AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 15 January 2018
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Adkinson, Butler, Coulling (Parish Representative), English (Vice-Chairman), Field, Fissenden, Mrs Gooch, Harvey, McLoughlin (Chairman) and Perry

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AGENDA Page No.

Issued on Friday 5 January 2018 **Continued Over/:**

Alison Broom

Alison Broom, Chief Executive

MAIDSTONE
Borough Council

PUBLIC SPEAKING

In order to book a slot to speak at this meeting of the Audit, Governance and Standards Committee, please contact 01622 602030 or send an email to committeeservices@maidstone.gov.uk by 5.00 p.m. one clear working day before the meeting. If asking a question, you will need to provide the full text in writing. If making a statement, you will need to tell us which agenda item you wish to speak on. Please note that slots will be allocated on a first come, first served basis.

ALTERNATIVE FORMATS

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, please contact **committeeservices@maidstone.gov.uk or 01622 602030**. To find out more about the work of the Committee, please visit www.maidstone.gov.uk

2017/18 WORK PROGRAMME

Report Title	Work Stream	Committee	Month	Lead	Report Author
Complaints Received Under the Members' Code of Conduct	Updates, Monitoring Reports and Reviews	AGS	Mar-18	Patricia Narebor	Donna Price
Audit & Assurance Plan	Audit	AGS	Mar-18	Rich Clarke	Rich Clarke
Audit Charter Update	Audit	AGS	Mar-18	Rich Clarke	Rich Clarke
Risk Management Update	Audit	AGS	Mar-18	Russell Heppleston	Russell Heppleston & Alison Blake
External Audit Update Report March 2018	Corporate Finance and Budgets	AGS	Mar-18	Mark Green	Ellie Dunnet
External Auditor's Audit Plan 2017/18	Corporate Finance and Budgets	AGS	Mar-18	Mark Green	Ellie Dunnet
Budget Strategy - Risk Assessment Update	Corporate Finance and Budgets	AGS	Mar-18	Mark Green	Mark Green
Update on Impact of Appointment of Public Open Space and Recreation Delivery Officer	Updates, Monitoring Reports and Reviews	AGS	Jun-18	Jen Shepherd	Jen Shepherd

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Agenda Item 11

AUDIT, GOVERANCE AND STANDARDS COMMITTEE	**15th January 2018**

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 during 2016-2017.

This report makes the following recommendations to this Committee:

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

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	15.01.2018

Housing Benefit Grant Claim

1. INTRODUCTION AND BACKGROUND

1.1 Grant Thornton undertook work to certify the Housing Benefit grant claim that was submitted by the Council with a value of £46.7 million with the process completed in advance of the 30th November 2016 deadline set by the Department of Work and Pensions.

1.2 The Auditors undertook a sample check of 60 housing benefit claims across the main areas of expenditure and identified 3 errors. As a result of the errors identified a further sample of 120 cases were checked with 3 further errors identified. The total value of the errors identified was £611.00.

1.3 With the value of errors extrapolated across the subsidy claim a total adjustment of £25,004 was made with the net effect being an increase of £17,280 in the subsidy to be paid to the Council.

1.4 The Revenues and Benefits Service carried out 61,000 benefit assessments during 2016/2017 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 the council has been the exception in not being qualified in previous years.

1.5 The level of adjustment as a result of the audit represents 0.05% of the total grant claim.

1.6 The errors founds and planned actions can be summarised as follows:

Error	Planned action
Incorrect Classification of Overpayments – this error occurred as a result of an officer wrongly classifying the cause of the overpayment. The customer was not affected. Incorrect Calculation of Eligible Rent – this error occurred when an officer entered the incorrect rent. This resulted in the customer being overpaid. The overpayment has been held to be non recoverable. Incorrect Classification of Eligible Overpayments – This error occurred as the assessment officer classifying an overpayment as claimant error following notification from HMRC when the customer had already notified the authority of the change.	The assessment team have been given further training on the issues identified and are aware of the correct procedures. The level of quality assurance checks at the point of processing is being temporarily increased to 100% for all similar claims. An increased level of checking will be undertaken in advance of submitting the 2017/2018 grant claim.

2. AVAILABLE OPTIONS

2.1 The report is provided for information.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 Report is provided for information only.

