AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 14 January 2019
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, Titchener (Parish Representative) 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.

Issued on Friday 4 January 2019 **Continued Over/:**

Alison Broom

Alison Broom, Chief Executive

MAIDSTONE
Borough Council

15. Budget Strategy - Risk Assessment Update 97 - 111

PUBLIC SPEAKING AND ALTERNATIVE FORMATS

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MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 19 NOVEMBER 2018

Present:	**Councillor McLoughlin (Chairman) and Councillors Bartlett, Cox, Daley, Harvey, Perry, Purle, Round and Webb**
Also Present:	**Ms Elizabeth Jackson, External Auditor, Grant Thornton**

45. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Coulling (Parish Representative) and Garland.

46. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Round was substituting for Councillor Garland.

47. URGENT ITEMS

The Chairman stated that, in his opinion, the Interim and Substantive Procurement and Contracts Structures should be taken as urgent items to inform the Committee's consideration of the update report of the Head of Commissioning and Business Improvement on contract management (agenda item 14).

48. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

49. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

50. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

51. EXEMPT ITEMS

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

52. MINUTES OF THE MEETING HELD ON 17 SEPTEMBER 2018

RESOLVED: That the Minutes of the meeting held on 17 September 2018 be approved as a correct record and signed subject to the amendment of the first bullet point in Minute 43 (Budget Strategy – Risk Assessment Update) to read:

- 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 **not** to levy a negative revenue support grant.

53. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

54. COMMITTEE WORK PROGRAMME 2018/19

The Committee considered its work programme and whether any changes were required. In response to a question by the Chairman, the Head of Audit Partnership advised the Committee that he would discuss with colleagues whether it would be useful to bring a report to the March meeting of the Committee on the risk management process.

RESOLVED: That the Committee work programme be noted.

55. INVESTIGATORY POWERS COMMISSIONER'S OFFICE INSPECTION REPORT

Ms Estelle Culligan, Principal Solicitor (Corporate Governance/Contentious) presented her report setting out proposals to address the recommendations set out in the Investigatory Powers Commissioner's Office Inspection Report. It was noted that:

- The Regulation of Investigatory Powers Act (RIPA) was enacted in 2000 to regulate the manner in which certain public bodies may conduct covert methods of surveillance. The Council very rarely used RIPA, and there had been no RIPA authorisations since 2012. Prior to that date, most authorisations were used to obtain evidence to support allegations of benefit fraud. Evidence gathering activities were now co-ordinated through the National Anti-Fraud Network. This meant that the number of RIPA authorisations across all local authorities was significantly reduced.

- The Council received regular inspections from the Investigatory Powers Commissioner's Office. The most recent inspection was earlier this year and the Inspector's Report was issued on 25 June 2018. It was the Inspector's conclusion that despite the fact that the Council had not used its RIPA powers for some time, it had maintained a good level of preparedness which included maintaining a Central Record and a comprehensive draft policy document, albeit the Central Record still required amendment.

- The Inspector's Report made three recommendations relating to the provision of refresher training (to include discussion of the use of covert human intelligence sources and the use of the internet and social media during investigations); updating the Central Record to ensure that it contains all of the matters highlighted at paragraph 8.1 of the Covert Surveillance and Property Interference Revised Code of Practice; and making changes to the policy document in line with paragraph 6.2 of the Report.

- It was proposed that the first recommendation should be discharged by the relevant Service departments with input from the Legal Team (possibly by commissioning a firm which specialises in RIPA training). To give effect to recommendation 2, the Council's RIPA policy would 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. Recommendation 3 would 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 would be refreshed to make clear what staff were and were not permitted to do online. The updated policy would then be finalised and published.

In response to questions by Members, Ms Culligan explained that covert surveillance was when information was being recorded by certain public bodies particular to an individual, which they were not aware of, and which that body would then seek to rely on in Court.

RESOLVED: That

1. The report be noted.

2. The proposals to address the recommendations set out in the Investigatory Powers Commissioner's Office Inspection Report be approved.

56. DATA PROTECTION ACT 2018 (GDPR) PROGRESS TO COMPLIANCE

Ms Anna Collier, Policy and Information Manager, presented her report setting out the progress of the delivery of the General Data Protection Regulation Action Plan which was first reported to the Committee in November 2017. Ms Collier explained that:

- The General Data Protection Regulation became law on 25 May 2018 as the Data Protection Act 2018. The legislation provided a framework within which personal information must be managed taking into consideration collection, processing, storage, retention period and deletion. It also set out requirements about how this would be communicated to those whose data was processed by the Council.

- Implementing the changes had meant an extensive review of service areas and processes across the Council, and the exercise had been extremely complex in terms of the volume and intricacies of the processes.

- Overall significant progress had been made to ensure compliance with the requirements of the legislation. Information lifecycle audits had been completed with all services reviewing all processes. Training, briefings and guidance had been provided for Officers and Members and the range of statutory documents that the Council was required to have in place including a Record of Processing Activity (ROPA) and Privacy Notices had been implemented.

- As might be expected with the introduction of significant legislative changes, there had been and continued to be challenges. For example, whilst the report stated that the volume of Subject Access Requests (SARs) had not increased as might be expected, the number of requests had now started to increase, and this would be monitored as they could be very resource intensive.

- The original Action Plan had been reviewed and revised. The key areas of focus over the next year included:

  Revisiting services to ensure actions identified are being implemented;
  Implementing a programme of ongoing monitoring of the ROPA and the Retention Schedule;
  Ensuring systems are compliant particularly in relation to retention, deletion and security;
  Updating the Information Asset Register; and
  Implementing cultural changes to ensure that Data Protection Impact Assessments are being considered at the start of all projects; information sharing is being consistently logged; and information is deleted at the end of retention periods.

In response to questions by Members, Ms Collier explained that:

- Whilst the volume of Freedom of Information requests remained high, there had not necessarily been an increase across the board. In terms of SARs, the increase had been more in relation to front facing services where people might wish to challenge the actions of the Council, and also generally because people were exercising their right to make a request.

- Every effort was being made to implement the Action Plan with existing resources within the team plus some additional support because of the volume of work. It was not anticipated that it would be necessary to take on any additional staff permanently at the moment, but if SARs continued to increase in volume, additional administrative support might be needed.

- For consistency, a privacy notice would be put on the website for Members as Data Controllers in their own right to link to if they wished, and Members would be advised accordingly.

RESOLVED: That

1. The progress of the delivery of the General Data Protection Regulation Action Plan and the challenges to date be noted.

2. The next steps and new Action Plan be noted.

57. ANNUAL GOVERNANCE STATEMENT UPDATE

Mrs Angela Woodhouse, Head of Policy, Communications and Governance, presented her report which provided a summary of the progress of the Annual Governance Statement Action Plan for 2018/19 which was approved by the Committee at its meeting held on 30 July 2018. Mrs Woodhouse explained that:

- A number of areas had been identified for action including developing a clear and consistent strategic narrative with an agreed vision and priorities; audit reviews with weak assurance; the Stress Survey and corporate risks.

- Progress had been made across all areas since July 2018 as follows:

  Work on the development of a new Strategic Plan was continuing and the aim was to agree the new vision, priorities and outcomes at the December Council meeting.

  Following the implementation of recommended actions, the audit reviews with weak assurance had now been rated as sound.

  Updates on the corporate risks highlighted in the report had been reported to the Policy and Resources Committee in October 2018 and there had been no change to the risk ratings and plan controls in place.

  A number of actions had been implemented in response to the Stress Survey, including the introduction of Mental Health First Aiders (Mental Health First Aider training would also be offered to Members).

In response to questions by Members, Mrs Woodhouse explained that:

- The vision, priorities and outcomes for the new Strategic Plan would be reported to the Policy and Resources Committee on 28 November 2018. It was identified during the development of the new vision that it should go beyond the five years of the Strategic Plan to ensure that it leads all policies and strategies of the Council and sets out where the Council wants to be in the future. As such it was proposed that the Strategic Plan should cover the period to 2045.

- Once the vision, priorities and outcomes were approved, the next steps would include the development of an action plan. It was anticipated that the action plan would cover a five year period. The full Strategic Plan document would be reported to Council in March 2019 alongside the Medium Term Financial Strategy.

- The Annual Governance Statement Action Plan for 2018/19 would be amended to reflect the fact that the new vision would lead to not just the Local Plan, but other important documents such as the Medium Term Financial Strategy coming forward.

RESOLVED: That the report be noted.

58. CONTRACT MANAGEMENT UPDATE

Mrs Georgia Hawkes, Head of Commissioning and Business Improvement, presented her report providing an update on the Council's position with regard to contract management, including the key findings of a recent Internal Audit report. Mrs Hawkes explained that:

- Since her last report to the Committee in September 2017, progress had been made, but more work was required.

- With regard to the Council's largest contracts, the news was good. Management of the Hazlitt Theatre and Park and Ride, which had both originally received a weak level of assurance in 2016/17, had been revisited and the level of assurance had improved to sound in each case because of improvements put in place in terms of the management of the contracts. There had been further improvements in the management of leisure and culture contracts under the current Contracts and Compliance Officer (Leisure and Culture). However, more work was required in relation to the corporate understanding and control of contracts and contract management and ensuring that all contracts across the Council are well managed.

- Some improvements had been made after the new procurement processes were put in place earlier in the year, but a recent Internal Audit of contract management controls across the organisation resulted in a weak level of assurance rating. To improve the situation, the whole of the Commissioning and Business Improvement portfolio had been restructured, including the creation of a Procurement and Contracts Manager with responsibility for ensuring good contract management across the organisation. Unfortunately, the newly appointed Procurement and Contracts Manager left the Council after only three weeks, and alternative temporary arrangements had been put in place.

- Details of the improvements planned to address the recommendations arising from the Internal Audit were set out in the report. Currently, there were insufficient corporate contract management resources in the organisation so, in the short term, temporary external expertise would be sought to help implement the improvements in a timely manner. In the longer term, the team structure would also be considered to ensure that there was sufficient staff resource devoted to ensuring good contract management practice across the Council going forward.

In response to questions by Members, the Officers explained that:

- There was no single underlying reason for the turnover of staff in the Procurement and Contracts Team. It was difficult to recruit as people could earn more elsewhere. Every effort would be made to ensure that there were sufficient staff resources. The situation was not unique to Maidstone.

- In terms of contract end dates, the Park and Ride Contract had been extended to May 2019; the Parking Enforcement contract had been re-let; and the CCTV Monitoring contract was still being carried out by Medway Council.

RESOLVED: That the update report on contract management and the proposed actions to improve contract management across the Council be noted.

59. MAIDSTONE PROPERTY HOLDINGS GOVERNANCE ARRANGEMENTS

Miss Ellie Dunnet, Head of Finance, introduced her report providing an overview of the governance arrangements in place for the Council's property company, Maidstone Property Holdings Ltd. Miss Dunnet explained that:

- The report was intended to assist Members with their responsibilities in relation to corporate governance and risk management.

- 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. The report set out how the Officers had responded to these recommendations.

- The report also made reference to a review of the current governance arrangements which was due to commence shortly in light of developments in the role of the property company, and it was recommended that a report on the outcomes of this exercise be brought back to a future meeting of the Committee.

In response to a question, Miss Dunnet confirmed that based on advice received, there was no obligation to register the name of the Company Secretary at Companies House.

RESOLVED: That

1. The governance arrangements currently in place for Maidstone Property Holdings Ltd. be noted.

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2. A report detailing the outcomes of the review to be undertaken of the current governance arrangements in place for the Company be submitted for consideration at a future meeting of the Committee.

60. INTERIM INTERNAL AUDIT AND ASSURANCE REPORT

Mr Rich Clarke, Head of Audit Partnership, introduced his report providing a summary of progress against the 2018/19 Internal Audit and Assurance Plan. Mr Clarke explained that:

- The report included a number of declarations he was required to make in accordance with audit standards, including confirmation that the Internal Audit Service had continued to act with appropriate levels of independence and free from undue influence from senior managers and others; details of risks taken by management that, in his judgement, might be unacceptable to the authority; and his satisfaction that the Internal Audit Service had sufficient resources to complete the rest of the audit plan and deliver a robust opinion.

- Reference was made in the report to the findings of individual pieces of audit work throughout the year, highlighting in particular the two audit reports with weak assurance ratings (Animal Welfare Control and Contract Management). A critical issue recommendation had been issued arising from the audit review of Animal Welfare and Control; specifically, the concern was that the Council was operating a statutory function through a third party without any sound legal basis. The Officers had acted swiftly in response to the recommendation and a meeting had been arranged with the provider to address the concerns.

- In general, the Internal Audit Service was satisfied with the progress being made by the Officers in implementing the recommendations arising from audit projects.

- The report detailed other audit service work carried out throughout the year to date, including an update on risk management, counter fraud, whistleblowing, the National Fraud Initiative and data matches, together with details of the operation of the service, information about the new audit software and an update on developments in the Internal Audit Team.

- In August, Russell Heppleston, the Deputy Head of Audit Partnership, had taken a six month secondment to the Head of Audit role for the existing partnership between Dartford and Sevenoaks Councils. There was satisfaction on both sides with the secondment so far, and consideration was being given to how the services might work together in future.

During Mr Clarke's presentation, Members welcomed Frankie Smith to her first meeting of the Committee as acting Maidstone Borough Council Audit Manager.

Members congratulated Mr Clarke and his team for their hard work and dedication.

