 7.1 Information management has already been identified as a corporate risk for the council. The action plan at Appendix 2 sets out steps to mitigate risk. Having an action plan in place which highlights awareness and planned actions for improvement is a key factor in assuring the Information Commissioners Office that the Council is ensuring good information management arrangements.
-

8. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims as set out above.	Angela Woodhouse
Risk Management	Refer to paragraph 7 of the report.	Angela Woodhouse
Financial	The requirements of the Data Protection Act will be met from within existing budgets.	Section 151 Officer & Finance Team
Staffing	We will deliver the recommendations with our current staffing.	Angela Woodhouse
Legal	Accepting the recommendations will fulfil the Council's duties under the Data Protection Act 2018. Failure to accept the recommendations without	Legal Team

	agreeing suitable alternatives may place the Council in breach of the DPA 2018.	
Privacy and Data Protection	Accepting the recommendations will fulfil the Council's duties under the Data Protection Act 2018. Failure to accept the recommendations without agreeing suitable alternatives may place the Council in breach of the DPA 2018.	Legal Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Angela Woodhouse
Crime and Disorder	No Impact	Angela Woodhouse
Procurement	No Impact	Angela Woodhouse

9. REPORT APPENDICES

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

- Appendix 1: Action Plan
 - Appendix 2: New Action Plan
-

APPENDIX 1

Action	Status
Identify High Priority Services	Completed
Review resources to implement GDPR changes	Completed
Design Robust Lifecycle Audit Form that clearly identifies the lawful basis for processing	Completed
Identify Training and other support resources	Completed
Training for high risk service areas - those who process large volumes of personal and/or sensitive data	Completed
Report to CLT with recommendations for the appointment of the DPO	Completed
Design guide to consents (internal and external document)	Completed
Create DPIA guidance and DPIA Need to Know	Completed
Review and update Data Protection Guidance and Need to Know fact sheets for GDPR	Completed
Design and Implement DPIA process	Completed
Briefing for CLT, WLT, Unit Managers and Staff Forum	Ongoing
Work with the ICT team to ensure that any digital barriers to the accessing of information are identified and explored	Ongoing
Undertake Information lifecycle audits with all services reviewing all processes. Looking at: Collection, processing, sharing, storage, security, retention and disposal - this will identify actions to ensure we comply with GDPR and Ensure every process documents the lawful basis for processing	Completed
Ensure every Service has retention periods documented	Completed
Update consents (included and monitored in audit action plans and website reviewed and updated)	Completed
Use Ropa to develop privacy notice for the Intranet	Completed

APPENDIX 1

Design standard template for presenting customer facing Privacy Notices. These should be clear concise and easy to understand	Completed
Review and update guide to privacy notices (internal and external document)	Completed
Review and Investigate Data Portability Requirements	Completed
CCTV Policy, procedures, and privacy notices	Moved to new Action Plan
Review the use/introduction of redaction software	Completed
Job description for DPO & SIRO + Structure Chart.	Completed
Training on PECR, RIPA, and Human Rights	Completed
Create intranet page for GDPR	Completed
Create redaction policy/guidance	Completed
Develop Team Talk for GDPR	Completed
Guidance on Data Subjects Rights (create suite)	Completed
Research GDPR Article 89 and create briefing	Completed
Review and update information Asset Register	In Progress
Produce GDPR Guidance/Training for Members	Completed
Identify all contracts that process personal data	Completed
Research Law Enforcement Directive and consider environmental health and environmental enforcement	Completed
Guidance on Processing Special Categories	In Progress
GDPR FAQs and Scenarios - Intranet	In Progress
Monitoring of both internal and external communications e.g. emails	Completed
Reviewing recording the calls in the contact centre	Completed
Review all contracts and ensure compliance with GDPR	In progress
Create Register of records of processing activities	Completed
Model for monitoring processing activities following implementation	Moved to new Action Plan
Create public guides on GDPR, Fraud and Identity theft	In Progress
Edit wording of Leadership/Committee reports	In Progress

APPENDIX 1

Guide on International Transfer	Delayed
Review Data Breach Process and update procedures	Completed
Update Data Breach guidance	Completed
Create Need to Know- Data Breaches	Completed
Review content of induction DP Training	Completed
Create Templates for responding to erasure/rectification/cease processing requests	Completed
Suite of Exemptions NTK	In Progress
Review email archiving and email retention	Completed
Review and audit archive arrangements	In progress
Update DPIA Templates	Completed
Update Information sharing checklist and log	Completed
Review procedures for subject access requests	Completed
Update SAR request form and SAR checklist	Completed
Review and update SAR guidance and SAR 'Need to know' Inc. list of EU countries.	Completed
Review Data Protection policy	Completed
Update Website with details of DPO	completed
CCTV Signage	In progress

APPENDIX 2

Action	Start	Due	Status
Briefing for CLT, WLT, Unit Managers and Staff Forum			Ongoing
Work with the ICT team to ensure that any digital barriers to the accessing of information are identified and explored			ongoing
Create a process for DPO informal updates to CLT			
Revisit Information Audits to ensure that actions have been completed or are in progress	Dec-18	Jun-19	
Revisit retention periods	Nov-18	Feb-19	
Review privacy notices	Nov-18	Jun-19	
Review privacy notices template to identify a more customer friendly design	Dec-18	Mar-19	

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APPENDIX 2

Review and update information Asset Register	Nov-18	Feb-19	
Create a model for monitoring processing activities following implementation	Jan-18	Mar-19	
Review all contracts and ensure compliance with GDPR			in progress
Raise the profile of DPIAs, delivering training and awareness raising exercises	Oct-18	Apr-18	
Raise the profile of DPIAs, delivering training and awareness raising exercises			
CCTV Policy, procedures, and privacy notices			In Progress
CCTV Signage			
Edit wording of Leadership/Committee reports	Oct-18	Nov-18	In Progress
Guidance on Processing Special Categories			In Progress
GDPR FAQs and Scenarios - Intranet			In Progress
Create public guides on GDPR, Fraud and Identity theft			In Progress
Guide on International Transfer			In Progress
Suite of Exemptions NTK			In Progress
Review and audit archive arrangements (as part of new ways of working project)	TBC 2019	TBC 2019	

Audit, Governance and Standards Committee

19 November 2018

Annual Governance Statement Update

Final Decision-Maker	Audit Governance and Standards Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Angela Woodhouse, Head of Policy, Communications and Governance
Classification	Public
Wards affected	All

Executive Summary

This report provides the committee with an update on those matters identified in the Annual Governance Statement as requiring action.

This report makes the following recommendations to this Committee:

1. That the report be noted.

Timetable

Meeting	Date
Audit Governance and Standards Committee	19 November 2018

Annual Governance Statement Update

1. INTRODUCTION AND BACKGROUND

- 1.1 The Annual Statement of Corporate Governance for 2017-18 was considered and approved by the Committee on 30 July 2018. The statement contained an Action Plan for 2018-19. This report provides an update on the progress made with the Action Plan.
 - 1.2 The actions in the plan arose from areas identified in the corporate governance statement as requiring additional action to maintain the council's governance standards.
-

2. AVAILABLE OPTIONS

- 2.1 The Committee could decide not to consider the action plan. Considering the action plan is however a key part of the Committee's governance remit.
-

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The Committee is asked to consider the updated action plan attached at Appendix A and make recommendations for further action as appropriate.
- 3.2 A number areas were identified for action including:
 - Develop a clear and consistent strategic narrative with agreed vision and priorities
 - Audit Reviews with weak assurance
 - Stress Survey
 - Risks
- 3.3 Progress has been made across all areas since July 2018. The Council is in the process of developing a new Strategic Plan with the aim to agree the new vision and priorities at the December Council meeting. Several workshops and meetings have been held with Councillors, Officers, Parishes, business representatives and staff. The next stage in this process following the consultation will be for Policy and Resources Committee to agree a vision and priorities to be submitted to Council.
- 3.4 A number of actions were have been implemented following the stress survey to improve organisational resilience including training for managers on managing resilience in teams and mental health first aider training has been taking place with 32 officers nominated to attend the training.
- 3.5 An update on the corporate risks was recently reported to the Council's corporate leadership team and the Policy and Resources Committee. Action has been taken across all areas.

4 RISK

- 4.1 This report is presented for information only. Key corporate risks have been identified in the Annual Governance Statement action plan and their status included in the update to the Committee.
-

5 CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The Committee is invited to provide feedback on the progress with the action plan.

6 NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 This report has been provided to update the Audit, Governance and Standards Committee and will be publicly available via the committee papers on the council's website. Any recommendations for further action by the Committee in regard to the action plan will be carried forward.
-

7 CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	Effective corporate governance arrangements ensure the council's priorities are understood and delivered.	Head of Policy, Communications and Governance
Risk Management	The AGS considers and gives assurance on the Council's approach to risk management	Head of Policy, Communications and Governance
Financial	This report has no direct financial implications. Carrying out the actions identified in the AGS helps to ensure that the Council maintains high governance standards.	Section 151 Officer & Finance Team
Staffing	There are implications for staff in terms of the stress survey action plan and actions still to be undertaken for Data Protection	Head of Policy, Communications and Governance
Legal	There are no legal implications	
Privacy and Data		

Protection	The report details data protection as an area where action is being undertaken a full report is provided on this elsewhere on this agenda.	
Equalities	Good governance ensures the Council is adhering to the public sector equality duty.	Policy & Information Manager
Crime and Disorder	There are no implications	Head of Policy, Communications and Governance
Procurement	There are no implications	Head of Policy, Communications and Governance

8 REPORT APPENDICES

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

- Appendix A: AGS Action Plan Update

9 BACKGROUND PAPERS

Annual Governance Statement 2017-18

Annual Governance Statement 2017-18 – Action Plan Update

Governance Issue	Action	Update
Develop a clear and consistent strategic narrative with agreed vision and priorities	The Strategic Plan will be revised one year ahead of schedule to ensure that the review of the Local Plan flows from an up to date agreed strategic vision	<p>All day workshop held in June</p> <p>Series of follow up workshops in August</p> <p>12 priorities distilled into 8 with a draft vision in September</p> <p>Consultation with Service Committees and Stakeholders in October</p> <p>Strategic Plan Vision, Outcomes and Objectives on track for Council in December</p>
<p>Audit Reviews with weak assurance:</p> <ul style="list-style-type: none"> • Accounts receivable (focussed on debt recovery) • Procurement (focussed on small to medium contracts) • Land charges (focussed on controls between partner authorities) 	Recommended actions implemented	These audit reviews have now been rated as sound.
Stress Survey	Implement actions arising from the stress survey results to improve organisational resilience	<p>Presentation of results to Unit Managers and Staff Forum</p> <p>Team Talk rolled out to all staff on the stress survey results and actions</p> <p>Team Talk rolled out to all staff on inappropriate behaviour</p> <p>Training for managers</p>

Governance Issue	Action	Update
		<p>on managing resilience in teams</p> <p>Mental Health First Aider training underway</p>
<p>Risks:</p> <p>Housing Pressures Continue to Increase</p> <p>Project Failure – failure of significant capital projects of a housing and regeneration nature</p> <p>Financial Restrictions – The Council does not achieve its income or savings targets or does not have the funding to meet standards or deliver aims.</p> <p>Data Protection Compliance</p> <p>PCI compliance</p>	<p>Homelessness Strategy</p> <p>Closer working with the private sector In house housing management team</p> <p>Detailed and consistent analysis of project risks at committee approval stage</p> <p>MTFS adopted Lobbying to avoid council suffering from negative RSG</p> <p>Implement the GDPR action plan</p> <p>Completion of compliance project to ensure the council is fully compliant</p>	<p>No change to risk rating</p> <p>CLT receive a monthly update on the service.</p> <p>No change to risk rating</p> <p>No change to risk rating MTFS is on track</p> <p>No change to risk rating Action plan has been progressed</p> <p>Project has been completed and council is PCI compliant.</p>

AUDIT, GOVERNANCE AND STANDARDS

19 November 2018

Contract Management update

Final Decision-Maker	Audit, Governance and Standards
Lead Head of Service/Lead Director	Mark Green – Director of Finance and Business Improvement
Lead Officer and Report Author	Georgia Hawkes – Head of Commissioning and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

This report details improvements to contract management that have been made since September 2017, the findings of a recent internal audit of contract management arrangements and the planned actions to improve contract management across the Council.