4. RISK

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

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

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

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6. 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 contents around accurate payment and recording of benefit expenditure	Head of Revenues and Benefits
Financial	The adjustments outlined will result in net extra income of £17,280. 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	Legal Team
Privacy and Data Protection	No Impact	Legal Team
Equalities	No Impact	Policy & Information Manager
Crime and Disorder	No Impact	Head of Revenues and Benefits
Procurement	No Impact	Head of Revenues and Benefits & Section 151 Officer

7. REPORT APPENDICES

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

- Appendix A: Grant Thornton Qualification Letter

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8. BACKGROUND PAPERS

None.

APPENDIX A

GRANT THORNTON CERTIFICATION LETTER

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www.grant-thornton.co.uk

4 December 2017

Dear Mark

Certification work for Maidstone Borough Council for year ended 31 March 2017

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

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2016/17 relating to subsidy claimed of £46.7 million. Further details are set out in Appendix A.

We identified a number of issues from our certification work which we wish to highlight for your attention. Our initial testing identified three new areas where we identified errors, which are covered in further detail within Appendix A. All three of these areas will require additional testing in 2017-18 to determine whether the issues have been sufficiently resolved. The extrapolated financial impact on the claim, which we have reported to the DWP, was again relatively insignificant to the total subsidy receivable.

As a result of the errors identified, the claim was amended and qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2016/17 was £10,433. Due to the additional work required to address the issues we identified, we have agreed an additional fee of £5,000, subject to confirmation from PSAA. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2016/17

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing Benefits Subsidy Claim	£46,681,240	Yes	Classification amendments only – no impact on overall subsidy claimed	Yes	See below for detailed comments on the issues identified in this year's Claim Form.

Findings from certification of housing benefits subsidy claim

Overpayment Classification – Non-HRA Rent Rebates
During our initial testing we identified one case where an overpayment (value of £73) had been incorrectly raised when the claimant had entitlement to benefit for the period in question. Testing of a further sample of 40 similar overpayments did not identify any further errors. Upon extrapolating the initial error, we identified the potential impact of this error is to overstate the affected cell by £152. The identification of this error means testing will be needed on this cell in 2017/18.

Applicable Rent – Rent Allowances
Our initial testing identified an error where assessors had incorrectly calculated the applicable rent for inclusion within a claimant's benefit calculation. This generated an overpayment of £20. Testing of a further sample of 40 affected cases identified a further two cases where the incorrect applicable rent had been applied, leading to further overpayments totalling £3. The extrapolated impact of these errors on the affected cell is £3,710, and as above means we will have to undertake specific testing on this area in 2017/18.

Overpayment Classification – Rent Allowances
Thirdly, our initial testing on Rent Allowances identified one case where the overpayment had been incorrectly classified, with the Council classifying the overpayment as being caused by the claimant, when in fact it was caused by the Council and should have been classified as such. Testing of a further 40 cases identified one further error where the Council had incorrectly classified the overpayment.

The value of these two errors totalled £515, and generated an extrapolated impact on the affected cell of £21,142. Again this will mean that specific testing will be needed in this area in 2017/18.

Recommended actions for officers
We recommend that the Council as part of its internal quality assurance process, should increase its focus or level of testing in respect of the areas where we identified errors from our testing.

Appendix B: Fees for 2016/17 certification work

Claim or return	2014/15 fee (£)	2016/17 indicative fee (£)	2016/17 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£13,041	£10,433	TBC	TBC	As mentioned on Page 1, we will be requesting additional fee in respect of the additional testing performed where errors have been identified. We are currently in discussions with officers to agree this amount before we request formal approval from PSAA.

AUDIT GOVERNANCE AND STANDARDS COMMITTEE	15 January 2018

Annual Governance Statement Update

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

Executive Summary

This report provides an update on the progress with the Annual Governance Statement actions.

This report makes the following recommendations to this Committee:

1. That the Annual Governance Statement update be noted.

Timetable	
Meeting	***Date***
Audit Governance and Standards Committee	15 January 2018

Annual Governance Statement Update

1. INTRODUCTION AND BACKGROUND

1.1 The Annual Statement of Corporate Governance for 2016-17 was considered by the Committee on 26 June 2017. The statement contained an Action Plan for 2017-18. This report provides an update on the progress made with the Action Plan.