RESOLVED: That the progress against the 2018/19 Internal Audit and Assurance Plan be noted.

61. TREASURY MANAGEMENT MID-YEAR REVIEW 2018/19

Mr John Owen, Finance Manager, introduced his report setting out the activities of the Treasury Management function for the first six months of the financial year 2018/19 in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. Mr Owen explained that:

- The key elements of the Treasury Management Strategy approved by the Council in March 2018 were to (a) utilise cash balances rather than loan debt to finance the capital programme due to low investment returns and reducing counterparty risk and (b) greater use of local authority investments which were deemed as high security lending. The Council had complied with both of these elements in the first six months.

- A full list of the Council's investments as at 30 September 2018 was set out in Appendix A to the report. Total investments at that time were £27.395m.

- Investment income for the period was £93k against a budget of £50k. The difference was due to a number of issues including a reduction in the budget for investment income because it was assumed that investment rates would be lower for longer. However, the Bank of England had increased bank rate during the year which in turn increased investment rates. There had also been larger sums of money to invest due to slippage in the capital programme.

- The operational limit for external debt, shown as part of the Treasury Indicators, acted as a warning prior to reaching the authorised limit. The operational limit did not take into account temporary cash flow borrowing during the year and was breached for a short period between 25 and 29 May 2018 when the Council borrowed funds from other local authorities to cover its cash flow liabilities. However, it was acceptable to breach this limit for short periods.

RESOLVED: 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.

62. EXTERNAL AUDIT PROGRESS REPORT NOVEMBER 2018

The Chairman introduced Ms Elizabeth Jackson who had replaced Mr Darren Wells as the External Auditor's Engagement Lead with the Council.

Ms Jackson then presented the report of the External Auditor on the progress to date against the 2018/19 audit plan. The report also provided a summary of emerging national issues and developments of relevance to the local government sector.

In response to a question by the Chairman, Mr Mark Green, the Director of Finance and Business Improvement, said that CIPFA had consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. This was one of a number of indices that could be used by local authorities, but, in the Officers' view, it was a useful tool which should be looked at in the context of a district council. Once published, the Financial Resilience Index would be reported to the Committee for consideration.

RESOLVED: That the External Auditor's progress report, attached as Appendix 1 to the report of the Head of Finance, be noted.

63. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

Mr Mark Green, the Director of Finance and Business Improvement, presented his report providing an update on the budget risks facing the Council. Mr Green explained that:

- There were two main issues to be noted. Firstly, as the end of the current four year local government funding settlement approached, there remained uncertainty about what this would mean in practice for the Council. Whilst the government had 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. There would be a Spending Review in 2019 which would determine the overall resources devoted to local government. Allocation of resources between local authorities then depended on a Fair Funding Review which was currently being carried out by MHCLG. There were therefore a number of variables that could affect the Council's financial position.

- Secondly, although there was now a Brexit deal on the table, the financial impact of a disorderly Brexit for the Council would be two-fold. In the short term the Council might face increased costs in delivering services. The Council would look to recoup these costs from central government, but at this stage there was no certainty that they would be underwritten. In addition, there might be adverse longer effects on the economy. If a disorderly Brexit led to a recession, the Council would be impacted in a number of ways including a fall in business rates income and increasing pressure on homelessness budgets.

RESOLVED: That the updated risk assessment of the Budget Strategy, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

64. DURATION OF MEETING

6.30 p.m. to 7.45 p.m.

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2018/19 WORK PROGRAMME

Agenda Item 10

	Committee	Month	Lead	Report Author
Review of Standards Procedures in the Constitution	AGS	Mar-19	Patricia Narebor	
CIPFA Position Statement on the Role of Audit Committees	AGS	Mar-19	Rich Clarke	
Audit & Assurance Plan	AGS	Mar-19	Rich Clarke	Rich Clarke
External Audit Update Report March 2019	AGS	Mar-19	Mark Green	Chris Blundell
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	Chris Blundell
Maidstone Property Holdings Ltd - Review of Governance Arrangements	AGS	TBA	Mark Green	
Risk Management Process	AGS	TBA	Rich Clarke	
Appointment of a Public Open Space and Recreation Delivery Officer (s106 monies)	AGS	TBA		

Audit, Governance & Standards Committee	**14 January 2019**

Complaints Received Under the Members' Code of Conduct

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

Executive Summary

The report provides an update to the Committee on complaints received under the Members' Code of Conduct for the period 1st September 2018 to date.

This report makes the following recommendations to this Committee:

1. That the contents of the report be noted.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	14 January 2019

Complaints Received Under the Members’ Code of Conduct

1. INTRODUCTION AND BACKGROUND

1.1 It is a requirement under the Localism Act 2011 that all Councils adopt a Code of Conduct and that the Code adopted must be based upon the Nolan Principles of Conduct in Public Life. The current Members’ Code of Conduct (“the Code”) for Maidstone Borough Council is set out in the Constitution.

1.2 The Localism Act 2011 requirement to adopt a Code of Conduct also applied to all the Parish Councils. Most Parish Councils in the Maidstone area have adopted a similar Code of Conduct to the Borough Council, based on a Kent wide model. A few Parish Councils have adopted their own particular Code.

1.3 Under the Localism Act 2011 Maidstone Borough Council is responsible for dealing with any complaints made under the various Codes of Conduct throughout the Maidstone area.

1.4 The Constitution stipulates that oversight of Code of Conduct complaints is part of the remit of the Audit, Governance and Standards Committee.

1.5 As part of the Committee’s oversight function it is agreed that the Monitoring Officer will provide reports on complaints to the Audit, Governance and Standards Committee. It should be noted that the Localism Act 2011 repealed the requirement to publish decision notices; therefore in providing the update to the Committee the names of the complainant and the Councillor complained about are both kept confidential in accordance with the Data Protection Act 2018.

1.6 Since the last report to this Committee on 17 September 2018 there have been three new complaints from one complainant against three Parish Councillors, relating to similar issues. These complaints have been concluded and the Monitoring Officer found that there was no evidence of breaches of the Code of Conduct. There have also been three separate complaints against one Borough Councillor. Again, these complaints related to similar issues. Of these complaints, only one was taken forward as the other two complainants did not respond to requests for further information. The investigation into the remaining complaint is still ongoing.

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2. AVAILABLE OPTIONS

2.1 That the Committee note the update on complaints received under the Members’ Code of Conduct.

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3. RISK

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

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4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

4.1 Members of the Audit, Governance and Standards Committee and the Independent Person in accordance with the relevant complaints procedure will be consulted with on individual complaints as and when necessary.

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5. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

5.1 As the report is for information only no further action will be taken.

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6. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	High standards of conduct are essential amongst Members in delivering the Council's priorities. The Code of Conduct and complaints procedure supports this.	Principal Solicitor, Contentious and Corporate Governance
Risk Management	This report is presented for information only and has no risk management implications. An effective Code of Conduct and robust complaints procedure minimises the risk of Member misconduct and is part of an effective system of governance.	Principal Solicitor, Contentious and Corporate Governance
Financial	There are no direct financial implications; however, should it be necessary to appoint external Independent Investigators the cost of this will be met by the Borough Council.	Principal Solicitor, Contentious and Corporate Governance
Staffing	The complaints procedure is dealt within the remit of the Monitoring Officer with input from the Legal Team as required.	Principal Solicitor, Contentious and Corporate Governance

Legal	The requirements of the Localism Act 2011 with regards to the Code of Conduct and complaints procedure are set out within the report. The reporting process ensures that the Committee continues its oversight of the Code of Conduct as required by the Constitution.	Principal Solicitor, Contentious and Corporate Governance
Privacy and Data Protection	No personal information is provided as part of the report.	Principal Solicitor, Contentious and Corporate Governance
Equalities	Any potential to disadvantage or discriminate against different groups within the community should be overcome within the adopted complaints procedures.	Principal Solicitor, Contentious and Corporate Governance
Crime and Disorder	None identified in the report.	Principal Solicitor, Contentious and Corporate Governance
Procurement	None identified in the report.	Principal Solicitor, Contentious and Corporate Governance

7. REPORT APPENDICES

None

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE	**14th January 2019**

Housing Benefit Grant Claim

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Sheila Coburn, Head of Revenues and Benefits
Lead Officer and Report Author	Liz Norris, Business Support Manager
Classification	Public
Wards affected	All

Executive Summary

To consider the findings of the work undertaken by Grant Thornton to certify the housing benefit subsidy claim that the Council submitted for 2017-2018.

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

1. That the findings of the Housing Benefit Grant Claim audit undertaken by Grant Thornton and planned action by the Revenues and Benefits Service be noted.

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	14 January 2019

Housing Benefit Grant Claim

1. INTRODUCTION AND BACKGROUND

1.1 Grant Thornton undertook work to certify the Housing Benefit grant claim for 2017/18 that was submitted by the Council with a value of £45.4 million.

1.2 In line with the standard work programme specified by the Department for Work and Pensions (DWP), the Auditors undertook a sample check of 40 housing benefit claims across the main areas of expenditure. They identified 4 errors. As a result of the errors identified a further sample of 166 cases were checked with 7 further errors identified. The total value of the errors identified was £823.00.

1.3 With the value of errors extrapolated across the subsidy claim a total gross adjustment of £34,024 was made, with the net effect being no change to the overall value of the claim submitted by the Council, due to the errors attracting the same rate of subsidy. That error rate suggests the original claim as presented by the Council was 99.93% accurate.

1.4 The Revenues and Benefits Service carried out around 63,000 benefit assessments during 2017/2018 and whilst that work is undertaken with a high degree of accuracy, supported by robust quality assurance measures, a level of error is unavoidable. It is commonplace for housing benefit grant claims to be qualified and this Council has a good track record in earlier certifications.

1.5 The level of adjustment as a result of the audit represents 0.07% of the total grant claim. As specified in the claim (appendix 2) at cell 201 the DWP has an error threshold of 0.48%, essentially representing the level of error DWP considers reasonable. Even after these adjustments, the total level of error in processing at the Council is 0.17%, well under this threshold.

1.6 The errors found and actions planned are summarised at appendix 3.

2. AVAILABLE OPTIONS

2.1 This report is provided for information only.

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3. RISK

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

4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

4.1 The report is provided for information only with no consultation required.

5. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	In maintaining effective financial controls the Council is able to confidently progress its priorities	Head of Revenues and Benefits
Risk Management	The work undertaken by Grant Thornton provides external assurance to the Council on the effectiveness of its controls around accurate payment and recording of benefit expenditure	Head of Revenues and Benefits
Financial	The adjustments outlined have no impact on the net value of the Council's claim and the level of error identified does not indicate any significant underlying control weaknesses.	Section 151 Officer & Finance Team
Staffing	No Impact	Head of Revenues and Benefits
Legal	No Impact	Head of Revenues and Benefits
Privacy and Data Protection	No Impact	Head of Revenues and Benefits
Equalities	No Impact	Head of Revenues and Benefits
Public Health	No Impact	Head of Revenues and Benefits
Crime and Disorder	No Impact	Head of Revenues and Benefits
Procurement	No Impact	Head of Revenues and Benefits

6. REPORT APPENDICES

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

- Appendix 1: HB qualification letter
- Appendix 2: HB grant claim
- Appendix 3: Summary of errors & actions

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7. BACKGROUND PAPERS

None

APPENDIX 1

HB QUALIFICATION LETTER

Grant Thornton

Our Ref: GT/MBC/BEN01
Your Ref: MPF720A

Department for Work and Pensions
Housing Benefit Unit (Room B120D)
Warbreck House
Blackpool
Lancashire
FY2 0UZ

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

T +44 (0)20 7383 5100

www.grant-thornton.co.uk

14 December 2018

Dear Sir / Madam

Maidstone Borough Council
Housing Benefit subsidy claim for the year ended 31 March 2018 (Form MPF720A)
Qualification Letter referred to in the Auditor's Certificate dated 14 December 2018

Details of the matters giving rise to our qualification of the above claim are set out in the Appendix to this letter.

The factual content of our qualification has been agreed with officers of the Authority.

No amendments have been made to the claim for the issues raised in this qualification letter.

Yours faithfully

Grant Thornton UK LLP

Grant Thornton UK LLP

Cell 94 – Incorrect Calculation of Earnings (Earned Income and Self-Employed Earnings)

Cell 94: Rent Allowances – Total Expenditure (Benefit Granted)
Cell Total: £45,491,175
Cell Population: 9,894
Cell Total: £8,756,238
Cell Population: 2,081 – sub population (SP)
Headline Cell: £45,491,175

Testing of the initial sample identified:

- one case (value £4,084) where the Council's incorrect calculation of the claimant's weekly earned income had no impact on the claimant's benefit entitlement for the period in question.