This report makes the following recommendations to this Committee:

1. That the status report on contract management and the proposed actions to improve contract management across the Council be noted.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	19 November 2018

Contract Management update

1. INTRODUCTION AND BACKGROUND

1.1 The Council outsources a number of its services, including management of Maidstone Leisure Centre and its waste and recycling service. These outsourced arrangements have to be monitored and managed to ensure that the services are being delivered to the specified level and that the envisaged outcomes are being achieved. The monitoring of these different contracts is done by the relevant service area, as opposed to a central team. The exception to this is the leisure and culture contracts (Hazlitt, Maidstone Leisure Centre, Kent Life, Cobtree golf course and the cafés) which are all monitored by the Contracts and Compliance Officer – Leisure and Culture role, a role which sits in the portfolio of the Head of Commissioning and Business Improvement. This role was transferred into the central team in 2017 and strengthened by increasing the responsibilities and grade from the previous Monitoring Officer role.

1.2 The Head of Commissioning and Business Improvement previously reported to this committee on contract management arrangements in September 2017. The report noted that majority of the Council’s 10 largest contracts have received positive audits, with the exceptions being management of the Hazlitt theatre and Park & Ride, which both originally received a Weak level of assurance in 2016/17. However, both audits have been revisited and the assurance level has improved to Sound in both cases due to improvements made following the audits. Details of the largest contracts and internal audit ratings are shown below:

No.	Contract	Company	Team	Contract Value	Start Date	End Date	Audit Plan	Assurance
1	Waste Collection Services	Biffa Municipal Ltd	Waste Management	£8,610,235	01.08.13	21.10.23	2014/15	SOUND
2	Leisure Centre Management	Serco International	Leisure	£6,450,000	15.02.09	14.02.24	2014/15	SOUND
3	Management of Cobtree Golf Course	Mytime Active	Leisure	£4,030,555	09.01.17	08.01.37	2010/11	SUBSTANTIAL
4	Management of the Hazlitt Theatre	Parkwood Leisure Ltd	Leisure	£3,543,677	01.10.13	30.09.23	2016/17	SOUND
5	Park & Ride	Arriva Southern Counties Ltd	Parking Services	£3,030,476	29.03.14	31.05.18	2016/17	SOUND
6	Parking Enforcement	APCOA Parking Ltd	Parking Services	£2,675,586	01.06.11	31.05.18	2012/13	SUBSTANTIAL
7	Insurance	Zurich Insurance Company	Finance	£2,045,891	01.04.16	31.03.21	2011/12	HIGH

No.	Contract	Company	Team	Contract Value	Start Date	End Date	Audit Plan	Assurance
8	CCTV Monitoring	Medway Council	Community Safety	£1,680,231	01.12.11	31.03.18	2013/14	SUBSTANTIAL
9	Gas & Electricity	Laser	Property Services	£1,000,000	30.09.16	29.09.20	Not on audit plan	N/A
10	Electrical Maintenance	OpenView Security Solutions Ltd	Property Services	£844,199	01.07.15	30.06.20	Not on audit plan	N/A

1.3 Therefore, the Council's highest value contracts are being well managed, and contract management arrangements have actually improved in certain areas since the last report.

1.4 A number of other improvements have also been made to contract management and the process of ensuring contract documents are in place since all the elements of the commissioning cycle, including procurement and contract management, were brought together under the Head of Commissioning and Business Improvement in 2017:

- The improved procurement process for procurements over £75k includes the requirements for the contract manager to be identified as part of and involved in the preparation of the procurement plan, the performance measures and terms and conditions to be included in the tender and agreed before the contract is awarded, the contract document to be signed before commencement of the service, as well as the risks of entering into the contract to be analysed and mitigation measures put in place in the design of the service and contract management arrangements
- The monitoring of all the leisure and culture contracts has improved greatly under the current Contracts and Compliance Officer – Leisure and Culture
- The Contracts and Compliance Officer – Leisure and Culture has received training in health and safety and facilities management, and is currently studying for a Certificate in Contract Management
- The whole of the portfolio of the Head of Commissioning and Business Improvement has been restructured – this included the creation of a Procurement and Contracts Manager who had responsibility for ensuring good contract management across the organisation, as well as a Service Commissioning Officer who would undertake strategic service design reviews using commissioning thinking, including making sure performance management

1.5 However, plans to improve contract management have not progressed as quickly as planned. A key officer in the Procurement team was on long term sick leave for 6 months in 2017/18 and has subsequently left the organisation. In addition, the newly appointed Procurement and Contracts Manager left the organisation in September after only 3 weeks. Temporary arrangements have been put in place, with the Senior Procurement Officer acting up to manage the Council's procurement function and the Contracts and Compliance Officer – Leisure and Culture reporting to the Head of Commissioning and Business Improvement. This means the team is still

understaffed by 1 FTE. Unfortunately, the Contracts and Compliance Officer – Leisure and Culture has also resigned and will leave the Council in December 2018.

1.6 The recent internal audit of contract management controls across the organisation returned a Weak level of assurance rating. The report recognised the improvements that had been put in place linked to the new procurement processes and the good practice employed in managing the leisure and culture contracts, but found that, corporately, improvement was required. The key findings that need to be addressed were:

- There was not enough understanding corporately of all the contracts the Council had entered into
- The published contracts register was not complete
- There was no corporate guidance of what good contract management looked like and the things that should be done
- Following the departure of the Procurement and Contracts Manager, there was not enough staff resource currently with responsibility for Council-wide contract management arrangements
- Whilst there was an understanding of contract risk, there was no formal risk quantification
- Contractor performance is monitored, but there was a lack of understanding around contractual terms around poor performance, and non-performance-based contractual areas were not always monitored
- Those managing contracts generally had not received any training in contract management
- There was no process for ensuring an effective handover if the contract manager changed part-way through the contract
- Value for money is mainly considered at the end of the contract term, rather than during the life of the contract
- Lessons learned are not recorded and shared

1.7 The audit made recommendations as a result of these findings and improvement actions have been agreed with the Head of Commissioning and Business Improvement. As identified in the audit report, there are currently insufficient corporate contract management resources in the organisation. Therefore, in the short term, temporary external expertise will be sought to help implement the improvements in a timely manner. In the longer term, the team structure will also be considered to ensure there is enough staff resource devoted to ensuring good contract management practice across the Council.

1.8 The improvements that are planned are listed below. Provided additional external resource can be sourced quickly, most of these actions will have been implemented by April 2019.

- Create and maintain a central repository for contract documents
- Introduce contract management guidelines for use by all contract managers across the organisation – to include guidance performance management of contracts and what is possible in terms of varying contracts to provide better value for money

- As part of the contract management guidelines, introduce a risk management process for the contract lifecycle
- Introduce a better process for ensuring the contract register is up to date
- Offer training for contract managers on the new guidelines, and potentially additional training specifically on contract management, based on the needs and the size and risk level of the contracts they manage
- Applying the good practice used for managing the leisure and culture contracts, work with managers of the largest contracts to introduce summary briefing documents containing the key elements of the contracts. These can then be used to ensure a smooth handover if a contract manager needs to change
- Form a network of contract managers from across the organisation to share good practice and lessons learned, including maintaining a central register of lessons learned

2. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 2.1 The Committee should note the contents of the report, including the improvements detailed in paragraph 1.8 that will address the issues with contract management highlighted in the internal audit.

3. RISK

- 3.1 This report is presented for information. The actions detailed in the report will mitigate the risk that the Council is not managing contracts properly and that outsourced services are not delivering the level of service required.

4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 4.1 Audit, Governance and Standards Committee has previously received an update on contract management across the Council in September 2017.

5. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The changes detailed in this report are unlikely to materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims through ensuring outsourced services deliver what is	Head of Commissioning and Business Improvement

	required.	
Risk Management	Covered in section 3.	Head of Commissioning and Business Improvement
Financial	There will be an additional cost to bringing in external resource to help implement the required changes. A budget has been identified to meet this cost.	Paul Holland, Senior Finance Manager
Staffing	We will need access to extra expertise to deliver the recommendations in a timely manner.	Head of Commissioning and Business Improvement
Legal	The actions detailed will help the Council meet its obligations under the Local Government Transparency Code 2015. MKLS is keen to assist with creating and maintaining a central repository of all contracts and with assessing risk both before the contract is signed and during its term. Another benefit of proper contract management should be the avoidance of litigation.	Team Leader Contracts & Commissioning
Privacy and Data Protection	No impact.	[Legal Team]
Equalities	An equalities impact assessment will be completed in conjunction with the formulation of the new contract management guidelines	Equalities and Corporate Policy Officer
Crime and Disorder	No impact	Head of Commissioning and Business Improvement
Procurement	No impact.	Head of Commissioning and Business Improvement

		Section 151 Officer
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6. BACKGROUND PAPERS

Contract Management report – Audit, Governance and Standards 18/9/17
<https://meetings.maidstone.gov.uk/documents/s56824/Contract%20Management.pdf>

Agenda Item 15

Audit, Governance and Standards Committee

19 November 2018

Maidstone Property Holdings Governance Arrangements

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Ellie Dunnet, Head of Finance
Classification	Public
Wards affected	None

Executive Summary

This report summarises the current governance arrangements in place for the Council's subsidiary company, Maidstone Property Holdings Ltd, and outlines plans in place to review these in light of the expected increase in company activity over the next twelve months.

The purpose of the report is to inform the committee about how the Council oversees the company to enable the objectives of both entities to be achieved.

This report makes the following recommendations to this Committee:

That:

1. The governance arrangements currently in place for Maidstone Property Holdings be noted.
2. A future report detailing the outcomes of the governance review be submitted for consideration by this Committee.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	19 November 2018

Maidstone Property Holdings Governance Arrangements

1. INTRODUCTION AND BACKGROUND

- 1.1 Maidstone Property Holdings Ltd. was incorporated in September 2016 and is used by the Council as a vehicle for letting residential properties on assured shorthold tenancies.
- 1.2 The Chair of the Audit, Governance and Standards Committee has requested a report setting out the governance arrangements in place for Maidstone Property Holdings, in order to provide committee members with an understanding of how the Council oversees its subsidiary.
- 1.3 A review of the company structure and governance arrangements has recently been commissioned in light of the company's expansion plans which relate to the lease of residential units at Lenworth House, Brunswick Street and Union Street.
- 1.4 The scope of this review is to provide assurance that the company structure will continue to provide the most efficient vehicle for enabling the Council to deliver its strategy on housing development, that the legal basis for the development of the company's business plan is sound, and that potential conflicts of interest are dealt with appropriately where Council staff are taking decisions on behalf of the Company.
- 1.5 It is proposed that the outputs from this review are reported back to this Committee, along with any recommendations for development of the existing governance arrangements.

Current Governance Arrangements

- 1.6 Maidstone Property Holdings Ltd was incorporated on 11 September 2016 as a private company limited by shares, following a decision taken by Policy and Resources Committee at its meeting on 23 March 2016.
- 1.7 The Board currently comprises the following officers, appointed with the approval of Policy and Resources Committee:
 - Director of Regeneration and Place
 - Head of Housing and Community Services
- 1.8 The Board is supported by a Company Secretary. This role is currently fulfilled by the Democratic and Administration Services Manager who arranges and minutes Board meetings, and ensures that the company complies with Companies House filing requirements.
- 1.9 An operational agreement governs the relationship between Maidstone Borough Council and Maidstone Property Holdings Ltd, and stipulates that Board members must be appointed with the approval of the Council. The business of the company is set out within this agreement as follows:

"The Company is in the business of purchasing, acquiring, and owning freehold, leasehold or any real property, and to improve, develop, manage, grant rights or privileges in respect of, construct, repair, let on lease or otherwise, exchange, mortgage, charge, dispose of, sell, grant licences in respect of, turn to account, or otherwise deal with all or any part of the real property of the Company."