1.2 The actions in the plan arose from areas identified in the corporate governance statement as requiring additional action and assurance.

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2. AVAILABLE OPTIONS

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

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 The Committee is asked to consider the updated action plan attached at Appendix A and make recommendations for further action as appropriate.

Areas of Action

3.2 A number areas were identified for action including:

- Engaging with local people
- Member and Officer Relationships
- Risk Management
- Decision Making
- Information Management
- Contract Management
- Audit Reviews with weak assurance in 2016-17

3.3 Action has been taken in all areas identified as set out in Appendix A.

3.4 A resident survey was undertaken in the summer covering the Council's priorities, budget, what people thought about the Council, where they live and our services. The survey results have been used to inform strategic planning. A workshop with Councillors is planned in February as part of the process of updating the communication and engagement strategy in March. Two editions of the council's new in-house magazine "Borough Insight" have been issued this year to all households in the borough.

3.5 Work has continued on Risk Management with workshops on the risk appetite and regular updates on the risk register.

3.6 A new report template has been introduced to improve the quality of Decision Making. Reports and workshops were held with officers on the new template including guidance on committee meetings and procedures.

3.7 Information Management continues to be a priority for the council with the new General Data Protection Regulation due to come into force on 25 May 2018. The Council has appointed a Data Protection Officer as required and the Policy and Information team have been carrying out lifecycle information audits to create an updated retention schedule with the additional information on purposes of processing as required under the regulation.

3.8 Action has been taken to raise the standard of Contract Management, including the appointment of a Contracts and Compliance Officer.

3.9 There were four audits rated as weak last year. Health and Safety and the Hazlitt have now been rated sound. All recommendations have now been completed regarding health and safety and only one recommendation is outstanding for the Hazlitt and the main concerns regarding contract management have been resolved. For the remaining two, all recommendations have now been completed for performance management and it will be assessed by Audit again shortly. For Park and Ride only one recommendation remains outstanding. This relates to issues surrounding contract monitoring procedures and the assessment therefore remains weak.

4. RISK

4.1 This report is presented for information only. The annual review of corporate governance identified further action to be taken on risk management.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

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

6. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	Effective corporate governance arrangements ensure the council's priorities are understood and delivered.	Head of Policy Communications and Governance
Risk Management	The AGS considers and gives assurance on the Council's approach to risk	Head of Policy Communications and Governance

	management.	
Financial	This report has no direct financial implications. Carrying out the actions identified in the AGS helps to ensure that the Council maintains high governance standards.	Section 151 Officer & Finance Team
Staffing	There are implications in relation to training and information management in the action plan for 2017-18.	Head of Policy Communications and Governance
Legal	There are no legal implications identified in the report. The continuing review of the action plan means that measures are in place to ensure good governance arrangements which enable the Council to meet its statutory requirements.	Interim Deputy Head of Legal Partnership
Privacy and Data Protection	The action plan includes actions in this area.	Interim Deputy Head of Legal Partnership
Equalities	Good governance ensures the Council is adhering to the public sector equality duty.	Policy & Information Manager
Crime and Disorder	N/A	Head of Policy Communications and Governance
Procurement	N/A	Head of Policy Communications and Governance

7. REPORT APPENDICES

- Appendix A: Annual Governance Statement Update

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8. BACKGROUND PAPERS

Audit, Governance and Standards Committee 26 June 2017 - Annual Review of Corporate Governance 2016-17

Governance Issue	Lead officer	Action Taken
Engaging with local people	Head of Policy, Communications and Governance	New Customer Care standards in place. 2 editions of Borough Insight delivered. Resident Survey carried out in summer 2017, results to inform service delivery and the refreshed Communication and Engagement Strategy. Refreshed Communication and Engagement Strategy to Policy and Resources Committee in March 2018.
Member and Officer Relationships	Chief Executive and Leadership Team	As a result of the Member Officer Leadership Team Away Day an action plan was created and actions are being completed. Member briefings are being held prior to committee meetings to enable greater attendance. Member sounding board for communication and engagement met in the summer. The next meeting is in February 2018. Regular bulletin and Who's Who produced for Councillors. Regular Strategic Issues Meeting with Group Leaders. Work programme meetings held quarterly.