As this error had no impact on the claimant's benefit entitlement it has not been treated as an error for subsidy purposes. However as this type of error can cause overpayments, a further sample of 40 cases was tested. This additional testing identified:

- four cases (value of £11,585) where the Authority had overpaid benefit as a result of miscalculating the claimant's weekly earned income. The value of these overpayments was £540. The effect of these errors is to overstate Cells 95, 102 and 103 with a corresponding understatement of Cell 113; there is no effect on Cell 94.
- one case (value of £5,492) where the Authority had underpaid benefit as a result of miscalculating the claimant's weekly earned income. The value of this underpayment is £3. As there is no eligibility to subsidy for benefit that has not been paid, the underpayment identified does not effect subsidy and has not been classified as an error for subsidy purposes

The results of our testing are set out in the following table:

Sample	Movement / brief note of error	Original cell total	Sample error	Sample value	Percentage error rate (to two decimal places)	Cell adjustment
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times SP]
Initial sample – 4 cases	Incorrect Earned Income Applied – Cell 94 Overstated	£8,756,238	£0	£15,427		
Additional sample - 40 cases	Incorrect Earned Income Applied – Cell 94 Overstated	£8,756,238	£540	£127,042		
Combined sample - 44 cases	**Combined sample – Cell 94 overstated due to incorrect Eligible Rent Application**	£8,756,238	(£540)	£142,469	**0.38%**	**(£33,189)**
Adjustment	Combined sample - Cell 95 Overstated	£8,756,238	(£14)	£142,469	0.01%	(£860)
Adjustment	Combined sample - Cell 102 Overstated	£8,756,238	(£13)	£142,469	0.01%	(£799)
Adjustment	Combined sample - Cell 103 Overstated	£8,756,238	(£513)	£142,469	0.36%	(£31,530)
Total corresponding adjustment	**Total understatement of Cell 113**					**(£33,189)**

The percentage error rate in my sample reflects the individual cases selected. The value of the errors found range from £13 to £457, and the benefit periods range from 2 weeks to 25 weeks. This is the first year that this error has been identified within the claim.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow for a conclusion that it is fairly stated.

Cell 114 - Incorrect Classification of Eligible Overpayments

Cell 114: Rent Allowances – Eligible Overpayments
Cell Total: £806,714
Cell Population: 3,260 cases
Headline Cell: £45,491,175

Our testing in the prior year identified that the Council had incorrectly classified Overpayments as Eligible when they should have been classified as Local Authority and Administration Error. No errors of this type were identified during our initial testing of 20 cases, but as this area was brought forward as part of our CAKE Testing a 40+ workbook was required in 2017-18.

Testing of an additional sample of 40 cases identified:

- two cases (total value of £37) where the overpayments had been incorrectly classified as an Eligible Overpayment, when it should have been classified as an LA Error and Administrative Delay Overpayment. The value of these misclassifications is £14. The effect of these misclassifications is that Cell 114 is overstated and Cell 113 is understated; there is no effect on Cell 94.

The results of our testing are set out in the table below:

Sample	Movement / brief note of error	Original cell total	Sample error	Sample value	Percentage error rate (to one decimal place)	Cell adjustment
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV times SP]
Initial sample – 1 case	No errors identified in the Initial Testing	£806,714	£0	£79		
Additional sample - 40 cases	Misclassification – Cell 114 overstated and Cell 113 understated due to incorrect classification of Overpayments	£806,714	£14	£13,441		
Combined sample - 41 cases	**Misclassification – Cell 114 overstated and Cell 113 understated due to incorrect classification of Overpayments**	**£806,714**	**(£14)**	**£13,520**	**0.1%**	**(£835)**
Adjustment	Combined sample - Cell 113 Understated	£806,714	(£14)	£13,520	0.1%	(£835)
Total corresponding adjustment	Total overstatement of Cell 114					**£835**

The percentage error rate in my sample reflects the individual cases selected. The value of the errors found range from £4 to £10, and the benefit period is three weeks for both cases. This is the second year that this error has been identified within the claim.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.

Observations

Cell 11 – Incorrect Duplication of Benefit Award

Cell 11: Rent Rebates (Tenants of Non-HRA properties) Total expenditure
Cell total: £515,943
Cell population: 413
Headline cell: £515,943

Our initial testing identified one case (total value of £826) where the Council had awarded benefit on a weekly and monthly basis for March 2018, resulting in an overpayment of benefit totalling £265. Due to the nature of this error, the Council ran a report to confirm that no other cases within Cell 11 were affected by the same error. The Council have subsequently posted an adjustment in the 2018-19 Claim for this error, and hence the error remains unadjusted in the 2017-18 Claim Form.

Cell 94 – Missing Evidence for Water Rate Deduction

Cell 94: Rent Allowances – Total Expenditure (Benefit Granted)
Cell Total: £45,491,175
Cell Population: 9,894
Headline Cell: £45,491,175

Our initial testing identified one case (total value of £3,756) where the Council was unable to evidence a £1 Water Rate Deduction which had been applied to the Claim. The impact of this deduction is to reduce the claimant's benefit entitlement during the period in question, and thus benefit has been underpaid for the period in question.

As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes. Given that this type of error can only ever lead to an underpayment of benefit, we have not undertaken 40+ testing in this area, and no further action has been taken by the Council in respect of this area either.

Cell 94 – Incorrect Calculation of Tax Credits

Cell 94: Rent Allowances – Total Expenditure (Benefit Granted)
Cell Total: £45,491,175
Cell Population: 9,894
Cell Total: £9,569,299 – sub population (SP)
Cell Population: 2,113 – sub population (SP)
Headline Cell: £45,491,175

Testing of the initial sample identified:

- one case (value £4,507) where the Council had included the incorrect Working and Child Tax Credits on the Claim during a period in the year, leading to an underpayment of benefits. The value of this underpayment is £1. As there is no eligibility to subsidy for benefit that has not been paid, the underpayments identified do not effect subsidy and have not, been classified as an error for subsidy purposes.

However, because errors on Tax Credits could result in overpayments, an additional random sample of 40 Cases (total value of £128,743) was tested. No further errors were identified.

No similar findings have been included in my previous qualification letters.

APPENDIX 2

HB GRANT CLAIM

DWP Department for Work and Pensions

AUTHORITIES IN ENGLAND	FORM MPF720A

Statement of Local Authority claimed entitlement to
HOUSING BENEFIT SUBSIDY for 2017/2018.

AUTHORITY NAME	**MAIDSTONE**								**001**
AUTHORITY REFERENCE NUMBER	2	2	5	7	1	0	7	5	**002**

IMPORTANT:
1. Please read the guidance notes before you fill in this form.
2. Incorrectly completed forms may have to be returned and errors may result in payment being delayed.
3. Deadline for receipt is **30 APRIL 2018;** deadline for receipt of the auditor-certified claim is **30 NOVEMBER 2018**.

FINAL SUBSIDY CLAIM FOR HOUSING BENEFIT - 2017/2018

SUBSIDY CLAIMED FOR RENT REBATES (Cell 036S + Cell 076S)	493,579	**003**
SUBSIDY CLAIMED FOR RENT ALLOWANCE (Cell 129S)	44,523,994	**004**

ADMINISTRATION SUBSIDY RECEIVED	428,248	**005**
TOTAL REDUCTION FOR PRIOR YEAR UNCASHED PAYMENTS (Cell 179S)	0	**006**
TOTAL SUBSIDY CLAIMED Cells (003 + 004 + 005) - (006)	45,445,821	**007**
LESS INTERIM BENEFIT SUBSIDY	45,850,720	**008**
BALANCE NOW OWED TO OR BY(-) AUTHORITY (Cell 007 - Cell 008)	-404,899	**009**

PLEASE PROVIDE A LOCAL AUTHORITY CONTACT:

Name: Liz Norris

Telephone No. (+STD) 01622 602118 Ext

Completed final claim should be returned by e-mail to:
HBSubsidy@dwp.gsi.gov.uk

Department for Work and Pensions
Housing Delivery Division
Housing Benefit Unit (Room B120D)
Warbreck House
BLACKPOOL
FY2 0UZ

Telephone:
01253 337972
01253 337763
01253 337975

FOR DEPARTMENT USE ONLY

Input by	
Date	
Authorised	
Date	

Cell 010 - Spare

RENT REBATES (TENANTS OF NON-HRA PROPERTIES)

TOTAL EXPENDITURE (Benefit Granted)

515,943	**011**

EXPENDITURE		RATE	SUBSIDY	

BOARD AND LODGING AND NON SELF-CONTAINED LICENSED ACCOMMODATION WHERE THE LOCAL AUTHORITY IS THE LANDLORD

	EXPENDITURE		RATE	SUBSIDY	
Expenditure **up to** the lower of the one bedroom self-contained LHA rate and the upper limit (£500 or £375).	117,908	**012**	**1.00**	117,908	**012S**
Expenditure **above** the lower of the one bedroom self-contained LHA rate and the upper limit (£500 or £375).	393	**013**	**NIL**	0	**013S**

SHORT-TERM LEASED AND SELF-CONTAINED LICENSED ACCOMMODATION WHERE THE LOCAL AUTHORITY IS THE LANDLORD

	EXPENDITURE		RATE	SUBSIDY	
Expenditure **up to** the lower of 90% of the appropriate LHA rate for the property, and the upper limit (£500 or £375).	306,153	**014**	**1.00**	306,153	**014S**
Expenditure **above** the lower of 90% of the appropriate LHA rate for the property plus the management costs element, and the upper limit (£500 or £375).	3,497	**015**	**NIL**	0	**015S**

Cells 016 to 020 - Spare

Cell 021 - Scotland only

EXTENDED PAYMENTS

	EXPENDITURE		RATE	SUBSIDY	
Total extended payments of non-HRA rent rebates.	690	**022**	**1.00**	690	**022S**

NON-HRA RENT REBATE EXPENDITURE ATTRACTING FULL-RATE SUBSIDY WHICH IS INCLUDED IN CELL 011 BUT NOT OTHERWISE SEPARATELY IDENTIFIED IN THIS SECTION

	EXPENDITURE		RATE	SUBSIDY	
	69,040	**023**	**1.00**	69,040	**023S**

OVERPAID (NON-HRA) RENT REBATES (CURRENT YEAR)

	EXPENDITURE		RATE	SUBSIDY	
DWP error overpayments recovered.	0	**024**	**NIL**	0	**024S**
DWP error overpayments not recovered.	0	**025**	**1.00**	0	**025S**

LA error and administrative delay overpayments.	1,006	026	NIL	0	026S
Technical overpayments.	12,456	027	NIL	0	027S
Eligible overpayments.	4,800	028	0.40	1,920	028S

MC

OVERPAID (NON-HRA) RENT REBATES (PRIOR YEARS)

DWP error overpayments recovered.	0	029	NIL	0	029S
DWP error overpayments not recovered.	0	030	1.00	0	030S
LA error and administrative delay overpayments.	2,423	031	NIL	0	031S
Technical overpayments.	2,117	032	NIL	0	032S
Eligible overpayments.	1,701	033	0.40	680	033S

TOTAL SUBSIDY CLAIMED AT FULL RATE
Cell 034S = (012S + 014S + 022S + 023S + 025S)
- (029 + 031 + 032 + 033).

487,550	034S

TOTAL SUBSIDY CLAIMED AT REDUCED RATES
Cell 035S = 028S + 033S.

2,600	035S

TOTAL NON-HRA RENT REBATE SUBSIDY CLAIMED
Cell 036S = 034S + 035S + 208S.
(The amount in cell 036S is added to the amount in cell 076S and entered in cell 003.)

493,579	036S

IN-YEAR RECONCILIATION
Cell 037 = total of cells (012 to 015) and (022 to 028); this must equal the figure in cell 011.

515,943	037

BACKDATED EXPENDITURE

571	038

Cells 039 to 054 - Spare

RENT REBATES (TENANTS OF HRA PROPERTIES)

TOTAL EXPENDITURE
(Benefit Granted)
(This figure minus the figure in cell 079 is transferred to cell 222.)

0	055

	EXPENDITURE		RATE	SUBSIDY	
Cells 056 to 057 - Wales only					
Cell 058 - Spare					
EXTENDED PAYMENTS					
Total extended payments of HRA rent rebates.	0	059	1.00	0	059S
EXPENDITURE ON AFFORDABLE RENTS					
Total expenditure on affordable rents for properties in the HRA.	0	060	1.00	0	060S
HRA RENT REBATE EXPENDITURE ATTRACTING FULL-RATE SUBSIDY WHICH IS INCLUDED IN CELL 055 BUT NOT OTHERWISE SEPARATELY IDENTIFIED IN THIS SECTION	0	061	1.00	0	061S
Cell 062 - Wales only					
OVERPAID (HRA) RENT REBATES (CURRENT YEAR)					
DWP error overpayments recovered.	0	063	NIL	0	063S
DWP error overpayments not recovered.	0	064	1.00	0	064S
LA error and administrative delay overpayments.	0	065	NIL	0	065S
Technical overpayments.	0	066	NIL	0	066S
Eligible overpayments.	0	067	0.40	0	067S
OVERPAID (HRA) RENT REBATES (PRIOR YEARS)					
DWP error overpayments recovered.	0	068	NIL	0	068S
DWP error overpayments not recovered.	0	069	1.00	0	069S
LA error and administrative delay overpayments.	0	070	NIL	0	070S
Technical overpayments.	0	071	NIL	0	071S
Eligible overpayments.	0	072	0.40	0	072S
TOTAL SUBSIDY CLAIMED AT FULL RATE Cell 073S = (059S + 060S + 061S + 064S) - (068 + 070 + 071 + 072).				0	073S
TOTAL SUBSIDY CLAIMED AT REDUCED RATES Cell 074S = 067S + 072S.				0	074S
SUBSIDY LIMITATION PERCENTAGE (This figure is taken from cell 224).	100 %	075			

TOTAL HRA RENT REBATE SUBSIDY CLAIMED
Cell 076S = ((073S - 060S + 074S + 209S) x 075) + 060S.
(The amount in cell 076S is added to the amount in cell 036S and entered in cell 003.)