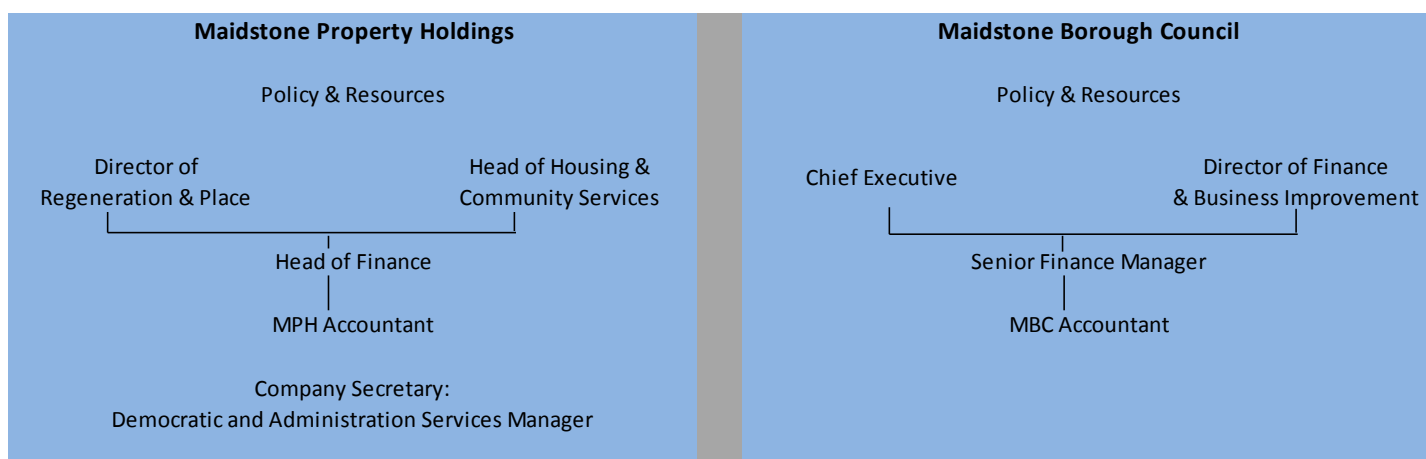
1.10 More specifically, the company was established with the purpose of holding residential properties owned by the Council, and letting these on assured shorthold tenancies. For the Council to let property in this way directly, this would need to be done through a Housing Revenue Account, which this Council does not currently have. A 22 year lease is in place between the Council and the Company for the first and second floors of Granada House.

1.11 The Board has appointed an external auditor, UHY Hacker Young, who issues an opinion on the annual statement of accounts and assists with the submission of the corporation tax return. Unqualified opinions have been issued for the 2016/17 (short period) and 2017/18 accounts. The 2017/18 accounts are due to be approved by the Board at their Annual General Meeting later this month. The Director of Finance and Business Improvement will represent the Council at this meeting.

1.12 Currently the company does not employ any staff or own any property, and its annual turnover for the year ending 31 March 2018 was £123,948.

1.13 The financial performance of the company is reported to the Council through the quarterly budget monitoring process, as a section of the report presented to Policy & Resources Committee. At this stage, it is not considered appropriate for a standalone report on the company's financial activity to be brought to this Committee, as at this point in time its activities are not material to the Council's accounts. This will be kept under review, and it is likely that this arrangement will change as the company expands over the next twelve to eighteen months.

1.14 The below reporting structure has been implemented, in order to ensure that the decisions of the Company can be taken independently from the Council, which acts as a protocol for addressing any potential conflicts between the two entities:



Internal Audit Recommendations

1.15 An internal audit review of subsidiary company governance was undertaken last year and identified a number of areas for improvement within the company's governance structure and assurance mechanisms.

1.16 Officers welcomed these recommendations and the table below summarises the actions taken to date in response to this:

Recommendation	Priority	Response
Determine responsibility on the Council side for overseeing the subsidiary company.	High	It is set out in the Operational Agreement that the Chief Executive and Director of Finance and Business Improvement act as Council representatives in relation to the activities of the Company. Any matters requiring the attention of a Committee would be referred to Policy and Resources Committee.
Direct the company to formalise the role of the Company Secretary.	Advisory	The Company Secretary has undertaken training in this role. There is no obligation to register the Company Secretary at Companies House, and we have opted not to do this in order to maintain some flexibility as to how this role is fulfilled.
Review the operational agreement and associated documents.	Medium	This will form part of the forthcoming review referred to elsewhere in this report.
Consider implementing a service level agreement for the provision of staff and services as the Company becomes material.	Advisory	At this stage, the provision of services to the company is not considered to be material, however this will be kept under review.
Direct the company to form distinct objectives.	High	This matter is due for consideration at the company's AGM which has been scheduled for later this month.
Establish reporting lines for the subsidiary company.	High	Reporting lines have been established and are set out elsewhere in this report.
Direct the company to update its listing to be consistent with the developing purpose of the company.	Advisory	The listing has been reviewed by Directors and is considered to appropriately describe the company's activities.

2. AVAILABLE OPTIONS

2.1 The Committee is asked to note the contents of this report, and to consider a future update on the governance arrangements for Maidstone Property Holdings Ltd.

2.2 The Committee could alternatively suggest changes to the current governance arrangements. As a review of these arrangements is due to

commence shortly, it is recommended that such suggestions should be considered alongside the outputs of this exercise at a future meeting of this Committee.

- 2.3 Members could also elect not to receive future reports on this matter. This option is not recommended as it would impede the committee's ability to fulfil its role in relation to corporate governance and risk management.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The preferred option is set out at section 2.1 above. As Maidstone Property Holdings develops and expands, changes to the current governance arrangements may be required. It is therefore considered appropriate that a further report on this subject be brought back to this Committee at a later stage.

4. RISK

- 4.1 This report is presented for information only and has no decisions which give rise to risk management implications.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 No consultation has been undertaken in relation this matter.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The Committee is asked to note this report, and to consider a further report providing the output of the forthcoming review will be brought to a future meeting.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims.	Head of Finance
Risk Management	See section 4.	Head of Finance

Financial	None identified.	Head of Finance
Staffing	None identified.	Head of Finance
Legal	Effective governance arrangements ensure that Directors comply with their duties under the Companies Act 2006.	[Legal Team]
Privacy and Data Protection	None identified.	[Legal Team]
Equalities	None identified.	[Policy & Information Manager]
Crime and Disorder	None identified.	Head of Finance
Procurement	None identified.	Head of Finance

8. REPORT APPENDICES

None

9. BACKGROUND PAPERS

None

Agenda Item 16

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

19 November 2018

Interim Internal Audit & Assurance Report

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Directors	Director of Finance & Business Improvement Director of Mid Kent Services
Lead Officer and Report Author	Rich Clarke: Head of Audit Partnership
Classification	Public
Wards affected	All

Executive Summary

The report provides a summary of progress so far against the 2018/19 Internal Audit & Assurance Plan. It includes extracts from audit reports finalised so far as well as updates on the broader governance work of the internal audit team.

This report makes the following recommendations to this Committee:

1. That progress against the 2018/19 Internal Audit & Assurance Plan and findings so far be noted.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	19 November 2018

Interim Internal Audit & Assurance Report

1. INTRODUCTION AND BACKGROUND

1.1 The report provides an update for Members on progress against the 2017/18 Internal Audit & Assurance plan approved by this Committee earlier this year. The report also meets our duties under Public Sector Internal Audit Standard 2060 to report to Members on:

- Our audit charter,
- The independence of internal audit,
- Audit plan changes and progress against the plan,
- Resource needs of the audit service,
- Results of audit work so far,
- Affirming conformance with the Standards and Code of Ethics, and
- Details of risks taken by management that, in the Head of Audit Partnership's judgement, may be unacceptable to the authority.

2. AVAILABLE OPTIONS

2.1 To keep conformance with the Standards we must report progress periodically to Members. This report fulfils that duty and provides the opportunity for Members to review, comment on and question the progress we have made and the results we have reached. We propose no alternative action.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 By noting and commenting on our progress we will maintain conformance with professional Standards.

4. RISK

4.1. This report is presented for information only and has no risk management implications.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 We discuss results of audit work with responsible officers within the authority before issuing as final. We remain pleased to record to Members continuing good levels of co-operation from officers who have accepted all recommendations made so far in 2018/19.

5.2 The report builds on Committee comments from previous similar reports at equivalent points in earlier years.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 We will continue progress towards fulfilling the 2018/19 audit and assurance plan. We will issue our final report, including the Head of Audit Opinion, in June 2019.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The report provides an update and is presented to note. It recommends no new substantive decisions.	Rich Clarke Head of Audit Partnership November 2018
Risk Management		
Financial		
Staffing		
Legal		
Privacy and Data Protection		
Equalities		
Crime and Disorder		
Procurement		

8. REPORT APPENDICES

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

- Appendix 1: Interim Internal Audit & Assurance Report 2018/19
-

9. BACKGROUND PAPERS

Full copies of audit reports summarised within are available to Members on request.

Interim Internal Audit & Assurance Report



November 2018
Maidstone Borough Council



MID KENT AUDIT

Introduction

1. The Institute of Internal Audit gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. The mission and its associated [code of ethics](#) and [Standards](#) govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations state services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. Those Standards set demands for our reporting:

2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the *Code of Ethics* and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

Interpretation:

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the *Code of Ethics* and the *Standards*, and action plans to address any significant conformance issues.
- Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.

Audit Charter

3. This Committee approved our *Audit Charter* in March 2016. The Charter remains effective through the updated standards in April 2017. We will bring an updated Charter to Members later this year.

MID KENT AUDIT

Independence of internal audit

4. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work based on our collaboration agreement.
5. Within Maidstone BC during 2018/19 we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
6. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

Management response to risk

7. We include the results of our work in the year so far later in this report. In our work we often raise recommendations for management action. During the year so far management have agreed to act on all recommendations we have raised. We report on progress towards implementation in the section titled *Recommendation Follow Up Results*.
8. There are no risks we have identified in our work that we believe management have unreasonably accepted.

Resource Requirements

9. We reported in our plan presented to this Committee in March 2018 an assessment on the resources available to the audit partnership for completing work at the Council. That review decided:

...we believe we have enough resource to deliver the 2018/19 plan
10. In 2018/19 we drew that conclusion considering setting up new software. That implementation is on track and described further later in this report. Since the plan we have also engaged with Dartford and Sevenoaks Councils to provide support, again described later in this report. Considering extra contractor support available to us through the Apex Contract managed by LB Croydon, we remain content we have enough resource to deliver the 2018/19 plan.

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Audit Plan Progress

11. This Committee approved our *Annual Audit & Assurance Plan 2018/19* on 19 March 2018. The plan set out an intended number of days devoted to each of various tasks. We began work on the plan during May 2018 and expect completing enough to form our *Annual Opinion* by June 2019.
12. The table below shows progress in total number of days delivered against the plan (figures are up to end of October 2018, about 40% through the audit year).

Category	2018/19 Plan Days	Outturn at Interim	Days Remaining
2017/18 Assurance Projects	0	80	n/a
2018/19 Assurance Projects	380	68	312
Non project assurance work ¹	120	99	21
Unallocated contingency	30	26	4
Totals (18/19 Work Only)	530	193	337

13. Based on resources available to the partnership for the rest of the year we forecast delivery of around 315 further audit days. This creates a forecast total of 508, or 96% of planned days.
14. We detail the specifics, and results, of this progress further within this report.

¹ Non-assurance project work includes our work in the fields of Risk Management, Counter Fraud and Investigative Support, following up recommendations and annual audit planning.