Governance Issue	Lead officer	Action Taken
Risk Management	Director of Finance and Business Improvement	March 2018 New template introduced with guidance and report writing workshops held. Report on risk appetite statement approved by Policy and Resources Committee. Risk register has been refreshed. Monitoring and reporting arrangements have been strengthened.
Decision Making	Head of Policy, Communications and Governance	Improving report writing – training delivered to report writers on new template. Democratic Services Officers trained to deliver accurate procedural advice in meetings. Governance and code of conduct training delivered. Pre-meeting briefings on topics held for Members. Chairman and Procedural Training delivered. Planning Committee training sessions delivered.
Information Management - Ensure the council is compliant with the new General Data Protection Regulations (GDPR)	Head of Policy, Communications and Governance	Scheduled for March 2018. Action plan in place (audit to be considered in November). A range of guidance (Need to Knows - NTK) has been completed, uploaded on to an Intranet site and advertised for staff to look at. Covers a range of things including: • Dealing with subject access requests

Governance Issue	Lead officer	Action Taken
		• Data Breaches • Requesting consent • GDPR • Privacy Notices. Lifecycle Information audits in the following areas: • Community Protection Team – scoping • Health and Housing – completed and now Action Planning (one outstanding area so we are going to do a Data Protection Impact Assessment as well) • Housing and Inclusion – scoping • Homechoice – completed and action planning • Planning support – completed – follow ups required • Policy and Information - completed and action planning • Parking – completed and action planning • Tourism – completed and action planning • Museum – scoping. Data Protection training completed for the Data Protection Officer and Policy and Information Team Manager and Officer. Staff have completed online data protection training – still some teams to complete this. Briefings held with Staff and managers. Councillor Briefings on GDPR in January: 9 January, 5:30 pm, Town Hall 16 January, 5:30pm, Town Hall 24 January, 5:30pm, Town Hall 30 January, 5:30pm, Town Hall

Governance Issue	Lead officer	Action Taken
Contract Management - Improving consistency and effectiveness of contract management across the council	Director of Finance and Business Improvement	Contracts and Compliance Officer appointed September 2017. Review of contract management processes in progress. Management actions being undertaken to address recommendations identified in recent Internal Audit review of Procurement.
Audit Reviews with weak assurance Hazlitt Theatre Health & Safety Park and Ride Performance Management	Director of Regeneration & Place Mid Kent Services Director Director of Regeneration & Place Director of Finance & Business Improvement	Action has been taken for all four areas. The Hazlitt and Health and Safety audits have been reassessed as Sound following the action taken. Park and Ride remains at weak with one action outstanding in relation to contract monitoring and Performance Management is awaiting a reassessment following completion of the recommended actions.

Agenda Item 14

AUDIT, GOVERNANCE & STANDARDS COMMITTEE	15 January 2018

Counter Fraud & Corruption Policy

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

Executive Summary

This report proposes a refreshed policy setting out how Maidstone Borough Council aims to identify and mitigate the risks of fraud, corruption and wider economic crime. The Policy also sets out how the Council will deal with incidents.

This report makes the following recommendations to this Committee:

1. **Approve** the Counter Fraud & Corruption policy.

Timetable	
Meeting	***Date***
Wider Leadership Team	9 January 2018
Audit, Governance & Standards Committee	15 January 2018

Counter Fraud & Corruption Policy

1. INTRODUCTION AND BACKGROUND

1.1 The Council's present counter fraud policy dates from 2009. While that document remains fundamentally sound, it has fallen out of date against current best practice. There are also specific developments since then, including the *Bribery Act 2010* and *CIPFA's Counter Fraud Code of Practice* that should feature within the Council's policymaking.

1.2 We have aimed to keep the Policy brief and straightforward with much detail included within the appendices. Those appendices are in summary rather than attached here for the following reasons:

- They contain details of investigative method (including, for example, the range and types of information shared) that might aid potential fraudsters.
- They repeat policies already seen by the Committee (including the Whistleblowing Policy).
- They need further detailed development with at-risk services (for instance discussing with public facing, decision making and cash handling departments on specific procedures to identify and address bribery threats).

1.3 However, for a brief overall summary, see the notes below which describe how the Policy addresses the key principles of the *CIPFA Code*.