0	**076S**

IN-YEAR RECONCILIATION
Cell 077 = total of cells (059 to 061) and (063 to 067); this must equal the figure in cell 055.

0	**077**

BACKDATED EXPENDITURE

0	**078**

TOTAL EXPENDITURE ON AFFORDABLE RENTS INCLUDING AFFORDABLE RENTS OVERPAYMENTS

0	**079**

Cells 080 to 093 - Spare

RENT ALLOWANCES

TOTAL EXPENDITURE (Benefit Granted)

45,491,175	**094**

	EXPENDITURE		RATE	SUBSIDY	
REGULATED TENANCIES Total expenditure in respect of "regulated tenancies" entered into before de-regulation.	414,475	**095**	**1.00**	414,475	**095S**

EXPENDITURE UNDER THE RENT OFFICER ARRANGEMENTS: CASES REFERRED TO THE RENT OFFICER BY 30 APRIL 2018 AS REQUIRED (EXCLUDING EXPENDITURE MADE UNDER PAYMENTS ON ACCOUNT UNDER REG.93 OF SI 2006 No.213 OR REG.74 OF SI 2006 No.214)

<u>CLAIMS ADMINISTERED UNDER THE PRE-1996 RULES</u>

Total expenditure on that part of weekly eligible rent above the rent officer's determination on a claim where restrictions could not be made under Regs.13 or 13ZA.	275,321	**096**	**0.60**	165,193	**096S**
Total expenditure on that part of weekly eligible rent above the rent officer's determination on a claim where restrictions could be made under Regs.13 or 13ZA. Exclude amounts in cell 096.	61,692	**097**	**NIL**	0	**097S**
Total expenditure on that part of weekly eligible rent at or below the rent officer's determination on a claim.	501,696	**098**	**1.00**	501,696	**098S**

<u>MAXIMUM RENT CASES</u>

Total expenditure up to the maximum rent.	1,580,307	**099**	**1.00**	1,580,307	**099S**

EXPENDITURE UNDER THE RENT OFFICER ARRANGEMENTS:
PAYMENTS MADE ON ACCOUNT UNDER REG.93 OF SI 2006 No. 213 OR REG.74 OF SI 2006 No. 214 AND REFERRAL MADE TO THE RENT OFFICER BY 30 APRIL 2018

Total expenditure arising from payments made on account under Reg.93 of SI 2006 No. 213 or Reg.74 of SI 2006 No. 214 in which a referral was made by 30 April 2018.	5,958	**100**	**1.00**	5,958	**100S**

EXPENDITURE UNDER THE RENT OFFICER ARRANGEMENTS:
CASES REQUIRING REFERRAL BUT NO REFFERAL MADE BY 30 APRIL 2018

Expenditure where there is no current determination and no referral made by 30 April 2018.	0	**101**	**NIL**	0	**101S**

EXPENDITURE UNDER THE RENT OFFICER ARRANGEMENTS:
CASES EXCLUDED FROM REQUIREMENT TO REFER TO THE RENT OFFICER

Total expenditure related to cases not requiring referral to the rent officer.	30,235,615	**102**	**1.00**	30,235,615	**102S**
LHA EXPENDITURE Total expenditure in claims administered under LHA rules.	11,465,755	**103**	**1.00**	11,465,755	**103S**

EXPENDITURE ON BOARD AND LODGING AND NON SELF-CONTAINED LICENSED ACCOMMODATION PROVIDED AS TEMPORARY OR SHORT TERM ACCOMMODATION WHERE A REGISTERED HOUSING ASSOCIATION IS THE LANDLORD

Expenditure **up to** the lower of the one bedroom self-contained LHA rate and the upper limit (£500 or £375).	0	**104**	**1.00**	0	**104S**
Expenditure **above** the lower of the one bedroom self-contained LHA rate and the upper limit (£500 or £375).	0	**105**	**NIL**	0	**105S**

EXPENDITURE ON SELF-CONTAINED LICENSED ACCOMMODATION AND ACCOMMODATION OWNED OR LEASED BY A REGISTERED HOUSING ASSOCIATION PROVIDED AS TEMPORARY OR SHORT TERM ACCOMMODATION WHERE A REGISTERED HOUSING ASSOCIATION IS THE LANDLORD

Expenditure **up to** the lower of 90% of the appropriate LHA rate for the property,and the upper limit (£500 or £375).	873	**106**	**1.00**	873	**106S**
Expenditure **above** the lower of 90% of the appropriate LHA rate for the property plus the management costs element, and the upper limit (£500 or £375).	0	**107**	**NIL**	0	**107S**

SUPPORTED RENT EXPENDITURE

Total expenditure for any claims or awards that have had their eligible rent calculated within the rules that have replaced the use of the pre 1996 rules for "exempt accommodation".	0	**108**	**1.00**	0	**108S**

EXTENDED PAYMENTS

Total extended payments of rent allowance.	80,908	**109**	**1.00**	80,908	**109S**

RENT ALLOWANCE EXPENDITURE ATTRACTING FULL-RATE SUBSIDY WHICH IS INCLUDED IN CELL 094 BUT NOT OTHERWISE SEPARATELY IDENTIFIED IN THIS SECTION

0	**110**	**1.00**	0	**110S**

OVERPAID RENT ALLOWANCES (CURRENT YEAR)

DWP error overpayments recovered.	0	**111**	**NIL**	0	**111S**
DWP overpayments not recovered.	883	**112**	**1.00**	883	**112S**
LA error and administrative delay overpayments.	60,978	**113**	**NIL**	0	**113S**
Eligible overpayments.	806,714	**114**	**0.40**	322,686	**114S**
Duplicate payments.	0	**115**	**0.25**	0	**115S**
Recovered overpayments resulting from the use of payments on account made under Reg.93 of SI 2006 No. 213 or Reg.74 of SI 2006 No.214.	0	**116**	**NIL**	0	**116S**
Overpayments resulting from the use of payments on account made under Reg.93 of SI 2006 No. 213 or Reg.74 of SI 2006 No.214 which have not been recovered.	0	**117**	**1.00**	0	**117S**

OVERPAID RENT ALLOWANCES (PRIOR YEARS)

DWP error overpayments recovered.	0	**118**	**NIL**	0	**118S**
DWP overpayments not recovered.	0	**119**	**1.00**	0	**119S**
LA error and administrative delay overpayments.	8,825	**120**	**NIL**	0	**120S**

Eligible overpayments.	576,805	**121**	**0.40**	230,722 **121S**
Duplicate payments.	0	**122**	**0.25**	0 **122S**
Recovered overpayments resulting from the use of payments on account made under Reg.93 of SI 2006 No. 213 or Reg.74 of SI 2006 No.214.	0	**123**	**NIL**	0 **123S**
Overpayments resulting from the use of payments on account made under Reg.93 of SI 2006 No. 213 or Reg.74 of SI 2006 No.214 which have not been recovered.	0	**124**	**1.00**	0 **124S**

TOTAL SUBSIDY CLAIMED AT FULL RATE
Cell 125S = (095S + 098S + 099S + 100S + 102S + 103S + 104S + 106S + 108S + 109S + 110S +112S + 117S) - (118 + 120 + 121 + 122 + 123).

43,700,840 **125S**

TOTAL SUBSIDY CLAIMED AT REDUCED RATES
Cell 126S = 096S + 114S + 115S + 121S + 122S.

718,601 **126S**

TOTAL RENT ALLOWANCE SUBSIDY CLAIMED
Cell 127S = 125S + 126S + 210S.

44,489,244 **127S**

MODIFIED SCHEME SUBSIDY
(This figure to be transferred from cell 216S.)

34,750 **128S**

TOTAL SUBSIDY
Cell 129S = 127S + 128S
(The amount in cell 129S is entered in cell 004.)

44,523,994 **129S**

IN-YEAR RECONCILIATION
Cell 130 = total of cells 095 to 117;
this must equal the figure in cell 094.

45,491,175 **130**

BACKDATED EXPENDITURE

26,778 **131**

Cells 132 to 178 - Spare

SUBSIDY ADDITIONS AND DEDUCTIONS

UNCASHED PAYMENTS
Subsidy reduction in respect of uncashed payments prior to 2017/2018
(The amount in cell 179S is entered in cell 006.)

0 **179S**

Cells 180 to 190 - Scotland and Wales

Cells 191 to 200 - Spare

LOCAL AUTHORITY ERROR AND ADMINISTRATIVE DELAY SUBSIDY

TOTAL EXPENDITURE ATTRACTING FULL SUBSIDY (Cells 034S + 073S + 125S)	44,188,390	**201**
Lower threshold (cell 201 x 0.48%).	212,104	**202**
Upper threshold (cell 201 x 0.54%).	238,617	**203**
TOTAL LA ERROR AND ADMINISTRATIVE DELAY OVERPAYMENTS (Cells 026 + 031 + 065 + 070 + 113 + 120)	73,232	**204**
SUBSIDY CALCULATION Enter the figure from cell 204 if less than or equal to cell 202. Otherwise enter "0".	73,232	**205**
Enter the figure from cell 204 if more than cell 202 but less than or equal to cell 203. Otherwise enter "0".	0	**206**
LA error and administrative delay subsidy due (cell 205 + (cell 206 x 0.40)).	73,232	**207S**

LA ERROR AND ADMINISTRATIVE DELAY SUBSIDY APPORTIONMENTS

Rebates for non-HRA properties (cell 207S x ((cell 026 + 031) divided by cell 204)). This figure to be included in cell 036S.	3,429	**208S**
Rebates for HRA properties (cell 207S x ((cell 065 + 070) divided by cell 204)). This figure to be included in cell 076S.	0	**209S**
Rent Allowances (cell 207S x ((cell 113 + 120) divided by cell 204)). This figure to be included in cell 127S.	69,803	**210S**

Cell 211 - Spare

MODIFIED SCHEMES SUBSIDY

Total subsidy claimed before any addition in respect of the operation of a local scheme. (Cells 036S + 076S + 127S)	44,982,823	**212**
Enter 0.2% of cell 212.	89,966	**213**
Expenditure due to the **voluntary** disregarding of War Disablement Pensions or War Widows Pensions.	46,333	**214**
Enter 75% of cell 214.	34,750	**215**
Enter the lower of cells 213 and 215. This figure to be transferred to cell 128S.	34,750	**216S**

RENT REBATE SUBSIDY LIMITATION SCHEME

2017/18 weekly rent limit.	0.00	**217**
Derogation from Rent Rebate subsidy limitation, if granted.	0.00	**218**
Average weekly rent for 2017/18 **excluding affordable rents** (rent for Rent Rebate subsidy limitation purposes).	0.00	**219**
Rental income for 2017/18 **excluding affordable rents**.	0.00	**220**
Enter zero if not subject to limitation, otherwise enter the amount in cell 220.	0.00	**221**
Amount of rebates paid in 2017/18 (this is the figure entered in cell 055 minus the figure entered in cell 079).	0	**222**
Proportion of rental income rebated in 2017/18. (Cell 223 = cell 222/cell 220)	0.0000	**223**
Rent Rebate subsidy limitation percentage. If cell 219 is less than or equal to cells 217 + 218, cell 224 = 100%;	100.00	**224**

If cell 219 is greater than cells 217 + 218 and if cell 223 is less than or equal to 0.739, cell 224 = (cells 217 + 218)/cell 219;

If cell 219 is greater than cells 217 + 218 and if cell 223 is greater than 0.739, cell 224 = 1 - (((cell 219 - (cells 217 + 218))/cell 219) x (0.739/cell 223)).

(The percentage is transferred to cell 075.)

MODIFIED SCHEMES

Total paid on increase in benefit arising from local schemes which allow some or all of a war disablement or war widow's pension to be disregarded.

Non-HRA Rent Rebate	HRA Rent Rebate	Rent Allowance	Total HB	
0	0	46,333	46,333	**225**

LOCAL AUTHORITY CERTIFICATE

* ~~I APPLY on behalf of the authority for payment in advance of certification by the appointed auditor, of the amount shown at cell 009.~~

* **I UNDERTAKE** on behalf of the authority to pay on demand to the Secretary of State the amount shown at cell 009.

I CERTIFY that I have examined the entries within this form and that to the best of my knowledge and belief -

the entries are accurate;

the expenditure, on which the claim is based, has been properly incurred in accordance with the Social Security Contributions and Benefits Act 1992 and the instructions made or having force thereunder, in particular the Housing Benefit Regulations 2006;

this claim for subsidy is on the form required by the Secretary of State and the information given on it is in accordance with that Act and the instruments made or having force thereunder, in particular the Income-related Benefits (Subsidy to Authorities) Order 1998;

no amounts in this claim have been included in any claim by an authority or authorities* acting as an agent or agents* of this authority; and

the authority's administrative systems, procedures and key controls for awarding benefits operate effectively and the authority has taken reasonable steps to prevent and detect fraud.

SIGNED :	**DATE :** 11/12/13
This signature, certifying this claim, must be that of the officer responsible pursuant to Section 151 of the Local Government Act 1972 (Responsible Finance Officer)	
Name (block) MARK GREEN	**Position held :** DIRECTOR OF FINANCE & BUSINESS IMPROVEMENT

** Delete as necessary*

CERTIFICATE OF AUDITOR APPOINTED BY PUBLIC SECTOR AUDIT APPOINTMENTS

The Statement of Responsibilities of grant-paying bodies, authorities, Public Sector Audit Appointments and appointed auditors in relation to claims and returns, issued by Public Sector Audit Appointments, sets out the respective responsibilities of these parties, and the limitations of our responsibilities as appointed auditors.