MID KENT AUDIT

Results of Audit Work

15. The tables below summarise audit project findings and outturn up to the date of this report. Where there are material matters finished between report issue and committee meeting we will provide a verbal update. (* = days split between partners, MBC only shown).

Completed Assurance Projects Since Annual Report in June 2018

	Title	Days Spent	Report Issue	Assurance Rating	Notes
2017/18 Plan Projects Issued after 1 June 2018					
	Member Training & Induction	18	Jun-18	Sound	Reported to Members July 2018
	HR Policy Compliance	7*	Jun-18	Sound	Reported to Members July 2018
	Street Scene	16	Jul-18	Sound	Reported to Members July 2018
	Complaints	23	Jul-18	Sound	Reported to Members July 2018
I	Animal Welfare Control	20	Nov-18	Weak	
II	Contract Management	20	Nov-18	Weak	
2018/19 Plan Projects Issued up to Report Date					
III	Housing Allocations	16	Aug-18	Sound	
IV	Financial Resilience Index	5*	Sep-18	N/A	
V	Budgetary Control	16	Oct-18	Sound	
VI	Museum Income Collection	15	Oct-18	Sound	

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Assurance Projects Underway

Title	Days So Far	Expected Report	Notes / Stage
Revenues & Benefits Compliance Team	4*	Jan-19	Fieldwork in progress
Cyber Security	1*	Jan-19	Planning (undertaken by specialist contractor)
Accounts Payable	1	Jan-19	Planning
Building Control	5	Feb-19	Planning
Licensing Administration	1*	Feb-19	Planning
Commercial Waste	1*	Mar-19	Planning
NNDR Liabilities & Reliefs	1*	Mar-19	Planning
Absence Management	1*	Mar-19	Planning
Declarations of Interest	1	Mar-19	Planning
Markets	1	Apr-19	Planning

56

Assurance Projects Yet to Begin

Title	Expected Start	Expected Report	Notes
Planning Enforcement	Quarter 3	Mar-19	
Community Protection Team	Quarter 3	Mar-19	
Property Management	Quarter 3	Apr-19	
Public Consultations	Quarter 3	Apr-19	
Recruitment	Quarter 3	Apr-19	Joint with SBC
Waste Contract	Quarter 3	Apr-19	Joint with ABC and SBC
Council Tax Reduction Scheme	Quarter 4	May-19	Joint with TWBC
General Data Protection Regulations	Quarter 4	May-19	Cross partnership

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Title	Expected Start	Expected Report	Notes
Air Quality	Quarter 4	Jun-19	
Cobtree Trust Governance	Quarter 4	Jun-19	
Transformation	Quarter 4	Jul-19	
Homelessness Reduction Act	Quarter 4	Jul-19	Cross Partnership
IT Technical Support	Quarter 4	Jul-19	Joint with SBC and TWBC

We will continue to keep these projects under review because of our available resources and the changing risk position at the authority.

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Audit Project Summary Results

I: Animal Welfare Control (November 2018)

16. Our opinion based on our audit work is that there are **Weak** controls around animal welfare control.
17. The stray dog service is being delivered by an external organisation (Viking Oak) and has been for at least 18 years. No procurement exercise has ever been undertaken and therefore is in breach of the Council's financial regulations. There is also no contract in place with the provider. This results in the Council being unable to enforce certain conditions on the provider. The Council has little to no assurance that the service is being run in compliance with the Environmental Protection Act 1992 and best practice guidance with examples found in testing showing that it is not.
18. The Pest Control Contract is currently awarded to Goodwin Pest Management. The contract remained unsigned though in operation for 14 months after its implementation. Management of the contract is insufficient with a number of significant gaps in compliance identified by the audit that the service had been previously unaware of.
19. The service conducts premises inspections to support licence applications for riding establishments and animal boarding establishments. These are done in line with the relevant legislation.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
1	3	3	3	0

20. As noted above, management remain engaged in internal discussions on the best approach to tackle recommendations, but have accepted the audit findings. We hope to finalise the report in late November.

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II: Contract Management (November 2018)

21. Our opinion based on our audit work is that the controls around the Contract Management arrangements are **Weak**. This means the controls do not consistently work well enough to give assurance to the Council.
22. The Council does not have a complete overview of its contracts. Although a variety of information exists across the Council, it should be brought together in an accessible central listing. The revised procurement process ensures better identification and involvement of contract managers. To build on these improvements, and the general management of contracts, the Council should develop a contract management strategy, and accompanying training.
23. A general understanding exists of contract risk, but it is not documented, monitored or reviewed. Similarly while contracts usually set out performance measures, monitoring is inconsistent although officers do cite a general awareness of how well a contract performs.
24. There is good awareness of how to manage contract changes and termination, although with some scope to improve to ensure the Council maintains value for money.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	4	4	2	1

25. Members will receive a separate update from management on Contract Management at the Council and plans for its development.

III: Housing Allocations (August 2018)

26. Our opinion based on our audit work is the Housing Allocations service has **Sound** controls in place to manage its risks and support achievement of its objectives.
27. Our testing has concluded applicants entered onto the housing register are suitably scrutinised to establish their eligibility. The housing need and local connection are properly determined, and allocation decisions are transparent.

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28. However, due to a recent lack of resources all areas of the Scheme are not being enforced. In particular rules around the frequency of bidding and review timescales aren't being met. Furthermore, there are limited controls in place to prevent MBC Officers from accessing and updating their own housing register accounts.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	4	3	0

29. Our recommendations began to fall due for action at the end of October 2018. We will report progress to management in early 2019.

IV: Financial Resilience Index (September 2018)

30. CIPFA closed its consultation on a proposed Resilience Index (the "Index") on 24 August 2018. The stated aim of the index, according to CIPFA is:

"...to be an authoritative measure of council's financial resilience, drawing on publicly available information, intended to provide an early warning system where it is needed so that action can be taken at a local level in a timely manner."

31. CIPFA published a reasonably detailed explanation of its intended method alongside the consultation on its overall proposal. The core of the method is to take accounts data focusing on RSG reliance, reserve levels and auditor opinions and combine them into a single weighted score. CIPFA will then adjust the scores to set the median at 100. Authorities with a score of greater than 100 show signs associated with greater financial resilience than their peers.
32. Based on the method set out in the consultation, we found all four authorities in the partnership comfortably into or beyond the mid-range with index scores between 98 and 125. However, there is notable range among districts. The top of the index is 190, far above the median level, with scores falling down to 55. Across Kent we found a range between 87 and 166.
33. CIPFA plan to develop a final version of its Index before the end of the year. We will update our work accordingly and report again to partner authorities.

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V: Budgetary Control (November 2018)

34. Our opinion based on our audit work is that finance have **Sound** controls in place to manage risks and support achievement of objectives in relation to budgetary control.
35. The Council's budgetary control process is defined within its Financial Procedure Rules. There are no budget monitoring procedure notes in place to support the process. These should be introduced to provide guidance and ensure a consistent approach.
36. Training was provided to budget managers in 2017 and this was supplemented by a detailed budget management pack. The Finance team also provide ongoing individual support. However our testing identified staff who hadn't received training and staff who required additional training. Budget managers also made a number of suggestions for improvement to the support provided by Finance in response to our survey.
37. Our virement testing concluded they were processed and authorised in line with the Financial Procedure Rules. However the Service needs to better document where the authorisation for the virement has come from.

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	0
Low (Priority 4)	5
Advisory	0

38. We will follow up recommendations for action as they fall due during 2019.

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VI: Museum Income Collection (November 2018)

39. Our opinion based on our audit work is that the has **Sound** controls in place to manage its risks and support achievement of its objectives.
40. Our review concludes that controls are generally operating as designed to ensure that income is appropriately collected, banked and coded. Detailed procedures are in place to help ensure cash is collected, stored and banked accurately and securely. However, our testing found that some invoices sent to schools are not being raised in a timely manner. Combined with ineffective credit control, this has resulted in several late payments. This can be partially attributed a lack of sufficient cover within the team to undertake this task.
41. The Museum's income targets have been set as part of the annual budget setting process. At the time of audit, income (excluding grants) was 19% short of the budgeted year to date target. However this was found to be due to targets not being profiled over the year. There are appropriate mechanisms in place to monitor income levels.

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	0
Low (Priority 4)	4
Advisory	0

42. We will follow up recommendations for action as they fall due during 2019.

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Recommendation Follow Up Results

43. Our approach to recommendations is that we follow up each issue as it falls due in line with the action plan agreed with management when we finish our reporting. We report progress on implementation to Corporate Leadership Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after action on key recommendations).
44. In total, we summarise in the table below the current position on following up agreed recommendations:

Project	Total	High Priority ²	Medium Priority	Low Priority
Recommendations brought into 2018/19	55	7	25	23
New recommendations agreed in 2018/19	76	11	26	39
Total Recommendations Agreed	131	18	51	62
Fulfilled by 30 September 2018	58	7	21	30
Recommendations cfwd past 30 September	73	11	30	32
Not Yet Due	57	9	23	25
Delayed Implementation but no extra risk	16	2	7	7
Delayed Implementation with risk exposure	0	0	0	0

45. We have raised one critical recommendation. In this instance we believed that our finding represents an immediate threat that demands rapid response. Specifically our concern is that the Council is operating a statutory function through a third party without any sound legal basis. We reproduce the recommendation in full below along with management's acceptance and proposed response.

R1: Stray Dog Service Contract	Priority 1: Critical
<p>Develop and agree contract terms for the provision of the stray dog service that are in line with legislation and best practice.</p> <p>This should include provision within the contract for the following:</p> <ul style="list-style-type: none"> • Contractor to provide full details as required regarding each individual dog including supporting evidence/documentation; • Contractor to discover the reason for straying and provide advice on how to prevent in future. They should document this and inform the Council. 	

² Includes one Critical priority recommendation

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- Contractor to exhaust all options for reuniting stray dogs with their owners, including the consideration for using social media. All actions taken should be recorded.
- Contractor to record the reasons a dog was rehomed, including a record of a suitability assessment for rehoming.
- Contractor to record the reasons for destroying stray dogs, including a vet's assessment and agreement. They should also consult with the Council's Animal Welfare Officer prior to putting any dog to sleep so that they are immediately aware.

Implementation of the recommendation will ensure that the Council is able to monitor the service provision and ensure compliance with the Environmental Protection Act 1990.

Management Response

Our current provider has previously resisted agreeing or committing to a formal contract, it was thought that trying to force this issue would result in their ceasing the service before an alternative provider could be identified, resulting in a loss of service meaning MBC would be unable to deliver on its statutory duties.

To reduce the risk level and to comply with the Council's requirements to document the level of service and responsibilities expected from both parties a written agreement will be drafted in the form of either a Service Level Agreement or Memorandum of Understanding. A meeting will be arranged for the Community Partnerships & Resilience Manager and the Community Protection Team Manager to meet with the supplier before the end of November 2018 to seek agreement to these terms in the form of either an SLA or MOU.

In order to mitigate the potential impact any decision to cease arrangements with MBC we have asked Medway Council to quote for the provision of the service as a temporary solution to allow time for a formal tender process to be undertaken.

We are also in discussions with the other Local Authorities to whom the organisation provides a service. The recent introduction of the Animal Welfare Regulations 2018 means that aspects of the business may need to be licensed under the regulations. This provides another opportunity to regularise the arrangements.

Responsible officer: Community Protection Manager	Implementation date: End of November 2018
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46. We will remain in contact with the service and follow progress towards fulfilling this recommendation. We will report back to Members in due course.

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47. The table below shows distribution of outstanding recommendations across the Council. The high priority recommendations outstanding in the below are largely in the 'corporate' area, with one related to *Emergency Planning*, one in *Performance Management*, one in *Subsidiary Company Governance* and two in *Legal Services*. There is one remaining outstanding high priority recommendation relates to *Grounds Maintenance*.