Key Principle	Policy Approach
1 – Accept responsibility	Includes clear statements on the unacceptability of fraud (e.g. paras 1 to 7) and describing roles and responsibilities of individuals and groups (e.g. paras 13 to 28).
2 – Identify risks	Sets out an approach to identifying fraud risk (para 30), including reference to external and benchmarking data.
3 – Develop a strategy	Overall strategy set out in general procedures (paras 29 to 43) plus specific commitment for annual plan (para 31).
4 – Provide resources	Includes provision for specific annual plan (para 31) and oversight arrangements (para 43).
5 – Take action	Sets out response features (paras 39-40), including seeking sanctions and publicising success. Also includes commitment to upholding training and awareness (para 38).

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2. AVAILABLE OPTIONS

2.1 The Council is not required to have a Counter Fraud & Corruption policy. However, it is in keeping with the Council's desired standards of governance to clearly set out its approach to identifying and tackling economic crime and affirming a robust approach to threat. The Council does currently have a policy that, broadly, conforms to those aims and would allow (but not demand) the extra action set out in Appendix 1.

2.2 Members could, therefore, choose to keep the previous policy.

2.3 Alternatively, the Policy at Appendix 1 conforms to current best practice, in particular in recognising developments since the previous incarnation. It also sets out with more clarity our aims to keep our approach updated year to year for developing risk and providing results to Senior Management and Members. It also clarifies decision making around information and investigation.

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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 We recommend approval of the Policy at Appendix 1. This will direct a more comprehensive approach to tackling fraud and corruption. We will set that out in more detail in the Internal Audit & Governance Plan 2018/19.

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4. RISK

4.1 We have considered the risks associated with this proposal, including the risks if the Council does not act as recommended 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 (Risk Management) Policy.

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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 The Policy was circulated to the Director of Finance and Business Improvement last month and updated for comments. The Policy will also be discussed at a Wider Leadership Team meeting on 9 January. The Head of Audit Partnership will advise Members verbally of any further updates that arise from that meeting.

5.2 The Council is also a member of the CIPFA Counter Fraud Network. Using that membership we have circulated the policy to CIPFA for comment. The document at Appendix 1 reflects those comments.

5.3 We presented to Members in an informal briefing in November 2017 our outline plans for the Policy. In a discussion following that presentation, Members made several points on areas to include, such as stressing the benefits of publicising successful prosecutions. The Policy reflects the feedback from that discussion.

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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 Once agreed, the Policy will inform preparation of our 2018/19 Internal Audit & Governance Plan. Members will see that plan in the Spring and have opportunity to comment on the detail.

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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 by helping enhance the quality of corporate governance.	Rich Clarke Head of Audit Partnership 3 January 2018
Risk Management	See section 4	
Financial	The proposals set out in the recommendation are all within already approved budgetary headings and so need no new funding. It is consistent with the principles of good governance to have in place a robust Counter Fraud & Corruption Policy.	Section 151 Officer & Finance Team
Staffing	We will deliver the recommendations with our current staffing. The Mid Kent Audit team includes 3 officers with relevant professional qualifications. We will keep the required level of experience and expertise under review.	Head of Service
Legal	The Council is free to set out policies on how it will address economic crime risk and incidents. The actions set out in the policy are within the Council's powers, which include investigating incidents and (potentially) referring for prosecution.	Legal Team
Privacy and Data Protection	The Policy includes references to how we will use information to help identify and address risks of Economic Crime. The Policy also sets out that we will share information with others where useful and efficient. We will undertake all data sharing in line with applicable laws and policies.	Legal Team

Issue	Implications	Sign-off
Equalities	The recommendations do not propose a change in service that require an equalities impact assessment.	Rich Clarke Head of Audit Partnership 3 January 2018
Crime and Disorder	The Policy aims to improve the Council's approach in dealing with specific forms of crime.	
Procurement	The Policy does not require any immediate procurement. Any future procurement exercises for products or services that would enhance our approach will be undertaken in line with applicable Contract Standing Orders.	