~~I~~/We have examined the entries in this form (which replaces or amends the original submitted to ~~me~~/us by the authority dated 30/4/2018)* and the related accounts and records of the authority in accordance with Certification Instruction A01 and ~~I~~/we have carried out the tests in Certification Instruction number BEN01 and obtained such evidence and explanations as ~~I~~/we consider necessary.

(Except for the matters raised in the attached qualification letter dated 14/12/18)*
~~I~~/we have concluded that the claim or return is:

- fairly stated; and
- in accordance with the relevant terms and conditions.

Grant Thornton UK LLP
Signature

GRANT THORNTON UK LLP
Name (block capitals)
On behalf of Public Sector Audit Appointments

Date 14 December 2018

* *Delete as necessary*

SUMMARY OF ERRORS AND ACTIONS – APPENDIX 3

Error	Planned action
Incorrect Calculation of Earnings – the errors listed fell into two categories. Self employed – inconsistency identified in the way that officers had calculated net income. PAYE – errors in the way that staff had transferred earnings data when inputting claim details.	Further training has been provided to the assessment team and new procedures introduced to ensure a consistent approach to the treatment of self employed expenses. A review of existing self employed cases is also being progressed. In addition to the sample check of benefit assessments that is completed on an ongoing basis, the service will review an increased sample of cases with earned income as part of its preparation for future audits.
Incorrect Classification of Eligible Overpayments – At the point of the assessment the member of staff entered an incorrect date.	The error has been corrected and further training will be provided to the member of staff and the wider team.
Incorrect Duplication of Benefit Award – This occurred due to a technical error within the housing benefit software.	The service has been able to demonstrate that there have been no further instances of this error occurring. The error has been corrected within the software
Missing Evidence of Water Rates Deduction – At the time of the Audit the service was unable to provide evidence to support the basis of the £1 water rates deduction that was being made within the claim.	Further inspection has confirmed that the rent level and deduction was registered with the Rent Service. The service will include the review of available evidence as part of its preparation for future audits.
Incorrect Calculation of Tax Credits – The error (£1 underpayment) occurred as a result of a member of staff applying a change to the tax credit entitlement from the wrong effective date. This was the only error of its type	The error has been corrected and further training has been provided to the member of staff. In addition to the ongoing sample check of benefit assessments that is completed on an ongoing basis, the service will review an increased

identified through the initial sample of claims checked, the additional 40 case check completed and has not been identified as an error in any earlier audits.	sample of tax credit awards as part of its preparation for future audits.

Audit, Governance & Standards Committee	**14 January 2019**

Internal Audit Charter

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service/Lead Director	Mark Green – Director of Finance & Business Improvement Steve McGinnes – Mid Kent Services Director
Lead Officer and Report Author	Rich Clarke – Head of Audit Partnership
Classification	Public
Wards affected	All

Executive Summary

The Internal Audit Charter is the formal document that defines internal audit's purpose, authority and responsibility at Maidstone Borough Council. The appendix presents a refreshed Charter for 2019 onwards, updating the present version from 2016.

This report makes the following recommendations to the Audit, Governance & Standards Committee

1. That the Internal Audit Charter be approved.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	14 January 2019

Internal Audit Charter

1. INTRODUCTION AND BACKGROUND

1.1 We provide this report to allow the Committee to consider and approve the revised Internal Audit Charter.

1.2 An Audit Charter is a requirement of Public Sector Internal Audit Standards (Standard 1000) and is a foundational document setting out the purpose, authority and responsibility of the service. This Committee last considered and approved our Charter in March 2016.

1.3 In the main, the updates to the Charter in 2019 are simply taking the opportunity to refresh the document. This includes some simplification of wording and removal of audit jargon, as well as re-ordering some sections to make the document more readable.

1.4 Substantive changes are limited but noted below:

- Addition of a glossary of terms to clarify how particular terms in the Standards apply in a Maidstone BC context.
- Following further guidance published by the Institute of Internal Audit (IIA) in 2016, the Charter now has more detail on the international standards and principles that apply to internal audit.
- Clarifying the role of the Audit, Governance & Standards Committee as a key consultee before commissioning external quality assessment.
- Specifying the need for annual review.

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2. AVAILABLE OPTIONS

2.1 The Committee could decline to approve the Charter in the appendix. In this event the 2016 Charter would continue effect. The service would remain materially conformant with Public Sector Internal Audit Standards as we produced the 2016 Charter in anticipation of the further IIA guidance.

2.2 Alternatively the Committee could approve the Charter. We are happy to consider comments to refine its specifics.

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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 We propose the Audit, Governance and Standards Committee approve the Internal Audit Charter. We do not propose any alternative action as a Charter is a Standards requirement.

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4. RISK

4.1 The risks associated with this proposal, including the risks if the Council does not act as recommended, have been considered in line with the Council's Risk Management Framework. We are satisfied that the risks associated are within the Council's risk appetite and will be managed as per the Policy.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 The Charter shows limited change from earlier approved versions, as detailed above. We have revised its format taking into account Committee feedback on other internal audit reports.

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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 If approved, the Charter will come into effect immediately and be used to shape preparation of our 2019/20 audit plan for March 2019.

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7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendation will by itself materially affect achievement of corporate priorities. However, it will support the Council's overall governance.	Rich Clarke, Head of Audit Partnership January 2019
Financial	The proposal set out in the recommendation are all within already approved budgets and so needs no new funding for implementation.	Rich Clarke, Head of Audit Partnership January 2019
Staffing	We will deliver the recommendation with our current staffing.	Rich Clarke, Head of Audit Partnership January 2019
Legal	Accepting the recommendation will help fulfil the Council's duties under the Accounts and Audit Regulations to maintain an effective internal audit service.	Keith Trowell, Team Leader (Corporate Governance), MKLS
Privacy and Data Protection	There are no specific privacy or data protection issues to address.	Keith Trowell, Team Leader (Corporate Governance), MKLS

Equalities	No impact identified.	Equalities and Corporate Policy Officer
Public Health	No new impact.	Rich Clarke, Head of Audit Partnership January 2019
Crime and Disorder	No new impact.	Rich Clarke, Head of Audit Partnership January 2019
Procurement	No new impact.	Rich Clarke, Head of Audit Partnership January 2019

8. REPORT APPENDICES

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

- Appendix 1: Internal Audit Charter

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9. BACKGROUND PAPERS

Public Sector Internal Audit Standards (published at https://www.gov.uk/government/publications/public-sector-internal-audit-standards)

APPENDIX 1

INTERNAL AUDIT CHARTER

MID KENT AUDIT

Internal Audit Charter

Maidstone Borough Council

MAIDSTONE
Borough Council

Internal audit charter

1. The Internal Audit Charter (the 'Charter') is the formal document that defines internal audit's purpose, authority and responsibility at Maidstone Borough Council (the "Council"). The Charter shows the Audit Partnership's position within the authority, including the nature of the Head of Audit Partnership's reporting relationships. The Charter defines the scope of audit work and approves the access to records, personnel and physical properties relevant to its completion.

2. Final approval of the Charter remains with the Audit, Governance & Standards Committee (the "Committee"). The Head of Audit Partnership will, in consultation with Senior Management, review the Charter each year and recommend to the Committee any necessary updates.

Mission

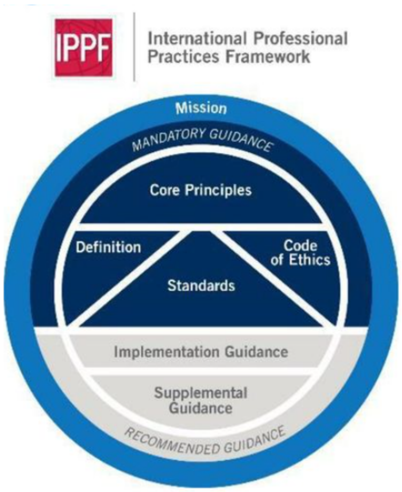
3. The Audit Partnership recognises and aspires to achieving the mission of Internal Auditing provided by the Institute of Internal Auditors (IIA):

"To enhance and protect organisational value by providing stakeholders with risk based and objective assurance, advice and insight."

Standards of internal audit practice

4. This Charter recognises the compulsory nature of the IIA definition of Internal Auditing, Code of Ethics, Public Sector Internal Audit Standards (the "Standards") and the International Professional Practices Framework (the "Framework"). The diagram on the next page sets out the Framework and the Core Principles.

5. The Audit Partnership complies with the Framework in full.



Framework Core Principles

1. Demonstrates integrity
2. Demonstrates competence & due professional care
3. Is objective and free from undue influence
4. Aligns with Council's strategies, objectives & risks
5. Is appropriately positioned and adequately resourced
6. Demonstrates quality and continuous improvement
7. Communicates effectively
8. Provides risk-based assurance
9. Is insightful, proactive and future-focused
10. Promotes organisational improvement

Scope of work

6. The scope of the Audit Partnership's work includes, first, tasks in support of the annual Head of Internal Audit Opinion. This work covers three subjects:

Internal Control

7. Internal control is how the Council assures achievement of its objectives. It includes ensuring effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial governance.

Corporate Governance

8. Corporate governance is the set of rules, practices and processes that direct and control the Council.

Risk Management

9. Risk management is how the Council identifies, quantifies and manages the risks it faces in trying to achieve its objectives.

10. Besides those three core subjects the Audit Partnership may, subject to specific arrangements, undertake engagements in the matters of counter fraud, risk management or consultancy advice as discussed elsewhere in this Charter.

Authority of internal audit

11. Internal Audit is a statutory service as defined within the Accounts and Audit Regulations 2015 (the "Regulations"). These demand the Council evaluates the effectiveness of its risk management, control and governance, considering the Standards.

12. Drawing authority from those Regulations and this Charter, the Audit Partnership has free and unrestricted capacity to plan and undertake audit work judged necessary to fulfil its scope.

13. To enable full performance of its duties, the Head of Audit Partnership and his team:

    - Have direct access to the Committee Chairman;
    - Have unrestricted access to all works, records, property and personnel;
    - Can get help where necessary from Council officers and contractors involved in subject of audit engagements.

14. The Head of Audit Partnership and his team may not perform any of the following, except where directly related to running the Audit Partnership:

    - Perform duties for the Council beyond this Charter's scope;
    - Begin or approve accounting transactions, and
    - Direct the work of any Council employee.

Responsibility

15. The Head of Audit Partnership and his team must always undertake their work in line with the Framework which applies across the global practice of internal audit. This includes, notably, the Code of Ethics for Internal Audit. Also, members of the team who hold membership of professional bodies will comply with the relevant demands of that organisation, including relevant ethical codes. Undertaking work under the Standards will include:

- Developing a flexible risk-based audit strategy and annual plan. We will develop strategies and plans in consultation with senior management and present each year to the Committee for review and approval. We will also invite the Committee to review and approve significant changes to the plan;
- Tracking the status of agreed management actions and providing regular updates to the Audit Committee, including highlighting items of significant risk;
- Issuing period reports to senior management and the Committee summarising results of internal audit work;
- Continuing communication with the Council's external auditors and other assurance providers to seek efficient assurance coverage;
- Communicating regularly with relevant interested parties on progress of the Audit Partnership, its work and findings; and
- Keeping Senior Management up-to-date with Audit Partnership performance.

Reporting lines

16. The Head of Audit Partnership has responsibility for day-to-day management of the Audit Partnership. The Head of Audit Partnership reports to:
    - The Director of Mid Kent Services (an employee of Maidstone Borough Council) as his line manager.
    - The Director of Finance & Business Improvement for matters related to audit work at the Council as a representative of Senior Management.
    - The Committee for matters related to audit work at the Council. This line exists as the Committee are 'those charged with governance'.
17. The Head of Audit Partnership also has a direct right of access to other Senior Management and Members if needed.
18. If the Head of Audit Partnership is not satisfied with the response of Management or officers in supporting audit work he will highlight this first with Senior Management. If the matter remains unresolved the Head of Audit Partnership will raise with the Committee.

Independence and objectivity

19. The Audit Partnership is free from interference in deciding the scope and nature of its work and communicating results. The Head of Audit Partnership will comment on and affirm the independence and objectivity of the service in individual reports and, at least yearly, in summary reports to the Committee. The summary reports will consider and report separately to the Committee on each part of the Audit Partnership's work.

Accountability

20. The Head of Audit Partnership, in performing his duties, will be accountable to the Committee and Senior Management. This will include providing an annual Head of Audit Opinion as well as periodic reporting on significant issues and audit findings.

Management responsibilities

21. To be effective, the Audit Partnership needs full cooperation of senior management. In approving this Charter the Committee and Senior Management direct officers to cooperate with the Audit Partnership in the delivery of the service. This includes, for example:

    - Agreeing suitable briefs for audit work;
    - Acting as audit sponsors;
    - Providing access to suitable records, personnel and information systems;
    - responding to draft reports, and
    - Completing management actions in line with agreed timescales.

22. Senior Management also undertakes to keep the Audit Partnership abreast of significant proposed changes. As well as newly identified significant risks and all suspected or detected fraud, corruption or impropriety.

23. Senior Management will also ensure the Audit Partnership has access to enough resources to fulfil the audit plan as approved by the Committee. Responsibility for arranging and deploying resources to fulfil the plan rests with the Head of Audit Partnership.