	Ashford Borough Council	Maidstone Borough Council	Swale Borough Council	Tunbridge Wells Borough Council	Shared Services
Communications	-	1	-	-	-
Community Safety	-	2	-	-	-
Corporate	-	15	-	-	3
Culture & Economy	-	6	-	-	-
Democracy	-	-	-	-	-
Environment	-	5	-	-	-
Environmental Health	-	-	-	-	-
Estate Management	-	-	-	-	-
Housing & Landlord	-	7	-	-	-
Human Resources	-	-	-	-	2
Information Technology	-	-	-	-	-
Parking	-	-	-	-	4
Planning	-	-	-	-	-
Revenues & Benefits	-	-	-	-	-
Accounting & Finance	-	8	-	-	-

48. Note that the table above does not yet include recommendations arising from reports on *Contract Management* or *Animal Welfare Control*. Adding these recommendations puts an extra 10 onto 'corporate' recommendations (rising from 15 to 25) and an extra 10 onto 'environment' (rising from 5 to 15). The table also only shows recommendations outstanding relevant to Maidstone Borough Council

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Other Audit Service Work

Risk Management Update

49. Effective risk management is an essential part of the Council’s governance. It sets out how the Council identifies, quantifies and manages the risks it faces as it seeks to deliver services and achieve objectives.
50. The Council’s Policy & Resources Committee approved the current risk management guidance in February 2016. The Council has also published the full guide on its [website](#). The same Committee agreed a risk appetite statement in October 2017; also available on the Council’s [website](#).
51. Since then we have had lead responsibility for co-ordinating and promoting risk management across the Council. Our role includes reporting regular updates to Officers and Members, through the Corporate Leadership Team (CLT), Policy & Resources Committee and the Audit, Governance & Standards Committee. We also provide support and training to help ensure that effective risk management.
52. We report the Council’s risks twice a year to Policy and Resources Committee and quarterly to Corporate Leadership Team. Audit, Governance and Standards Committee receive an annual report on the effectiveness of the Council’s risk management. We set out the current risk profile below. The evaluation uses inherent risk; meaning the risk factoring in controls currently in place.

Risk Profile (Inherent Risk)

Likelihood	5		1	1	3		Risk Colour	Oct-18
	4		3	4	9		BLACK	3
	3	1	5	40	13	1	RED	28
	2		15	30	18	4	AMBER	101
	1			8	8		GREEN	32
		1	2	3	4	5	BLUE	0
		Impact					TOTAL	164

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53. Risks by definition are uncertain since they consider future events. We will therefore continue to report to CLT and Members, and oversee progress through the year to highlight any significant movement of risks over time.
54. Risk management is continuous and delivers best value when current. Our general support continues with focus in the coming months on:
 1. **Full review of the guidance:** The guidance has been in place for nearly 3 years, and needs periodic review and, if needed, updates to ensure that it remains effective.
 2. **Training programme:** We have continued to lead workshops, and deliver risk sessions when asked. However, developing the overall knowledge and expertise for risk management across the Council demands a wider approach. We aim to develop a training session for managers and officers on the principles of risk management, and to tailor that to new guidance. We will also deliver training to Members.
 3. **Refresh of Corporate Risks:** Following updates the Council's strategic plan we will coordinate a workshop in the new year to refresh the Corporate Risks.

Counter Fraud Update

55. We consider counter fraud and corruption risks in all of our audit engagements when considering the effectiveness of control. We also undertake distinct work to assess and support the Council's arrangements.

Investigations

56. During the first half of 2018/19 we have continued progress with the major investigation we began in early 2017. After sifting through significant volumes of evidence we are now at the point of taking final witness statements and gathering our final report. We aim to report to CLT in January 2019 on where we go next.
57. We have also helped officers with other investigations referred to us. These include:
 - An allegation of theft against an employee. The Council recovered the money and the individual left employment and received a police caution.
 - A concern raised on how a contractor accounts for work within a profit share with the Council. We found no evidence of hidden work, but suggested extra controls to the service that would help track and check any future discrepancies.

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Whistleblowing

58. The Council’s whistleblowing policy names internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour.
59. We have so far had no matters raised with us through the Whistleblowing Policy, although note we are still receiving information from other routes.

National Fraud Initiative

60. We continue to coordinate the Council’s response to the National Fraud Initiative (NFI). NFI is a statutory data matching project and we must send in various forms of data to the Cabinet Office who manage the exercise.

January 2017 Data Matches

61. We have now completed our investigations into the January 2017 matches. Most fell to the MKS Revenues and Benefits Compliance team to look into. That team report separately to this Committee.
62. We have looked into matches from non-revenues datasets in line with approved strategies with the focus on ‘high risk’ matches identified by the Cabinet Office based on previous national results. The Cabinet Office does not expect authorities to look into every match.
63. The table below sets out results for the data sets within Mid Kent Audit’s scope:

Dataset	Matches (high risk)	Investigated (high risk)	Frauds	Errors	Value
Insurance Claims	2 (2)	2 (2)	0	0	0
Procurement	10 (9)	10 (9)	0	0	0
Payroll	17 (1)	1 (1)	0	0	0
Taxi Drivers	11 (4)	11 (4)	0	1	0
Housing Waiting List	55 (52)	55 (52)	0	2	£6,480
Totals	95 (68)	79 (68)	0	3	£6,480

64. The total ‘hit rate’ for looking into these matches was 4% (or 4.5% if we consider only the high-risk matches). The average return for a match was £82 (£95 for high-risk only).

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January 2019 Data Matches

65. We received notice from the Cabinet Office seeking data for the 2019 exercise in July. Working with services, we have correctly provided the data before the deadline of October 2018. Before submission the Council must complete a Privacy Notice to confirm it has processed data in line with relevant law. We worked with services to ensure the Council met this duty.
66. We expect results from this exercise by the end of January 2019. We will update the Committee next year on findings arising from those matches.

Other Audit and Advice Work

67. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council. Examples include our attendance at Information Governance and Corporate Governance Groups and as part of the Wider Management Team. We have also completed specific reviews looking at individual parts of the Council's control environment at the request of officers such as assessing local planning risks.
68. The Council has also commissioned the audit service, following a successful pilot last year, to undertake another Independent Management Report (IMR) for the Kent & Medway Safeguarding Children Board. This report will consider the Council's contact with two residents who died tragically earlier this year. We will reflect on the Council's involvement and feed in to a broader report. This will consider whether there are lessons across the public sector.
69. We have also, at the request of the Mid Kent Services Board, begun a programme of 'mid-term reviews' examining shared services. These reviews follow the model of the Audit Mid-Term Review completed last year and start with a look at the Shared HR Service. We aim to complete that review in early 2019.
70. We have also begun planning, at this Committee's request, an analysis of the Committee's effectiveness against CIPFA's *Practical Guidance for Audit Committees*. We will report separately on that work.
71. We remain engaged and flexible in seeking to meet the assurance needs of the Council. We are happy to discuss opportunities large and small where the Council can usefully employ the experience and expertise of the audit team.

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Code of Ethics and Standards Compliance

72. On 1 April 2017 the RIASS³ published a changed set of Public Sector Internal Audit Standards (the “Standards”). These updates made more than thirty changes and improvements, building on the recently published International Professional Practices Framework.
73. All auditors working in the public sector (including, for instance, health and central government too) must work to these standards.

Code of Ethics

74. We include the full Code at Annex 2. This Code applies specifically to internal auditors, though individuals within the team must comply with similar Codes for their own professional bodies. Also the Standards also direct auditors in the public sector to consider the Committee on Standards in Public Life’s *Seven Principles of Public Life* (the “Nolan Principles”).
75. We have included the Code within our Audit Manual and training for some years. We also have policies and guidance in place on certain specifics, such as managing and reporting conflicts of interest.
76. We can report to Members we remain in conformance with the Code.

Public Sector Internal Audit Standards

77. Under the Public Sector Internal Audit Standards we must each year assess our conformance to those standards and report the results of that assessment to Members.
78. We underwent an external independent assessment from the IIA in 2014 which confirmed our full conformance with all but 5 of the standards and partial conformance to the rest. In 2015, following action to fulfil the IIA’s recommendations, we achieved full conformance to the standards – the first English local authority audit service to be so assessed by the IIA.

³ Relevant Internal Audit Standards Setters: A group comprising CIPFA (Chartered Institute of Public Finance & Accountancy), the Department of Health, HM Treasury, the Northern Irish Department of Finance & Personnel and the Welsh and Scottish Governments. The RIASS are advised by the Chartered Institute of Internal Audit (IIA) and the Internal Audit Standards Advisory Board (IASAB).

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79. The Standards demand a new assessment at least every five years, meaning ours is due before April 2020. Guidance from the Internal Audit Standards Advisory Board advises that Members should play a leading role in the assessment, including acting as sponsor and receiving the findings and recommendations. We will include in our 2019/20 audit plan a proposal for getting the needed assessment but welcome any comments from Members as we prepare that plan.

80. We continue to work in full conformance with the Standards.

Pentana Audit Software

81. In our Annual Report we confirmed that, after a competitive tender, we had decided to move from *Teammate* to *Pentana* audit software. As well as providing a significant saving in licence costs each year, *Pentana* expands our capacity to organise, use and present the information we gather in completing audits.

82. Our implementation project is nearing completion, with information drawn from *Teammate* and all the team now using *Pentana* for day-to-day work. We hope to make much greater use of its analysis and presentation alternatives in future communications with Members, starting with our 2019/20 audit plan. However, as a sign of the possible uses, the chart below quickly shows comparative coverage of the audit universe of each authority in the partnership in our 2018/19 audit plan.

83. The numbers related to how many audit reviews planned cover that area. Red shading means an area does not feature in our plan. Green means we plan to examine the entire area with shading inbetween showing the proportion covered in year.

	Ashford Borough Council	Maidstone Borough Council	Swale Borough Council	Tunbridge Wells Borough Council	Shared Services
Communications	0	1	1	1	
Community Safety	0	1	1	1	1
Corporate	5	3	3	7	2
Culture & Economy	0	4	2	2	
Democracy	0	0	2	0	
Environment	3	2	2	0	
Environmental Health	1				1
Estate Management	1	1	1	0	
Housing & Landlord	5	2	2	1	
Human Resources	2	0	1	1	3
Information Technology	1			0	3
Parking	1			0	0
Planning	2	3	1	2	0
Revenues & Benefits	1		2		3
Accounting & Finance	3	2	3	3	2

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Audit Team Update

Working with Dartford and Sevenoaks Borough Councils

84. On 1 August our Deputy Head of Audit Partnership – Russell Heppleston – took up a six-month secondment to the Head of Audit role for the existing partnership between Dartford and Sevenoaks Councils. This secondment, awarded to Russell after a competitive interview, reflects well on his work in the partnership and is a great opportunity for him to lead a service.
85. The temporary move also created opportunities within the audit team in Mid Kent. After interviews, Jo Herrington has moved from Senior Auditor to Audit Manager covering Swale and Tunbridge Wells. Andy Billingham moves from an Auditor role to take Jo's place as a Senior Auditor, again after interviews within the team.
86. This means that, at least until the end of the secondment period, the Mid Kent Audit Management Team comprises:
- Ali Blake: Ashford BC Manager and risk management lead across the partnership
 - Frankie Smith: Maidstone BC Manager, Shared Service Lead plus counter fraud lead across the partnership.
 - Jo Herrington: Swale BC and Tunbridge Wells BC Manager.
87. During November we will begin discussions with Dartford and Sevenoaks on the longer term once the secondment ends in February. We hope to update Members as part of our 2019/20 audit plan.