8. REPORT APPENDICES

- Appendix 1: Counter Fraud and Corruption Policy

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9. BACKGROUND PAPERS

CIPFA Code of Practice for Counter Fraud -
http://www.cipfa.org/services/counter-fraud-centre/code-of-practice

Existing Corporate Anti-Fraud and Corruption Policy -
http://vindex/HR/Documents/Corporate%20Anti%20Fraud%20and%20Corruption%20Policy.pdf

Counter Fraud & Corruption Policy

Maidstone Borough Council

Policy Owner (Officer): Head of Audit Partnership
Policy Owner (Members): Audit, Governance & Standards Committee

Preparation Date: January 2018
Next Full Review: January 2020

Introduction

1. All fraud, bribery and corruption (collectively referred to as Economic Crime) is unacceptable . The Council will not tolerate any Economic Crime that comes to its attention. Economic Crime diverts resources and limits the capacity of the Council to improve the lives and opportunities for its residents, businesses and visitors.

2. The Council should therefore safeguard its funds and resources against those minded to commit Economic Crime. This includes creating and upholding a culture of high ethical standards, honesty and transparency.

3. This policy aims to:

- Explain how the Council intends to tackle Economic Crime
- Provide guidance to Officers, and
- Ensure Officers can recognise Economic Crime and understand reporting needs.

Policy Statement

4. We seek to ensure we properly protect our resources from fraud, bribery and other economic crime.

5. The Section 151 Officer is responsible for overseeing and providing strategic management and support for work to tackle Economic Crime.

6. Officers must report any suspicions of Economic Crime as soon as possible to ensure proper investigations, minimise losses and maximise the chances of financial recovery. We set out routes for reporting in the Whistleblowing Policy (Appendix D) and summary reporting flow chart (Appendix A).

7. Mid Kent Audit will lead investigations into Economic Crime, calling on the expertise of other partner agencies (including the police) as needed. The decision on involving other agencies rests with the Head of Audit Partnership, after suitable consultation.

8. Under no circumstances should any Officer themselves begin an investigation into suspected or alleged Economic Crime.

9. All Officers must cooperate with investigations into Economic Crime. This includes:

- Providing information and intelligence
- Making time and documentation available to the investigators on request, and
- Not revealing information about open investigations to unauthorised people.

10. We will ensure consistency, fairness and objectivity in all our investigative work.

11. We encourage everyone to report genuine suspicions. We will provide all reasonable protection to those who raise genuine concerns in good faith. However, we will not tolerate malicious allegations and these may result in further action.

12. We will seek all available sanctions against those found to have committed Economic Crime. These include criminal, civil and disciplinary sanctions. We will also aim for repayment of any financial gain from individuals involved in Economic Crime.

Roles and Responsibilities

Members

13. As elected representatives, all Members of the Council have a duty to act in the public interest and do what they can to ensure the Council uses its resources properly.

14. Members therefore work within the Constitution which includes the Code of Member Conduct and Financial Regulations.

15. We encourage Members to use the reporting routes set out in appendices A and D to record any concerns or suspicious activity that comes to their notice.

Officers

16. We expect all officers to be alert to the possibility of Economic Crime and report any suspicious activity. We list possible channels for reporting at appendix D.

17. We also expect officers to apply with apt Code of Conduct and Council policy and procedures. Failing to adhere to policy and procedures may result in disciplinary action.

18. Officers must also properly account for and safeguard the money and assets in their charge.

Partners, suppliers, contractors and consultants

19. We expect all people and organisations working with the Council to be aware of the possibility of Economic Crime and report any genuine concerns or suspicions. We may demand specific adherence to this or similar policies in significant partnership arrangements.

Specific roles and responsibilities

20. Chief Executive: Overall accountability for the effectiveness of the Council’s arrangements for tackling Economic Crime.

21. Section 151 Officer: To ensure the Council has adopted a fitting strategy, upholding an effective control environment and an adequately resourced and effective internal audit service to deliver detailed work on tackling Economic Crime.

22. Monitoring Officer: To advise Members and Officers on ethical issues, standards and powers to ensure the Council works within the law and Codes of Practice.

23. Audit, Governance & Standards Committee: To oversee the Council's strategies and policies and consider the effectiveness of arrangements for tackling Economic Crime.

24. External Audit: Statutory duty to ensure the Council has acceptable arrangements in place for ensuring economy, efficiency and effectiveness in its use of resources.

25. Head of Audit Partnership: Acts as Head of Counter Fraud in developing and carrying out this policy and providing suitable advice to Officers and Members. Also responsible for overseeing investigation of any reported issues and ensuring the Council deals with all suspected or reported irregularities quickly and suitably.