Other Work

Consultancy

24. The Standards allow that Internal Audit work may sometimes be more usefully focused towards providing advice rather than assurance. Where suitable, the service may act as consultants by giving advice, providing that:

    - The work's objectives concern governance, risk management or internal control;
    - A member of Senior Management has approved the work;
    - The service has the right skills, experience and available capacity, and

- The Audit Partnership's involvement will not set up a conflict of interest, compromise its independence (in appearance or fact) and will not involve assuming a management role in providing advice.

25. The Head of Audit Partnership is responsible for reviewing all proposals for work against these criteria and for making the final decision on acceptance. We will agree the specific role of the Audit Partnership in any work with the sponsor. We will also document the role within the work plan and report to the Committee at the next opportunity.

26. For significant proposals, the Head of Audit Partnership will consult the Committee Chairman before accepting the work. We define 'significant proposals' as those demanding changes to the agreed audit plan beyond using any otherwise unallocated consultancy time. The Head of Audit Partnership will also consult the Committee Chairman before accepting any work that, in his view, has significant strategic importance to the Council.

Risk Management

27. The IIA position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management* guides the Audit Partnership's role in risk management. The Audit Partnership will not undertake roles defined as inappropriate by that guidance.

28. The position paper lists the following as legitimate internal audit roles with safeguards:

- Coordinating risk management work;
- Consolidated risk reporting;
- Developing a risk approach for approval and its later maintenance;
- Helping identification and evaluation of risks, and
- Coaching management in responding to risks.

29. The Council's *Risk Management Strategy* allows for the Audit Partnership to undertake all of those roles, providing safeguards are in place and agreed through the Audit Charter. The safeguards include:

- Internal separation of duties within the Audit Partnership;

- Time commitment to risk management approved each year by the Audit Committee;
- Overall responsibility for approving the risk management approach remaining with the Committee acting on the advice of the Council's Senior Management.

30. The Committee also keeps its constitutional role of conducting its own assessments on the effectiveness of the Council's risk management approach which may, if wanted, also include independent review.

31. Although not a part of the Council's internal controls, the Committee may also draw assurance from any work completed by the Council's external auditors in completing their work supporting the Value for Money conclusion.

Counter Fraud

32. The Audit Partnership's role on Counter Fraud will follow the Council's *Counter Fraud Strategy* and with the time commitment approved by the Committee in the Audit Plan.

Major Projects

33. Senior Management will keep the Audit Partnership up-to-date with major projects and their progress through continuing discussion. The Audit Partnership's response to major projects will be proportionate to the risk judged when completing audit planning. Where a project team seeks advice or further support from Internal Audit, we will treat that proposal as one for consultancy support as described in the *Consultancy* section of this Charter.

Relationships

34. The Head of Audit Partnership and the audit team hold a wide range of relationships whose quality is important in supporting the effective delivery of the audit service.

Relationships with management

35. The Audit Partnership will preserve effective relationships with managers at the Council. This will include consulting on audit plans both across the Council and for individual projects. We agree audit work timing with project sponsors.

Relationships with external auditors and regulators

36. The Audit Partnership and Grant Thornton LLP have a settled and sound working relationship described in more detail within the *Internal/External Audit Protocol* presented to the Committee in March 2014. We will continue to rely and draw from each other's work subject to the limits determined by our respective responsibilities and professional standards. This enables evaluation and review of the Council's controls leading to repeat work only where necessary for audit standards (internal or external audit). The Audit Partnership and Grant Thornton LLP meet regularly, sharing plans and reports.

37. The Audit Partnership will also take account of the results and reports from any other external inspections or reviews when planning and undertaking audit work. Where suitable the Head of Audit Partnership or properly delegated representative will represent the service in consultation and discussion with external agencies, inspectors or regulators.

Relationships with Members

38. The Head of Audit Partnership will be the first point of contact for Members, in particular members of the Committee. However, we place great store in gaining and preserving an effective working relationship with Members and so will foster good contacts throughout the Audit Partnership as fitting.

39. The Head of Audit Partnership will have the opportunity to meet separately (without other officers present) with the Committee Chairman and other Members if wished.

Quality assurance

40. The Standards demand that the audit partnership maintains a quality assurance and improvement programme. For the Audit Partnership, that programme incorporates both internal and external parts.

Internal assurance

41. Audit engagements are subject to review by management before completion. These reviews seek to ensure that work undertaken is consistent with the Standards, consistent with the risks associated with the subject under review and that conclusions follow the detailed work undertaken. The Audit Partnership varies the range and scope of reviewers to help uphold consistency and support learning within the service.

External assurance

42. An external assessment must take place at least once every five years by a qualified, independent assessor from outside the organisation. The Audit Partnership's most recent such assessment was from by the Institute of Internal Auditors in spring 2015, with results reported to the Committee. The Head of Audit Partnership will keep the need for external assurance under review and discuss choices with Senior Management and the Committee as the need arises.

43. We will consult the Committee before commissioning a full external quality assessment.

MID KENT AUDIT

This Charter is authorised within Maidstone Borough Council:

Director of Finance & Business Improvement: Mark Green

Audit, Governance & Standards Committee Chairman: Councillor Steve McLoughlin

With the agreement of:

Head of Audit Partnership: Rich Clarke

Agreed by Audit, Governance & Standards Committee: January 2019

Next Review required: Annually

Glossary of Terms

Term in Standards	Term in Charter	Further Notes
Chief Audit Executive	Head of Audit Partnership	Includes others who may act in his role,, with his express delegated authority. The Head of Audit Partnership has the pronouns 'he and his' in this document because of the current incumbent in the role but duties and responsibilities would similarly fall on his successors.
Board	The Committee	The *Audit, Governance & Standards Committee* in Maidstone meets the Standards definition of the highest level body charged with responsibility to oversee governance.
Consulting Services	Other Work	Includes all extra services delivered by the audit partnership that do not stem from the risk analysis that underpins the Audit Plan.
Internal Audit Activity	The Audit Partnership	The Council's internal audit service is provided by Mid Kent Audit, working with Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils.
Senior Management	Senior Management	Maidstone Borough Council's Corporate Leadership Team.
Management	Management	People appointed as Heads of Service or Managers by Maidstone Borough Council, or acting in this role with proper delegated authority

AUDIT, GOVERNANCE & STANDARDS COMMITTEE	**14 January 2019**

Treasury Management, Investment and Capital Strategies 2019/20

Final Decision-Maker	Council
Lead Head of Service/Lead Director	Mark Green, Director of Finance & Business Improvement
Lead Officer and Report Author	John Owen – Finance Manager
Classification	Public
Wards affected	None

Executive Summary

This report sets out the draft Treasury Management Strategy, Investment Strategy and Capital Strategy for 2019/20 for consideration by the Audit, Governance & Standards Committee and recommendation to Council for adoption. The strategies are attached as Appendices A-C to this report.

This report makes the following recommendations to this Committee:

1. That the Treasury Management Strategy for 2019/20 attached as Appendix A to this report is agreed and recommended to Council for adoption, subject to any amendments arising from consideration of the Capital Programme by Policy and Resources Committee at its meeting on 23rd January 2019.
2. That the Investment Strategy for 2019/20 attached as Appendix B to this report is agreed and recommended to Council for adoption.
3. That the Capital Strategy for 2019/20 attached as Appendix C to this report is agreed and recommended to Council for adoption.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	14th January 2019
Council	27th February 2019

Treasury Management, Investment and Capital Strategies 2019/20

1. INTRODUCTION AND BACKGROUND

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year must meet cash expenditure. The Treasury Management Strategy assists the Council in achieving this objective while maintaining value for money.

1.2 The first function of the Council's treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

1.4 The council has adopted the Treasury Management in Public Services: Code of Practice 2011 Edition ('the Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA)

1.5 CIPFA defines treasury management as:

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

1.6 The current 2018/19 Strategy was reviewed by this Committee and agreed by Council in February 2018. A mid-year monitoring report was considered by this Committee at its November meeting. Essentially the Council are taking a similar stance with its Strategy for 2019/20, which is:

- to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate;

- 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 investigated where the borrowers offer high security and enable investment over a longer period where funds are not required immediately.

Changes to the Code

1.7 CIPFA revised the 2011 edition of the Code in 2017, which ensures that local authorities also take into account the risks involved with non-treasury investments. CIPFA have therefore recommended that authorities development an Investment Strategy – **Appendix B** and a Capital Strategy - **Appendix C** which set out the Council's risk appetite and specific policies and arrangements for non-treasury investments.

1.8 The three strategy documents are linked and support the overall Medium Term Financial Strategy (MTFS), alluding to the risk appetites around capital investment priorities and funding decisions including borrowing. Below is an illustration of how these documents are linked:

Table A.

MTFS – covers governance, long term plans and financial resourcing

TM Strategy
- Governance
- Long term Planning incl. MRP
- Risk appetite, key risks and sensitivities

Investment Strategy
- Approach, due diligence, risk appetite
- Governance process for approval and monitoring]
- Summary of material investments, guarantees and liabilities

Capital Strategy

1.9 The Treasury Management Strategy (TMS) is set out at **Appendix A** to this report. It is consistent with the requirements of the CIPFA and MHCLG and has been developed in line with currently approved spending and financing proposals.

1.10 The Policy & Resources Committee will consider a capital programme for the period 2019/20 to 2023/24 at its meeting on 23th January 2019. The attached Strategy includes assumptions about the Capital Programme and it is not anticipated that the Capital Programme as finally agreed will differ significantly from these.

1.11 The following table shows the maximum prudential borrowing required to fund the draft capital programme. It is assumed that internal borrowing will be used to fund the 2019/20 programme and the Council will have to borrow externally from then on:

	2019/20 £	2020/21 £	2021/22 £
Capital Programme	21,887,430	9,894,220	8,449,400
Other Funding Streams (incl. New Homes Bonus)	(6,131,000)	(1,080,000)	(863,000)
Maximum Prudential Borrowing	15,756,430	8,814,220	7,586,400
Estimated Internal Borrowing	(9,650,000)	0	0
Expected Borrowing	6,106,430	8,814,220	7,586,400

Investment Strategy

1.12 The Investment Strategy focuses on service investments (supporting local services by lending or buying shares) and commercial investments (property investment to generate a profit).

1.13 The Council has made one loan to Kent Savers for £25,000 in 2017/18 which is repayable in 2022/23 at an interest rate of 1%. However, loans to Maidstone Property Holdings Limited and Cobtree Manor Estates Trust may also be made in the near future for which the interest rate applicable would be at commercial rates. There is a provision for these service loans of £1 million and £310,000 respectively.

1.14 The Council does not currently have any investments in property that are considered to be purely commercial in nature. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects.

Capital Strategy

1.15 The capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.16 The strategy forms part of the Council's integrated revenue, capital and balance sheet planning and requires annual approval by full Council. It sets out the long term context in which capital expenditure and investment decisions are made, and considers risk, reward and impact on the achievement of the Council's priority outcomes identified within the strategic plan.

1.17 Clearly the Capital Strategy has close links with the Treasury Management Strategy, and it is therefore considered appropriate for the committee to review both documents at the same time.

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2. AVAILABLE OPTIONS

2.1 **Option 1:** The Committee could decide not to recommend the strategies to Council. The Council must adopt these strategies for 2019/20 and should the Committee decide not to recommend it would need to recommend an alternative to Council. The strategies are in line with the necessary codes and practice guides and take a low risk approach favouring liquidity and security over return. As such the approach set out within the strategies is considered suitable for this Council.

2.2 **Option 2:** Subject to any legal obligations placed upon the Council, the Committee could amend the strategies prior to recommendation to Council. The Committee would need to provide Council with detailed reasons for the amendments and the risks and benefits that the proposed amendments provide in order for the Council to make a fully informed decision on the recommendation.

2.3 **Option 3:** The Committee could agree the attached strategies and recommend them to Council. The attached strategies have been produced in line with current guidance from CIPFA and the Ministry of Housing for Communities and Local Government (MHCLG). They have also been developed in line with advice and guidance from the Council's Treasury Management Advisors.

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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 The recommended option is Option 3, to recommend to Council the TMS, the investment strategy and the capital strategy as set out in Appendices A-C.

3.2 As stated above, the proposed strategies have been produced in line with current guidance from CIPFA and the Ministry of Housing for Communities and Local Government (MHCLG).

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4. RISKS

4.1 Detailed risk management policies are included within the Treasury Management Practices and have been included in both investment strategies and capital strategies to which the Council adheres to. A brief description of these risks along with the Council's actions to mitigate these risks are as follows:

Liquidity Risk - Liquidity risk is the risk that cash not be available when it is required. The Council has sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected occurrences. The Council also has an overdraft facility with Lloyds Bank of £500,000 plus the option of short term borrowing.

Interest Rate Risk - Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council will seek to minimise this risk by seeking expert advice on forecasts of interest rates from treasury management consultants and agreeing with them its strategy for the coming year for the investment and debt portfolios. It will also determine appropriate limits and trigger points which are set out in the annual Treasury Management Strategy .

Exchange Rate Risk - Exchange rate risk is the risk that unexpected changes in exchange rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes.

Inflation Risk - Inflation risk is the risk that unexpected changes in inflation expose the Council to greater costs or a shortfall in income than have been budgeted for. Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations.

Credit and Counterparty Risk - Credit and counter-party risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties. Due to volatility of the financial market, Treasury Management staff will use information from various sources, eg brokers, Treasury Management Consultants and other local Authority experience to determine the credit worthiness of an institution and to decide if funds are at risk and agree best course of action with Director of Finance & Business Improvement.