Performance Indicators

88. Aside from the progress against our audit plan we also report against some specific performance measures designed to oversee the quality of service we deliver to partner authorities. The Shared Service Board (with Mark Green, Director of Finance & Business Improvement as the Council's representative) considers these measures at each quarterly meeting. We also consolidate the results into reports presented to the MKS Board (which includes the Council's Chief Executive and Leader).
89. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

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Measure	2014/15 Results	2015/16 Results	2016/17 Results	2017/18 Results	2018/19 Q1/2
Cost per audit day	Met target	Met target ↔↔	Beat target ↑	Beat target ↑	Ahead of target ↑
% projects completed within budgeted number of days	47%	60% ↑	71% ↑	78% ↑	80% ↑
% of chargeable days	75%	63% ↓	74% ↑	74% ↔↔	70% ⁴ ↔↔
Full PSIAS conformance	56/56	56/56 ↔↔	56/56 ↔↔	58/58 ↑	58/58 ↔↔
Audit projects completed within agreed deadlines	41%	76% ↑	81% ↑	87% ↑	80% ↓
% draft reports within ten days of fieldwork concluding	56%	68% ↑	71% ↑	80% ↑	80% ↔↔
Satisfaction with assurance	100%	100% ↔↔	100% ↔↔	100% ↔↔	100% ↔↔
Final reports within 5 days of closing meeting	89%	92% ↑	94% ↑	96% ↑	100% ↑
Respondents satisfied with auditor conduct	100%	100% ↔↔	100% ↔↔	100% ↔↔	100% ↔↔
Recommendations fulfilled as agreed	95%	98% ↑	98% ↔↔	97% ↔↔	100% ↑
Exam success	100%	100% ↔↔	85% ↓	85% ↔↔	100% ↑
Respondents satisfied with auditor skill	100%	100% ↔↔	100% ↔↔	100% ↔↔	100% ↔↔

90. We note the continuing improvement in performance and productivity in our project reviews, while keeping high levels of satisfaction with the service.

91. We have had the same set of indicators since 2014/15. The choice of those indicators reflects the service at the time and the limits of what we could draw from our audit software. With the powers of our new software and potential further development of the audit service we plan to look again at how best to provide an insight into our performance. We are consulting with the MKS Board and Ashford BC and hope to have a refreshed set of indicators for 2019/20.

⁴ Target lowered slightly in 2018/19 to account for project costs on new software implementation. We remain on target with chargeability

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Acknowledgements

92. We achieve these results through the hard work and dedication of our team and the resilience that comes from working a shared service across four authorities.
93. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through the year so far.
94. We would also like to thank Managers, Officers and Members for their continued support as we complete our audit work during the year.

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Annex: Assurance & Priority level definitions

Assurance Ratings 2018/19 (Unchanged from 2014/15)

Full Definition	Short Description
<p>Strong – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any; recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p>Sound – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p>Weak – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p>Poor – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>

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Recommendation Ratings 2018/19 (unchanged from 2014/15)

Priority 1 (Critical) – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

Priority 2 (High) – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

Priority 4 (Low) – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

Advisory – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.

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Annex 2: Institute of Internal Audit Code of Ethics

{ CODE of ETHICS... }

// PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

ⁱ Photograph of the River Medway running through Maidstone courtesy of Louise Taylor of the Mid Kent Audit Team.

Agenda Item 17

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

19 November 2018

Treasury Management Mid-Year Review 2018/19

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service/Lead Director	Ellie Dunnet - Head of Finance
Lead Officer and Report Author	John Owen – Finance Manager
Classification	Public
Wards affected	All

Executive Summary

This report sets out the activities of the Treasury Management Function for the first 6 months of financial year 2018/19 in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities.

This report makes the following recommendations to this Committee: That:

1. The position of the Treasury Management Strategy as at 30 September 2018 be noted.
2. No amendments to the current procedures are necessary as a result of the review of activities in 2018/19.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	19 November 2018

1. INTRODUCTION AND BACKGROUND

- 1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.
- 1.2 The Authority's treasury management strategy for 2018/19 was approved at a meeting on 7 March 2018. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's treasury management strategy.
- 1.3 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England MHCLG published its revised Investment Guidance which came into effect from April 2018.
- 1.4 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority will be producing its Capital Strategy later in 2018/19 for approval by full Council.
- 1.5 This report sets out the activities of the Treasury Management function for the first 6 months of financial year 2018/19 in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 6 months.
- 1.6 Investment Strategy
 - 1.6.1 The key elements of the 2018/19 Strategy are:
 - to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and to minimise counterparty risk;
 - to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered. Greater use of Local Authority investments will be sought due to the high security of the borrower which enables investment over a longer period where funds are not required immediately.

1.6.2 The Treasury Management (TM) Strategy was approved by Council in March 2018 which outlined the Council's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

1.6.3 The Council will aim to achieve optimum return on investments after having satisfied proper levels of security and liquidity. It was agreed to keep investments short term with highly credit rated financial institutions, using the creditworthiness list, information provided by the Council's investment advisors, Arlingclose, along with information sharing from other local authorities and being mindful of market intelligence.

1.7 Borrowing Strategy

1.7.1 The maximum and expected prudential borrowing required to fund the capital programme was estimated at £3.94m approx., however due to capital slippage and the use of internal borrowing, in practice the borrowing requirement for 2018/19 will be nil. This is with the exception of short term borrowing for cash flow purposes only.

1.8 Economic Overview and Financial Markets

1.8.1 Oil prices rose by 23% over the six months to around \$82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year on year, above the consensus forecast and that of the Bank of England in its August Inflation Report, as the effects of sterling's large depreciation in 2016 began to fade.

1.8.2 The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975.

1.8.3 GDP growth in quarter rose to 0.4%, however the year on year growth of 1.2% remains below the normal trend.

1.8.4 The 5-year benchmark gilt only rose marginally from 1.13% to 1.16% during the first six months of the year, and there was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher in money markets rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

1.8.5 The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc – is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.

1.8.6 Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

1.8.7 The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.

1.8.8 Arlingclose's central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Ca	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

1.8.9 The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets.

1.9 Maidstone Borough Council Position

1.9.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balance ranged between £17.4 and £35.0 million due to timing differences between income and expenditure. Total investments as at 30th September 2018 were £27.395m. A full list of the Council's investments is shown in **Appendix A**. £11.395m of investments are in money market funds & notice accounts which can be called upon immediately or for a short notice period for daily cash flow purposes including precept payments and business rates pool funding. The remainder of investments are fixed term deposits with other Local Authorities which are deemed to be secure investments, along with two CDs with Rabobank which are tradable if necessary.

1.9.2 Investment income for this period is £93k against a current budget of £50k. The difference is due to the Bank of England increasing the bank rate during the year which in turn increases investment rates. There has also been larger sums of money to invest due to capital slippage.

1.9.3 The Council has borrowed funds for short term purposes to cover its cash flow liabilities during the first 6 months of the year. Details of these are as follows:

Lender	£m	%	Start Date	End Date
Rhondda Cynon Taff	2.5	0.35	22/05/2018	29/05/2018
Rhondda Cynon Taff	2.6	0.35	25/05/2018	29/05/2018
Rhondda Cynon Taff	3.94	0.35	22/06/2018	26/06/2018

Rhondda Cynon Taff	3.5	0.35	26/06/2018	27/06/2018
Newport City Council	2.5	0.45	23/07/2018	27/07/2018

The above was found to be the cheapest borrowing possible at the current time.

1.10 Prudential and Treasury Indicators

1.10.1 It is a statutory duty for the Council to determine and keep under review 'Affordable Borrowing Limits.' During the first six months of financial year 2018/19, the Council has operated within the prudential and treasury indicators set out in the Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury indicators can be found in **Appendix B**.

2. AVAILABLE OPTIONS

2.1 The Audit, Governance and Standard Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities of the first 6 months of 2018/19.

2.2 The Audit, Governance and Standard Committee proposes changes to the current procedures as a result of a review of activities with the first 6 months of 2018/19.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 The Audit, Governance and Standard Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities of the first 6 months of 2018/19 as there are no justifications to make any changes.

4. RISK

4.1 Risks related to this matter were detailed in the Treasury Management Strategy Statement 2018/19. Since that report the risks identified have not significantly changed.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 None.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 The Audit, Governance and Standards Committee agree that no amendments to current procedures of the Treasury Management function are necessary, there will be no further action.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims.	Head of Finance
Risk Management	Already covered in the risk section of the report.	Head of Finance
Financial	This report relates to the financial activities of the Council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Director of Finance & Business Improvement
Staffing	None	
Legal	Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management. The Treasury Management Review demonstrates the Council's commitment to fulfilling its duties under the Act. The report is in compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury management in local authorities.	Team Leader (Corporate Governance), MKLS
Privacy and Data Protection	There are no specific privacy or data protection issues to	Team Leader (Corporate Governance),

	address.	MKLS
Equalities	No impact identified	Equalities and Corporate Policy Officer
Crime and Disorder	None	
Procurement	None	

8. REPORT APPENDICES

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

- Appendix A: List of Council Investments as at 30th September 2018
- Appendix B: Prudential and Treasury Indicators

9. BACKGROUND PAPERS

9.1 None

Maidstone Borough Council Investments as at 30th September 2018

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return	Arlingclose Credit Limits	
						Suggested Term	Maximum Deposit
GOLDMAN SACHS INT'L BANK	NOTICE ACCOUNT	3,000,000	30/09/2018	03/01/2019	0.88%	100 Days	£3,000,000
LLOYDS BANK PLC	NOTICE ACCOUNT	3,000,000	30/09/2018	03/01/2019	0.80%	6 months	£3,000,000
FEDERATED INVESTORS (UK)	MONEY MARKET FUND	5,395,000	30/09/2018	01/10/2018	0.69%	2 Years	£8,000,000
SUFFOLK COUNTY COUNCIL	DEPOSIT - LA	2,000,000	02/10/2017	01/10/2018	0.50%	5 Years	£5,000,000
LANCASHIRE COUNTY COUNCIL	DEPOSIT - LA	1,000,000	17/04/2018	17/10/2018	0.80%	5 Years	£5,000,000
THURROCK BOROUGH COUNCIL	DEPOSIT - LA	2,000,000	10/11/2017	09/11/2018	0.75%	5 Years	£5,000,000
LANCASHIRE COUNTY COUNCIL	DEPOSIT - LA	3,000,000	16/05/2018	16/11/2018	0.75%	5 Years	£5,000,000
LANCASHIRE COUNTY COUNCIL	DEPOSIT - LA	1,000,000	17/04/2018	16/04/2019	1.00%	5 Years	£5,000,000
LONDON BOROUGH OF CROYDON	DEPOSIT - LA	2,000,000	01/05/2018	01/05/2020	1.05%	5 Years	£5,000,000
THURROCK BOROUGH COUNCIL	DEPOSIT - LA	2,000,000	27/09/2018	26/04/2019	0.92%	5 Years	£5,000,000
COOPERATIEVE RABOBANK UA	CERTIFICATE OF DEPOSIT	2,000,000	16/10/2017	15/10/2018	0.64%	13 months	£3,000,000
COOPERATIEVE RABOBANK UA	CERTIFICATE OF DEPOSIT	1,000,000	20/10/2017	19/10/2018	0.62%	13 months	£3,000,000

27,395,000

PRUDENTIAL INDICATORS

Capital Expenditure

2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
12,624	28,754	5,914

Actual capital expenditure as at 30th September 2018.

Capital Financing Requirement

2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
-654	3,986	-654

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. A negative figure shows the Authority has more than sufficient reserves to fund its capital programme at this point.

Treasury Indicators

Authorised Limit for External Debt

	2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
Borrowing	3,650	13,986	5,100
Other Long Term Liabilities	4,033	3,526	3,526
Total	7,683	17,512	8,626

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

Operational Limit for External Debt

	2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
Borrowing	3,650	3,986	5,100
Other Long Term Liabilities	4,033	3,526	3,526
Total	7,683	7,512	8,626

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. This limit acts as a warning but can be breached temporarily which happened for a short period 25th to 29th May 2018.

Upper Limit for Fixed Interest Rate Exposure

2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
-21,000	-36,014	-16,000

This is the maximum amount of net borrowing and investment that can be at a fixed rate. A negative figure shows an investment amounts are higher than borrowing amounts.

Upper Limit for Variable Interest Rate Exposure

2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
-23,650	-32,000	-21,020

This is the maximum amount of net borrowing and investment that can be at a variable rate. A negative figure shows an investment amounts are higher than borrowing amounts.

Maturity Structure of New Fixed Rate Borrowing

	Lower Limit %	Upper Limit %	2018/19 %
Under 12 months	0	0	0
12 months to under 24 months	0	0	0
24 months to under 5 years	0	0	0
5 years to under 10 years	0	0	0
10 years and over	0	0	0

There was no new fixed long term borrowing in 2018/19

Principal Invested for more than 364 Days

2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
5000	5,000	2,000

This indicator shows the Council shows the level of investments which over 364 days to maturity. The Council has invested £2m for a period of 48 months from May 2018.

Audit, Governance and Standards Committee

19 November 2018

External Audit Progress Report November 2018

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Ellie Dunnet, Head of Finance
Classification	Public
Wards affected	None

Executive Summary

Committee members are invited to consider the report of the external auditor which provides an update on progress with the 2018/19 audit and offers a summary of emerging national issues and developments of relevance to the local government sector.

Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.

This report makes the following recommendations to this Committee:

1. That the progress report attached at Appendix 1 be noted.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	19 November 2018

External Audit Progress Report November 2018

1. INTRODUCTION AND BACKGROUND

- 1.1 External audit services are provided by Grant Thornton following their appointment by Public Sector Audit Appointments Ltd (PSAA) for the period from 2018/19 to 2022/23.
 - 1.2 The report attached at Appendix 1 provides an update on progress with the 2018/19 audit and informs committee members of a number of relevant emerging issues and developments.
-

2. AVAILABLE OPTIONS

- 2.1 It is recommended that the committee consider and note this report. The committee could choose not to consider this report, however this option is not recommended since the report is intended to assist the committee in discharging its responsibilities in relation to external audit and governance.
-

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 It is recommended that the committee notes the report. Given the respective responsibilities of both the external auditor and this committee, a progress report of this nature is judged to be appropriate for consideration by committee members.
-

4. RISK

- 4.1 This report is presented for information only and has no decisions which give rise to risk management implications.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 No consultation has been undertaken in relation this matter.
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 Next steps are outlined within Appendix 1.
-

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The report is focused on ensuring that the auditor's opinion on the 2018/19 financial statements and value for money conclusion are issued by the statutory deadline of 31 July 2018.	Head of Finance
Risk Management	See section 4.	Head of Finance
Financial	There are no direct financial implications arising from the report, although the opinion on the financial statements and value for money conclusion are one mechanism through which the council demonstrates financial accountability.	Head of Finance
Staffing	None identified.	Head of Finance
Legal	None identified.	[Legal Team]
Privacy and Data Protection	None identified.	[Legal Team]
Equalities	None identified.	[Policy & Information Manager]
Crime and Disorder	None identified.	Head of Finance
Procurement	None identified.	Head of Finance

8. REPORT APPENDICES

- Appendix 1 – External Auditor's Progress Report, November 2018
-

9. BACKGROUND PAPERS

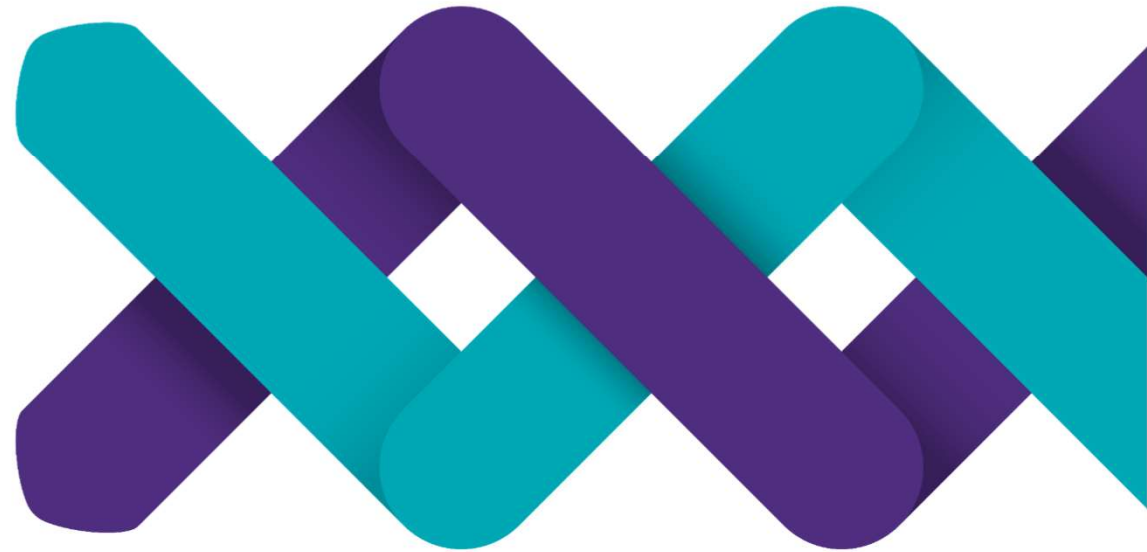
None

Audit Progress Report and Sector Update

Maidstone Borough Council
Year ending 31 March 2019

06

19 November 2018



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Introduction



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

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

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

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

Progress at November 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion was issued on the 31 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit was presented to the September Committee.

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

Meetings

We hold regular liaison meetings with finance officers and will meet with them in November to start the planning for 2018/19. We will continue to be in discussion with finance staff regarding emerging developments and to ensure the audit process is smooth and effective as the audit year progresses.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. We will provide details of planned workshops as the dates are finalised. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due
2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

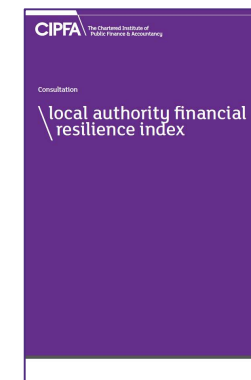
- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

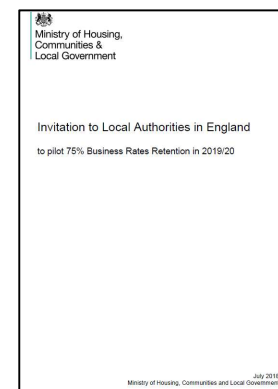
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

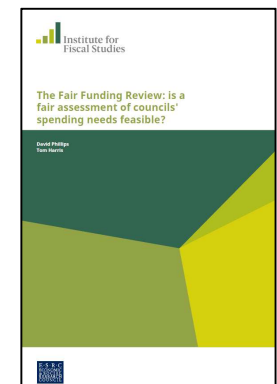
The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

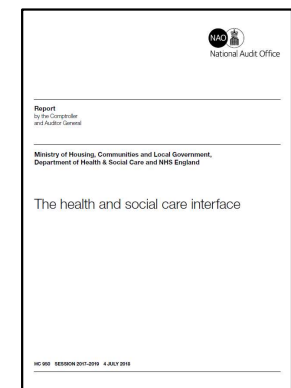
Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>



A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provide her insight to spark the debate on what we really mean by 'care'

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: grantthornton.co.uk/acaringsociety
- Join the conversation at #acaringsociety



The Vibrant Economy Index

a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.granthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
 - organisation and category
 - service provider
 - date at a monthly level
- benchmark your spend against your peers
- identify:
 - organisations buying similar services
 - differences in pricing
 - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights



In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

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Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>



National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

19 November 2018

Budget Strategy – Risk Assessment Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Mark Green, Director of Finance and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

This report provides an update on the budget risks facing the Council. There are two main issues to be noted. (1) As the end of the current four year local government funding settlement approaches, there remains uncertainty about what this will mean in practice for the Council. (2) A disorderly exit from the EU is likely to have financial consequences for the Council; this is now recognised in the Budget Risk Register.

This report makes the following recommendations to this Committee:

That the updated risk assessment of the Budget Strategy provided at Appendix A be noted.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	19 November 2018

Budget Strategy – Risk Assessment Update

1. INTRODUCTION AND BACKGROUND

- 1.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.
- 1.2 The key element in the Council's budget strategy is its rolling five year Medium Term Financial Strategy (MTFS). Consultation is currently taking place with Service Committees on a draft new MTFS covering the period 2019/20 – 2023/24. This will be submitted to Council for approval at its December 2018 meeting, along with the Council's new Strategic Plan. In line with the approach previously adopted, and given uncertainty about the future, MTFS projections have been prepared on the basis of various potential scenarios. These include the Council's likely financial position depending on the government's funding regime for local authorities (eg favourable, neutral, adverse) and the Council's appetite for growth. This in turn depends on its stance on, for example, increasing Council Tax, and expanding the capital programme to generate further income generating opportunities.

Key risk – Changes to Local Government funding regime

- 1.3 Uncertainty about the local government funding regime is captured in the budget risk register under the heading of 'adverse impact from changes in local government funding'. The medium term position from 2020/21 onwards, following the end of the current four year funding settlement, remains unclear. Whilst the government has signalled an 'end to austerity', the focus for growth in public expenditure in the Chancellor's November 2018 Budget was on the NHS, Defence and Social Services.
- 1.4 There will be a Spending Review in 2019 which will determine the overall resources devoted to local government. Allocation of resources between local authorities then depends on a Fair Funding Review, which is currently being carried out by MHCLG. There are therefore a number of variables that could affect the Council's financial position. Given the other pressures on public expenditure, and given the continuing lack of clarity about the position, this is now recognised as a red risk in the Budget Strategy Risk Register.

Key risk – Brexit

- 1.5 At the time of writing, the UK Government has been unable to agree a Brexit deal with other EU countries. Key UK proposals, including a single market for goods but not services, were rejected by EU leaders at a summit meeting in September. Agreement on transitional arrangements has been hampered by failure to settle a backstop position for Northern Ireland. The

risk of a 'no-deal' Brexit is likely to increase significantly if a settlement is not negotiated by the end of calendar 2018.

- 1.6 The financial impact of a disorderly Brexit for the Council would be two-fold. In the short term, the Council may face increased costs in delivering services, for example if overtime has to be paid to collect refuse because roads are too congested to collect within normal timeframes. The Council would look to recoup these costs from central government, but at this stage we cannot be certain that they would be underwritten.
- 1.7 Secondly, there may be adverse longer term effects on the economy, with a knock-on impact for local authorities. Commentators have suggested that a no-deal Brexit would lead to recession, which would affect the Council in a number of ways: business rates income would fall, with businesses struggling to pay or failing altogether; joblessness would lead to increasing pressure on homelessness budgets; central government funding might be cut if tax receipts fall.
- 1.8 The risks included in the Budget Risk Register have been reviewed in light of the above developments. A summary of the changes to the risk register is set out below. Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register.

	Risk	Factor considered	Implications for risk profile
H	Adverse impact from changes in local government funding	Continuing uncertainty as the end date of the current four year financial settlement approaches makes this an increased risk.	Impact – major (increased) Likelihood – probable (increased)
N	Adverse financial consequences from a disorderly Brexit	The increased probability of no deal with the EU means that the adverse financial consequences from Brexit are likely to be correspondingly higher.	Impact – major Likelihood – possible

2. AVAILABLE OPTIONS

- 2.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact the Council's service planning and/or be reflected in the developing Medium Term Financial Strategy.
- 2.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.
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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 Option 2 – It is recommended that the Committee notes the risk assessment.

4. RISK

4.1 Risk is addressed throughout this report so no further commentary is required here.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 Each year the council as part of the development of the MTFS and the budget carries out consultation on the priorities and spending of the council.