Refinancing Risk - Refinancing risk is the risk that when loans or other forms of capital financing mature, that they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets. The Council is currently debt-free, however it will soon be looking to borrow to fund its capital programme in the coming years. In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three year period.

Legal and Regulatory Risk - Legal and regulatory risk is the risk that either the Council, or a third party which it is dealing with in its treasury management activities, acts outside of its legal powers or regulatory requirements and as a result the Council incurs loss. The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. The Authority will provide written evidence of its powers and authorities to any counterparty that requests us to do so. Counterparties will also provide their details to the Authority as a matter of course.

Fraud, Error and Corruption Risk - Fraud, error and corruption risk is the risk that the Council may fail to employ adequate systems, procedures and other arrangements which identify and prevent losses through such occurrences. The Council will seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal checks which minimises such risks along with maintaining records of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out. Delegated members of staff have the responsibility for the treasury management function for the Council and the Director of Finance & Business Improvement authorises who these are. The Council also has a Fidelity Guarantee insurance policy with Zurich Insurance which covers against loss of cash through fraud or dishonesty of employees.

Risk Appetite – The Council takes a slightly higher risk with its non-treasury investments compared to its treasury management investments due to the fact treasury investments are mainly maintaining funds in high security instruments for when they are required and non-treasury decisions are for service delivery which may have to be riskier.

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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 None.

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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 This report will be considered by Council at its meeting on 27th February 2019.

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 as set out in section 3.	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	Director of Finance & Business Improvement

	financial implications are therefore detailed within the body of the report.	
Staffing	None	
Legal	The report is in compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury management in local authorities.	Legal Team
Privacy and Data Protection	None	
Equalities	None	
Crime and Disorder	None	
Procurement	None	

8. REPORT APPENDICES

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

- Appendix A: Treasury Management Strategy
- Appendix B: Investment Strategy
- Appendix C: Capital Strategy

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9. BACKGROUND PAPERS

9.1 None

Treasury Management Strategy

Maidstone Borough Council
2019/20

INDEX

1 INTRODUCTION

1.1 Background

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

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

The council has adopted the *Treasury Management in Public Services: Code of Practice 2017 Edition* ('the CIPFA Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA defines treasury management as:

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

1.2 Reporting requirements

The Council is required to receive and approve the Treasury Management Strategy, which incorporates a variety of policies, estimates and actuals.

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

- the capital plans (including prudential indicators);
- the treasury management strategy (how investments and borrowings are organised) including treasury indicators; and

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

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and determining whether any policies require revision if the assumptions on which this strategy is based were to change significantly. In accordance with guidance issued by Ministry of Housing, Communities and Local Government (MHCLG), the circumstances which may require the council to revise its strategy would include, for example, a large unexpected change in interest rates, or in the council's capital programme or in the level of its investment balance.

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

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

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

1.3 Treasury Management Strategy for 2019/20

The strategy for 2019/20 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;

Treasury management issues

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

1.4 Treasury management consultants

The Council had been using Arlingclose Limited as its external treasury management advisors. However, after a tendering exercise during 2018/19, the Director of Finance and Business Improvement has decided to appoint Link Asset Services (formally Capita Asset Services) from 1st January 2019.

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

The terms of appointment and value gained through use of treasury management consultants will be subject to regular review by the Director of Finance and Business Improvement.

1.5 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Training is offered to members of the Audit, Governance and Standards Committee on a regular basis.

Staff regularly attend training courses, seminars and conferences provided by the Council's Treasury Consultants and CIPFA. Relevant staff are also encouraged to study professional qualifications delivered by CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Staff training needs are assessed regularly both as part of the appraisal process and when the responsibilities of individual members of staff change.

2 THE CAPITAL PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION

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

2.1 Capital expenditure

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

2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000	2022/23 £,000
22,515	21,887	9,894	8,449	8,904

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

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

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

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

The Council will be using its own cash to fund the CFR (internal borrowing) until the time where funding will be required externally.

CFR projections are shown in the table below:

2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000	2022/23 £,000
20,751	36,507	45,322	52,908	60,258

2.3 Affordability prudential indicators

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

Ratio of financing costs to net revenue stream

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

2018/19 %	2019/20 %	2020/21 %	2021/22 %	2022/23 %
-0.9	0.7	1.8	2.6	3.3

2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
-180	148	324	476	623

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

2.4 Minimum Revenue Provision

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the DCLG Guidance) most recently issued in 2012.

The broad aim of the Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The Council expects that its Capital Financing Requirement will be positive on 31st March 2019 and in line with the MHCLG Guidance it will therefore charge MRP in 2019/20.

3 BORROWING

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

3.1 Treasury Indicators: limits to borrowing activity

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

Operational boundary	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Debt	14,907	23,722	31,308	38,658
Other long term liabilities	3,047	2,527	2,010	1,473
Total	17,954	26,249	33,318	40,131

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

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

Authorised limit	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Debt	24,002	42,795	50,898	58,785
Other long term liabilities	3,047	2,527	2,010	1,473
Total	36,507	45,322	52,908	60,258

3.2 Prospects for interest rates

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

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
Arlingclose Central Case	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.17
Downside risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.65
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.17
Arlingclose Central Case	0.80	1.00	1.10	1.20	1.30	1.30	1.25	1.20	1.20	1.20	1.20	1.20	1.20	1.17
Downside risk	0.20	0.50	0.60	0.70	0.80	0.80	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.68
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.33
Arlingclose Central Case	1.05	1.25	1.35	1.40	1.50	1.45	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.37
Downside risk	0.35	0.50	0.60	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.69
5-yr gilt yield														
Upside risk	0.15	0.20	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.15	1.20	1.25	1.35	1.40	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.30
Downside risk	0.30	0.35	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.60	1.65	1.65	1.70	1.75	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	0.30	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.55
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.90	1.95	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.98
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.43
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.80	1.85	1.85	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.88
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.43

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Underlying assumptions:

- The MPC left Bank Rate unchanged at the September meeting, after voting unanimously to increase Bank Rate to 0.75% in August.

- The projected outlook for the UK economy means we maintain the significant downside risks to our interest rate forecast. 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. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

- Cost pressures were projected to ease but have risen more recently and are forecast to remain above the Bank's 2% target through most of the forecast period. The rising price of oil and tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.

- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and 2) higher Bank Rate will offer a more effective policy device should downside Brexit risks crystallise and cuts are required.

- The global economy appears to be slowing, particularly the Eurozone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank is adopting a more strident tone in conditioning markets for the end of quantitative easing, the timing of the first rate hike (2019) and their path thereafter. Meanwhile, European political issues, mostly lately with Italy, continue.

- The US economy is expanding more rapidly. The Federal Reserve has tightened monetary policy by raising interest rates to the current 2%-2.25% range; further rate hikes are likely, which will start to slow economic growth. Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. The central case provided by Arlingclose is for the Bank Rate is to rise twice in 2019. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our interest rate projections, the strength of the US economy and the ECB's forward guidance on higher rates. However, volatility arising from both economic and political events will continue to offer borrowing opportunities.

3.3 Borrowing strategy

Based on current assumptions regarding slippage in the capital programme, it is anticipated that the Council will maintain an under-borrowed position for the current financial year. This means that the capital borrowing need (the Capital Financing Requirement), has been funded using cash supporting the Council's reserves, balances and cash flow as a temporary measure, rather than through loan debt. This strategy is prudent as currently investment returns are low and counterparty risk is relatively high and will be retained for the forthcoming financial year on the assumption that this situation is unlikely to change in the short term. However, if short term cash requirements cannot be met from balances in hand for day to day purposes, the Council has access to a range of sources of short term borrowing options, which includes other local authorities.

The Authorised Limit to borrow up to £50.885m for the financing of capital expenditure and day to day cash flow liquidity within 2019/20 includes the current capital programme and the current prudential indicators. The 2019/20 strategy includes the continuation of that authority within the calculation of the indicators. If the Council is to borrow then the affordability of the capital programme must include an assessment of the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.

Should rates move more quickly than the forecast predicts, the current and proposed strategies do allow the section 151 officer to take advantage of external borrowing. The Council's policy on borrowing in advance of need is set out at section 3.4 of this strategy.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The Council's Treasury Advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
In addition, the Authority may make use of short-term loans to cover unplanned cash flow.

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- capital market bond investors
- any other UK public sector body

- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK public and private sector pension funds (except the Kent County Council Pension Fund)

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

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

3.4 Policy on borrowing in advance of need

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

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £17.4 and £40.18 million. These investment balances are likely to reduce in 2019/20 due to funding of the capital programme with its own cash balances (internal borrowing).

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

Strategy: Given the increasing risk and continued low returns from short-term unsecured bank investments, the council aims to further diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the proposed £5m that is estimated to be available for longer-term investment. The majority of council's surplus cash is currently invested in Local Authority borrowing, short-term unsecured bank/building society deposits, certificates of deposit, money market funds and cash enhanced funds. This diversification will represent a continuation of the new strategy.

Negative interest rates: If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

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

<u>Approved Investment Counterparties and Limits</u>

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£3m 5 years	£5m 20 years	£5m 50 years	£3m 20 years	£3m 20 years
AA+	£3m 5 years	£5m 10 years	£5m 25 years	£3m 10 years	£3m 10 years
AA	£3m 4 years	£5m 5 years	£5m 15 years	£3m 5 years	£3m 10 years
AA-	£3m	£5m	£5m	£3m	£3m

	3 years	4 years	10 years	4 years	10 years
A+	£3m 2 years	£5m 3 years	£5m 5 years	£3m 3 years	£3m 5 years
A	£3m 13 months	£5m 2 years	£5m 5 years	£3m 2 years	£3m 5 years
A-	£3m 6 months	£5m 13 months	£5m 5 years	£3m 13 months	£3m 5 years
None	£1m 100 days	n/a	£5m 25 years	£50,000 5 years	£3m 5 years
Pooled funds	£8m per fund				

The time limits set out above are consistent with the recommended durations provided by the council's treasury management advisors. The cash limits have been set with reference to this guidance, although the upper limit in certain categories of investment exceeds the limit proposed by its advisors in order to meet the operational requirements of the council. The limits adopted within the strategy remain prudent and consistent with ensuring the security of capital and appropriate levels of liquidity.

Credit Rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks Secured: Covered bonds, Tri Party Repos, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing and registered social landlords, formerly known as Housing Associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £500,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

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

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

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

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

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

Investment Limits: In order that available reserves will not be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£8m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£5m per country
Registered Providers and registered social landlords	£5m in total
Unsecured investments with Building Societies	£3m each
Loans to unrated corporates	£50,000 each
Money Market Funds	£8m each fund or fund group

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

Accounting treatment of investments.

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

In-house funds. The majority of investments will be made with reference to the cash flow requirements so invested for short-term interest rates (i.e. rates for investments up to 12 months). However, there is a provision of funds that can be used for longer term investments (greater than 12 months) if it deemed to be prudent by the section 151 officer.

4.2 Treasury Investment strategy

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit score	5.0

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£5m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£50,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£50,000

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

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

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

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

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

Maximum principal sums invested > 364 days				
	2019/20 £000	2020/21 £000	2021/22 £000	2021/22 £000
Principal sums invested > 364 days	5,000	5,000	5,000	5,000

4.3 End of year investment report

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

4.4 Other Items

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

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

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

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the section 151 officer believes this to be the most appropriate status.

Financial Implications: The budget for investment income in 2019/20 is £150,000, based on an average investment portfolio of £20million at an interest rate of 0.75%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Investment Strategy

Maidstone Borough Council
2019/20

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy is new for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £10.8m and £30m during the 2019/20 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2019/20 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council lends money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. The Council has made loans to Kent Savers for £25k in 2017/18 which is repayable in 2022/23 at an interest rate of 1% and an interest free loan to One Maidstone CIC Limirted for £60,000. However, loans to Maidstone Property Holdings Limited and Cobtree Manor Estates Trust may also be made in the near future.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2018 actual			2019/20
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Subsidiaries				1.000
Local businesses	0.085		0.085	0.085
Local charities				0.310
TOTAL	**0.085**	**0**	**0.085**	**1.395**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans by assessing the borrower's ability to repay the loan, based on past financial performance. This is monitored over the period of the loan in line with the agreed repayment terms.

Commercial Investments: Property

Contribution: The Council does not currently have any investments in property that are considered to be purely commercial in nature. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects.

Third Party Loan Commitments and Financial Guarantees

The Authority has contractually committed to repay the loan on behalf of Serco Paisa for works to the leisure Centre which has a balance as at 31st March 2018 of £3.047m.

Capacity, Skills and Culture

Elected members and statutory officers: The Section 151 Officer has ultimate decision making powers on investment decisions and has a number of key officers with the necessary skills to assess such projects, including the Corporate Property Manager, Head of Finance, as well as the use of external consultants.

Each project is evaluated on its affordability and prudence to bear additional future revenue cost associated with each investment. It is established if the use of new or existing revenue resources to finance capital investment over competing needs for revenue expenditure and the scope for capital investment to generate future revenue savings or income, taking into account the risks associated with each proposal.