5.2 A Residents' Survey has been carried out as part of the consultation on the new Strategic Plan and the updated MTFS 2019/20 – 2023/24. Individual budget proposals will be subject to review by the Service Committees.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance and Business Improvement
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in Appendix A.	Director of Finance and Business Improvement
Financial	The budget strategy and the MTFS impact upon all activities of	Director of Finance and

	the Council. The future availability of resources to address specific issues is planned through this process.	Business Improvement
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
Legal	<p>Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management. The Medium Term Financial Strategy demonstrates the Council's commitment to fulfilling its duties under the Act. The Council has a statutory obligation to set a balanced budget and development of the MTFs and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.</p> <p>The Accounts and Audit Regulations 2015 require the Council to have a sound system of control which includes arrangements for the management of risk. This Report is part of those arrangements and is designed to ensure that the appropriate controls are effective.</p> <p>There are no immediate legal implications arising from this report.</p>	Team Leader (Corporate Governance), MKLS
Privacy and Data Protection	There are no specific privacy or data protection issues to address.	Team Leader (Corporate Governance), MKLS
Equalities	The Council's budgeted expenditure is intended to have a positive impact on the lives of all members of the community through the provision of resources to core services.	Equalities and Corporate Policy Officer

	The implications of changes to services or policy on groups with protected characteristics, as a result of the Budget Strategy, are considered as part of focused Equalities Impact Assessments.	
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8. REPORT APPENDICES

The following document is to be published with this report and forms part of the report:

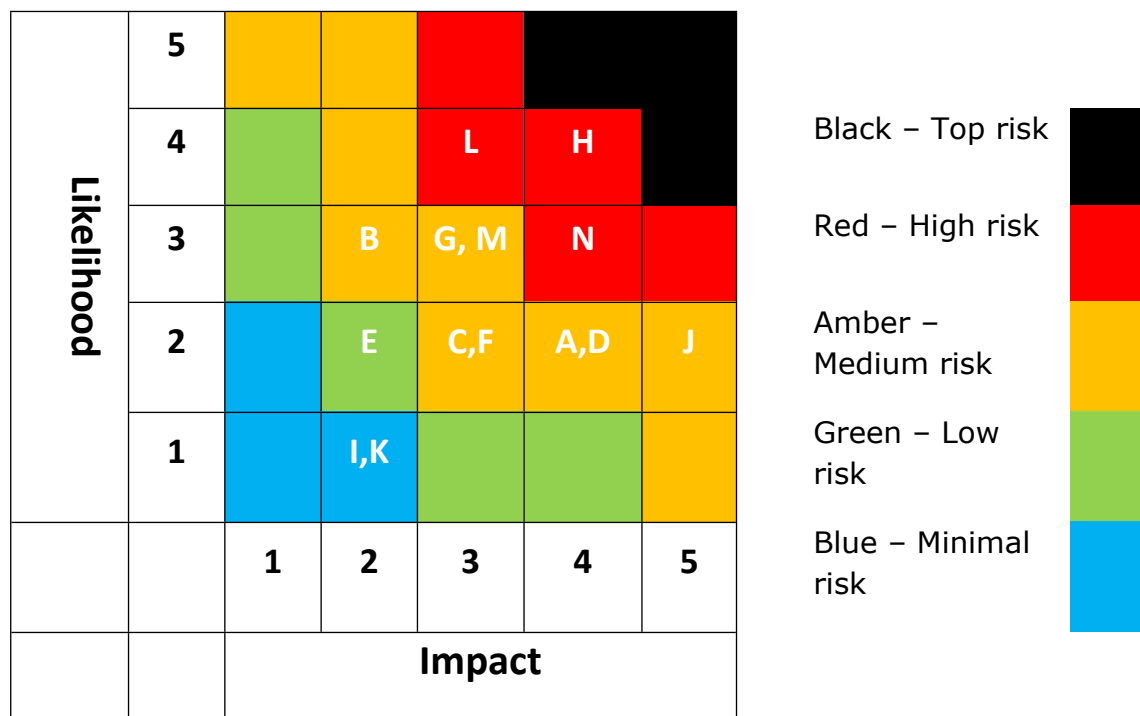
- Appendix A: Budget Strategy Risks

9. BACKGROUND PAPERS

None.

Budget Strategy Risks

The risk matrix below provides a summary of the key budget risks. The risk register that follows provides more detail on each risk.



113

A. Failure to contain expenditure within agreed budgets	H. Adverse impact from changes in local government funding
B. Fees and Charges fail to deliver sufficient income	I. Constraints on council tax increases
C. Commercialisation fails to deliver additional income	J. Capital programme cannot be funded
D. Planned savings are not delivered	K. Increased complexity of government regulation
E. Shared services fail to meet budget	L. Collection targets for Council Tax and Business Rates missed
F. Council holds insufficient balances	M. Business Rates pool / pilot fails to generate sufficient growth
G. Inflation rate predictions in MTFs are inaccurate	N. Adverse financial consequences from a disorderly Brexit

The budget risks may be ranked, based on the scores shown below, as follows:

H. Adverse impact from changes in local government funding	1
L. Collection targets for Council Tax and Business Rates missed	2=
N. Adverse financial consequences from a disorderly Brexit	2=
J. Capital programme cannot be funded	4
G. Inflation rate predictions in MTFS are inaccurate	5=
M. Business Rates pool / pilot fails to generate sufficient growth	5=
A. Failure to contain expenditure within agreed budgets	7=
D. Planned savings are not delivered	7=
B. Fees and Charges fail to deliver sufficient income	9=
C. Commercialisation fails to deliver additional income	9=
F. Council holds insufficient balances	9=
E. Shared services fail to meet budget	12
I. Constraints on council tax increases	13=
K. Increased complexity of government regulation	13=

Budget Strategy Risk Register 2017/18

The following risk register sets out the key risks to the budget strategy 2017/18 onwards. The register sets out the consequences of each risk and the existing controls in place.

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
A 115	<p>Failure to contain expenditure within agreed budgets</p> <p>The Council overspends overall against its agreed budget for the year</p>	<p>Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.</p>	<ul style="list-style-type: none"> - Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2017/18. - Strong controls over expenditure and established process for recovering from overspends 	4	2	8
B	<p>Fees & Charges fail to deliver sufficient income</p> <p>Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.</p>	<p>The total value of all Council income from fees and charges is around £20 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.</p>	<ul style="list-style-type: none"> - Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised. 	2	3	6
C	<p>Commercialisation fails to deliver additional income</p> <p>The commercial activities currently being delivered and projected in the MTFs do not deliver the expected level of income.</p>	<p>The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy.</p> <p>Income generation from commercial activities supports the revenue budget and is required in</p>	<ul style="list-style-type: none"> - The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses. - Individual risks associated with specific 	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		ordered to pay back capital investment.	<p>projects within commercialisation strategy will be assessed, both as part of the project appraisal process and during the course of delivering the projects.</p> <p>- Decision made to outsource the management of the Mote Park Café from Spring 2018.</p>			
D 116	<p>Planned savings are not delivered</p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p>	<p>The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.</p> <p>Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<p>- The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process.</p> <p>- Savings proposals are separately identified and monitored in the Council's general ledger.</p> <p>- The ability to achieve the targeted savings is reported quarterly to Corporate Leadership Team and to Service Committees.</p>	4	2	8
E	<p>Shared Services</p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p>	<p>Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<p>The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.</p>	2	2	4
F	<p>Insufficient Balances</p> <p>Minimum balance is insufficient to cover unexpected events</p>	<p>Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.</p>	<p>- The Council has set a lower limit below which General Fund balances cannot fall of £2 million.</p>	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	OR Minimum balances exceed the real need and resources are held without identified purpose with low investment returns	The Council would not gain best value from its resources as Investment returns are low in the current market.	- At the beginning of the 2018/19 financial year unallocated General Fund balances stood at £7 million.			
G 117	Inflation rate predications in MTFS are inaccurate Actual levels are significantly above or below prediction	Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances. Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities.	- Allowances for inflation are developed from three key threads: <ul style="list-style-type: none"> ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally - MTFS inflation projections are based on the government's 2% inflation target.	3	3	9
H	Adverse impact from changes in local government funding Unexpected shocks lead to changes in Local Government funding. Government strategy fails to address economic challenges, such as those which could arise from Brexit.	The Council no longer receives Revenue Support Grant (RSG), but the amount of Business Rates that it retains depends on the funding regime set by central government. This will change in 2020/21 but the precise impact on the Council is unknown..	- The Draft Medium Term Financial Strategy to 2023/24 includes an adverse scenario which allows for a significant impact on the Council's resources, - The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.	4	4	16
I	Constraints on council tax increases The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than 3% per annum.	The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be absorbed by making savings elsewhere.	- The budget for 2018/19 incorporated a Council Tax increase of 3%. The referendum limit for 2019/20 is also likely to be 3%. - Budget planning is based around the assumption of a 3% increase in 2019/20.	2	1	2

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
J	<p>Capital Programme cannot be funded Reduction or total loss of funding sources means that the capital programme cannot be delivered</p>	<p>The main sources of funding are:</p> <ul style="list-style-type: none"> ○ New Homes Bonus ○ Capital Grants ○ Prudential borrowing ○ Developer contributions (S106) <p>A reduction in this funding will mean that future schemes cannot be delivered.</p>	<p>- Council has been able to fund the capital programme without recourse to borrowing so far,</p> <p>- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.</p> <p>- Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board but there is a risk that this may be subject to restrictions in future.</p>	5	2	10
K	<p>Increased complexity of government regulation Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at an early stage.</p>	<p>On a number of occasions, most recently with the introduction of GDPR, the financial consequences of government regulation have been significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy.</p> <p>In general these events bring consequences to other agencies and external relationships.</p>	<p>- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents.</p> <p>- Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.</p>	2	1	2
L	<p>Business Rates & Council Tax collection Council fails to maintain collection targets for business rates and council tax</p>	<p>Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> <p>Business rates due are in excess of £60 million for</p>	<p>- The Council has a good track record of business rates and Council Tax collection.</p> <p>- Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc.</p> <p>- Nonetheless, increasingly difficult</p>	3	4	12

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		2017/18. Council tax due is in excess of £80 million per annum.	trading conditions for some businesses may lead to a deterioration in collection performance.			
M 119	Business Rates pool (17/18) / pilot (18/19) Changes to rateable value (RV) or instability of business rates growth within the pool/pilot may not generate projected levels of income	Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council. The proceeds from the pilot are based on Business Rates receipts for Kent & Medway as a whole.	<ul style="list-style-type: none"> - The pool (pilot wef 18/19) is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of pool across Kent as a whole is projected to be around £10m in 2018/19. - The Council applied successfully with other Kent authorities to take part in a 100% Business Rates Retention pilot in 2018/19. This will mean Kent & Medway retaining a further £30m of business rates growth. - Provisions have been made when projecting business rates income for bad debts and losses on appeal so any loss of income would relate to the excess over the provisions already made. 	3	3	9
N	Adverse financial consequences from a disorderly Brexit. The increased probability of no deal with the EU means that the adverse financial consequences from Brexit are likely to be correspondingly higher.	<p>Short term - Increased costs in delivering services, eg arising from traffic congestion</p> <p>Medium term/ long term – Risk of recession, which could lead to a fall in business rates income, increasing pressure on homelessness budgets, and adverse central government funding settlements.</p>	<ul style="list-style-type: none"> - Thorough preparation for Brexit, with an officer Brexit business continuity planning group to co-ordinate our response and liaise with other Kent authorities 	4	3	12

Impact & Likelihood Scales

RISK IMPACT

Level	Service risk	Reputation Risk	H&S	Legal Risk	Financial Risk	En'ment Risk
Catas-trophic (5)	Ongoing failure to provide an adequate service	Perceived as failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment or significant fines	Uncontrollable financial loss or overspend over £500k	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries		Financial loss or overspend under £10k	Environmental incident with no lasting detrimental effect

RISK LIKELIHOOD

Type	Probability	Detail description
Almost certain (5)	90%+	Without action is likely to occur; frequent similar occurrences in local government/Council history
Probable (4)	60%-90%	Strong possibility; similar occurrences known often in local government/Council history
Possible (3)	40%-60%	Might occur; similar occurrences experienced in local government/Council history
Unlikely (2)	10%-40%	Not expected; rare but not unheard of occurrence in local government/Council history
Rare (1)	0%-10%	Very unlikely to occur; no recent similar instances in local government/Council history