Commercial deals: The Section 151 Officer is involved with all decision making for capital projects and is aware of the core principles of the prudential framework in regard to the following:

- *service objectives, eg strategic planning for the authority*
- *stewardship of assets, eg asset management planning*
- *value for money, eg option appraisal*
- *prudence and sustainability, eg implications for external debt and whole life costing*
- *affordability, eg implications for council tax*
- *practicality, eg achievability of the forward plan.*

Corporate governance: The investment strategy is reviewed by Audit, Governance and Standards Committee prior to approval by full Council. Investment opportunities will be considered on a case by case basis with reference to the strategy, and a mid-year report will be provided during the year to ensure that the strategy remains fit for purpose.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	**31.03.2018 Actual**	**31.03.2019 Forecast**	**31.03.2020 Forecast**
Treasury management investments	10.4	0.00	0.00
Service investments: Loans	0.085	0.085	1.395
TOTAL INVESTMENTS	10.485	0.085	1.395
Commitments to lend (Serco Loan – Leisure Centre)	3.047	2.527	2.010
TOTAL EXPOSURE	13.532	2.612	3.405

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	**31.03.2018 Actual**	**31.03.2019 Forecast**	**31.03.2020 Forecast**
Treasury management investments	0	0	0.000
Service investments: Loans	0	0	1.000
TOTAL FUNDED BY BORROWING	0	0	1.000

The above table does not include investments funded by borrowing which form part of the Council's capital programme. Details of this expenditure are included within the Capital Strategy.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	**2017/18 Actual**	**2018/19 Forecast**	**2019/20 Forecast**
Treasury management investments	0.44%	0.70%	(0.7)%
Service investments: Loans	1%	1%	3%
ALL INVESTMENTS	1.44%	1.70%	(2.3)%

Capital Strategy

Maidstone Borough Council

2019/20

Introduction

This capital strategy is new for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

The capital strategy is an overarching document linking the TM Strategy, Investment Strategy and also includes the Medium Term Financial Strategy (MTFS) which was agreed by Council on 12th December 2018.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10k are not capitalised and are charged to revenue in year.

- For details of the Council's policy on capitalisation, see: https://www.maidstone.gov.uk/__data/assets/pdf_file/0018/190710/Audited-Annual-Accounts-2017.pdf

In 2019/20, the Council is planning capital expenditure of £21.887m. Detailed below is a list of proposed capital expenditure to 2021/22:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
General Fund services	12.623	22.515	21.887	9.894	8.449

The main General Fund capital projects include:

Project	Total Cost (£m)
Disabled Facilities Grant	5.348
Lenworth House	2.228
Brunswick/Union Street Developments	5.282
Housing Delivery Partnership	15.000
Indicative Schemes: A & B	5.800
Mote Park Visitor Centre and Dam Works	4.389
Town Centre Regeneration Works	2.830

Governance: Service managers submit proposals in October to include projects in the Council's capital programme. Bids are collated by Corporate Finance who calculates the financing cost (which can be nil if the project is fully externally financed). Each Committee appraises the proposals based on a comparison of corporate priorities. Policy

& Resources recommends the capital programme which is then presented to Council in March each year.

Prior to any capital commitment being entered into, a detailed report setting out a full project appraisal and detailed financial projections would be considered by the relevant service committee.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
External sources	9.815	4.991	6.131	1.080	0.863
Own resources	2.808	17.524	9.650	0	0
Debt	0	0	6.106	8.814	7.586
TOTAL	**12.623**	**22.515**	**21.887**	**9.894**	**8.449**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget	
Own resources	0	0	0.419	0.730	0.906	

- The Council's full minimum revenue provision statement is included within the TM strategy item no. 75 of the Agenda: http://aluminum:9080/ieListDocuments.aspx?CId=585&MId=2870&Ver=4

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £15.756m during 2019/20. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
TOTAL CFR	3.227	20.751	36.507	45.322	52.908

Asset management: To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place.

Asset disposals The Council has no plans to sell any of its assets in the forthcoming future, however certain schemes within the capital programme are being partially funded through sale of some of the completed units to partner organisations. The capital expenditure figures have been shown net of these receipts.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
Debt (incl. PFI & leases)	0	0	17.954	26.249	33.318
Capital Financing Requirement	3.227	20.751	36.507	45.322	52.908

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances will be fully utilised to fund the capital programme. This benchmark is currently £11m and is forecast to fall to £2m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Outstanding borrowing	0	0	14.907	23.722	31.308
Liability benchmark	0	3.986	14.907	23.722	31.308

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2018/19 limit	2019/20 limit	2020/21 limit	2021/22 limit
Authorised limit – borrowing	10.418	24.002	42.795	50.898
Authorised limit – PFI and leases	3.568	3.047	2.527	2.010
Authorised limit – total external debt	13.986	36.507	45.322	52.908
Operational boundary – borrowing	3.986	14.907	23.722	31.308
Operational boundary – PFI and leases	3.568	3.047	2.527	2.010
Operational boundary – total external debt	7.554	17.954	26.249	33.318

- Further details on borrowing are in pages 8 to 11 of the treasury management strategy http://aluminum:9080/ieListDocuments.aspx?CId=585&MId=2870&Ver=4

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2018 actual (m)	31.3.2019 forecast (m)	31.3.2020 budget (m)	31.3.2021 budget (m)	31.3.2022 budget (m)
Short-term investments	17.4	8.5	0	0	0
Longer-term investments	0	2.0	2.0	2.0	2.0
TOTAL	**17.4**	**10.5**	**2.0**	**2.0**	**2.0**

- Further details on treasury investments are in pages 12 to 19 of the treasury management strategy http://aluminum:9080/ieListDocuments.aspx?CId=585&MId=2870&Ver=4

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and Business Improvement and staff, who must act in line with the treasury management strategy approved by council. Quarterly reports on treasury management activity are included within the budget monitoring reports which are presented to the council Policy & Resources Committee with the half yearly and annual reviews which are scrutinised by Audit, Governance and Standards Committee then recommending to Full council. The Audit, Governance and Standards Committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Council can make investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth, Charities and the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to provide value for money to the tax payer.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and Business Improvement and relevant committee (where appropriate), must meet the criteria and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on service investments are in pages 2 to 3 of the investment strategy.

Commercial Activities

The acquisition of commercial investment properties is intended to support the local economy and regeneration objectives so does not qualify as Commercial Investment.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Financing costs (£m)	(0.145)	(0.180)	0.148	0.324	0.476
Proportion of net revenue stream	(0.8)%	(0.9)%	0.7%	1.8%	2.6%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend beyond 5 years into the future. The Director of Finance and Business Improvement is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Finance and Business improvement is a qualified accountant with 12 years' experience in local government, the Corporate Property Manager and the team are experienced in Property Management and The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury),and ACCA.

The Council currently employs Link Asset Services as treasury management advisers, a number of property consultants including Harrisons Property Surveyors Limited and Sibley Pares Limited. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE	14 January 2019

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. The two key risks highlighted in the report are continued uncertainty about future local government funding arrangements and the potential financial implications of a disorderly exit from the EU.

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	14 January 2019

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). Council agreed a new MTFS covering the period 2019/20 – 2023/24 at its meeting on 12 December 2018. Given uncertainty about the future, the MTFS included projections based on three different scenarios - favourable, neutral and adverse. These indicated that the budget for 2019/20 is close to being balanced in the neutral scenario, given the various assumptions underlying the projections. However, in 2020/21 the budget gap will be significant under both the neutral and adverse scenarios. Budget proposals which would help to close this gap are currently under consideration by Service Committees.

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. However, the government has now published two consultation papers on the proposed post 2020/21 funding regime which give some indications about the likely shape of the new system.

1.4 The first paper, on Local Authorities' Relative Needs and Resources, outlines the principles for assessing need and allocating resources. The overall amount to be allocated depends on the forthcoming government Spending Review and is therefore unknown at this stage.

1.5 Allocations will take into account 'need', most of which is driven by the size of an authority's population, and an authority's capacity to raise income locally through Council Tax. The paper proposes that the relative level of Council Tax is not taken into account, which means that authorities that have historically had a low Council Tax will not be compensated by central government, as at present.

1.6 The paper states that 'a significantly high notional council tax level may result in a number of authorities that will be expected to meet their needs entirely through their actual council tax income'. Maidstone may well find itself in this position, as the authority that faced the highest bill of any District for negative Revenue Support Grant. This would mean all the business rates that we currently collect being spent elsewhere (as opposed to around 93%, as at present).

1.7 The second paper, on Business Rates Retention Reform, states that the government is responding to councils' wish for greater control over the money that they raise locally. However, it proposes to retain the current system, under which local government's notional share of business rates is redistributed between authorities according to need, with growth above a theoretical baseline retained locally. This means that, in practice, Maidstone only retains around 7% of the business rates that it collects.

1.8 The share of growth retained locally will be 75% in future rather than 50%, as now, but given that the additional 25% will be subject to redistribution, this does not mean any real financial gain other than in relation to growth in excess of the baseline.

1.9 In summary, early indications are that the trend for Maidstone (along with many other District Councils) towards dependence entirely on Council Tax and self-generated income from fees, charges, etc will continue, with no support from central government, and with minimal benefits from the business rates retention regime. Whilst there may be benefits from greater self-reliance, it also means that the Council is more exposed to volatility in the wider economy. The risk arising from changes in local government funding is therefore considered to remain high.

Key risk – Brexit

1.10 At the time of writing, parliament has not voted on the government's Brexit deal. Current indications are that it will not be agreed by parliament, leaving a range of possible outcomes, including either a no-deal Brexit or a postponement of the UK's departure from the EU pending a second referendum.

1.11 The financial impact of a disorderly Brexit for the Council would be two-fold. In the short term, disruption to transport would have major implications for service delivery, with staff not being able to travel into work and congestion hampering services like refuse collection. Contingency planning is under way to address these risks, but in any case there would be additional costs including overtime and staff cover for front-facing roles which cannot be filled through homeworking. The Council would look to recoup these costs from central government, but at this stage we do not know whether they will be underwritten.

1.12 Secondly, there may be adverse longer term effects on the economy, with a knock-on impact for local authorities. A no-deal Brexit could 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 fell.

1.13 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	Greater dependence on self-generated sources of income, hence greater income volatility.	Impact – major (no change) Likelihood – probable (no change)
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 (no change) Likelihood – probable (increased)

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.

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 the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance and 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	The Council has a statutory obligation to set a balanced budget	Director of Finance and

	and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Business Improvement
Privacy and Data Protection	No implications.	Director of Finance and Business Improvement
Equalities	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance and Business Improvement

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.

APPENDIX A

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.

Likelihood	**5**					
	4			**L**	**H,N**	
	3		**B**	**G, M**		
	2		**E**	**C,F**	**A,D**	**J**
	1		**I,K**			
		1	**2**	**3**	**4**	**5**
		Impact				

Black – Top risk

Red – High risk

Amber – Medium risk

Green – Low risk

Blue – Minimal risk

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=**
N. Adverse financial consequences from a disorderly Brexit	**1=**
L. Collection targets for Council Tax and Business Rates missed	**3**
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 2018/19

The following risk register sets out the key risks to the budget strategy 2018/19 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	∑
A	**Failure to contain expenditure within agreed budgets** The Council overspends overall against its agreed budget for the year	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.	- Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2018/19. - Strong controls over expenditure and established process for recovering from overspends	4	2	8
B	**Fees & Charges fail to deliver sufficient income** 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.	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.	- 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	**Commercialisation fails to deliver additional income** The commercial activities currently being delivered and projected in the MTFS do not deliver the expected level of income.	The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy. Income generation from commercial activities supports the revenue budget and is required in	- 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	∑
		ordered to pay back capital investment.	projects within commercialisation strategy will be assessed, both as part of the project appraisal process and during the course of delivering the projects. - Decision made to outsource the management of the Mote Park Café from Spring 2018.			
D	**Planned savings are not delivered** Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget	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. 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.	- 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. - Savings proposals are separately identified and monitored in the Council's general ledger. - The ability to achieve the targeted savings is reported quarterly to Corporate Leadership Team and to Service Committees.	4	2	8
E	**Shared Services** Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.	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.	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.	2	2	4
F	**Insufficient Balances** Minimum balance is insufficient to cover unexpected events	Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.	- The Council has set a lower limit below which General Fund balances cannot fall of £2 million.	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
	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	**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: ○ 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	∑
			.			
J	**Capital Programme cannot be funded** Reduction or total loss of funding sources means that the capital programme cannot be delivered	The main sources of funding are: ○ New Homes Bonus ○ Capital Grants ○ Prudential borrowing ○ Developer contributions (S106) A reduction in this funding will mean that future schemes cannot be delivered.	- Council has been able to fund the capital programme without recourse to borrowing so far, - Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria. - 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.	5	2	10
K	**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.	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. In general these events bring consequences to other agencies and external relationships.	- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents. - Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.	2	1	2
L	**Business Rates & Council Tax collection** Council fails to maintain collection targets for business rates and council tax	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. Business rates due are in excess of £60 million for	- The Council has a good track record of business rates and Council Tax collection. - Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc. - Nonetheless, increasingly difficult	3	4	12

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
		2018/19. 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	**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.	- 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.	Short term - Increased costs in delivering services, eg arising from traffic congestion 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.	- Thorough preparation for Brexit, with an officer Brexit business continuity planning group to co-ordinate our response and liaise with other Kent authorities	4	4	16

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		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	Litigation expected, but defensible Breaches of law punishable by fines	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	Complaint likely, litigation possible Breaches of regs or standards	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	Unlikely to cause complaint Breaches of local procedures	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