26. Mid Kent Audit: To consider and recommend action necessary to improve controls arising from irregularities and so reduce the risk of recurrence.

27. Management: To promote staff awareness and ensure prompt reporting of all suspected or reported irregularities. Also to put in place proper means within their services to assess the risk of fraud and other economic crime and to reduce those risks through effective control.

28. Mid Kent Human Resources: Advising with taking forward disciplinary proceedings against employees who have committed an offence. It is not unusual for criminal and disciplinary investigations to overlap. If there is overlap, the Council should seek to investigate separately but with close liaison. This may include sharing information at suitable times.

General Corporate Level Procedures

29. We will ensure there is support for work to tackle Economic Crime and all levels within the Council. We note CIPFA's Code of Practice on managing risk of fraud and corruption (*Fighting Fraud Locally*) and draw three key themes to support our approach.

Acknowledge and inform

- Assess and understand fraud risk
- Committing to tackling economic crime
- Preserving a robust response

Prevent and deter

- Using information and technology
- Improving controls
- Developing and maintaining a strong ethical culture

Pursue and hold to account

- Prioritising recovery and use of sanctions
- Collaboration
- Monitoring and reporting

Assessing and understanding fraud risk

30. We will continue development of this policy and strategy through gaining a clear understanding of the threat, emerging risks, trends and savings when dealing with Economic Crime. We will complete this risk assessment referring to benchmarking and published information (for example, CIPFA's Fraud Survey) at least yearly.

Committing resource

31. The risk assessment will support an annual plan for approval of Members as part of the Internal Audit & Assurance plan. This will include proactive targeting of higher risk topics, raising staff awareness and providing training and support materials.

Preserving a robust response

32. We will ensure all our Officers understand what Economic Crime is and their role in tackling it. This will include following the correct reporting procedures, especially Whistle-Blowing, and making sure suitable secure reporting channels remain available. We will also take seriously and act on reports of suspected Economic Crime.

Using Information and Technology

33. We will seek to make use of the information we hold in assessing risk and prevention and detection of Economic Crime. We may use personal information and data-matching to detect and prevent fraud, and ensure spending of public money in the most cost effective way.

34. We may also share information with others responsible for auditing or managing public funds.

Improving Fraud Controls

35. The most effective method of tackling Economic Crime is prevention. We will work over time to realign resources towards prevention and deterrence. This will include considering fraud risk in designing new systems and in general risk assessments of new and continuing ventures.

36. We will also consider developing best practice in the field, and learning from others. For example, by regular review of CIPFA's Code of Practice and other publications and membership of and engagement with relevant professional bodies.

37. We will also refer matters arising from investigations. Whatever their result, we will consider whether there are lessons for the Council to learn in improving controls.

Developing and Upholding a strong ethical culture

38. The culture and tone of the Council must be one of honesty with zero tolerance towards fraud and corruption. We show this already through codes of conduct for officers and members, but will continue to reinforce the right culture by:

- Raising awareness of Economic Crime with training for new and existing Officers and Members, making use of e-learning packages where fitting.
- Publicising the successes of efforts to tackle Economic Crime so the risk and result of detection are clear to potential offenders.

Prioritising recovery and use of sanctions

39. We will seek to ensure those who have committed Economic Crime are held to account for their actions; crime must not pay. Where we discover economic crime we will consider a full range of sanctions, including civil, disciplinary and criminal action. We will also seek to recoup losses and confiscate assets gained from crime.

40. Criminal prosecutions deter potential offenders and reinforce our lack of tolerance for economic crime. Successful prosecutions need professional investigation to ensure evidence gathering complies with law. Investigative staff must have proper training, suitable skills and access, where necessary, to specialist support to secure effective prosecution.

Collaborating with Others

41. We recognise that organised crime in particular works across boundaries and services. Effective cooperation and working with other agencies (including the Police) will be essential in developing and ensuring the success of our response.

42. This may include, in particular, sharing data and information with partner agencies. Where we do share data, we will do so in line with relevant laws and rules. We note such laws often specifically allow sharing in this circumstance (for example section 29 of the DPA 1998). We will also join regional and national data sharing exercises, such as the National Fraud Initiative, to help improve our work in tackling Economic Crime.

Monitoring and Reporting

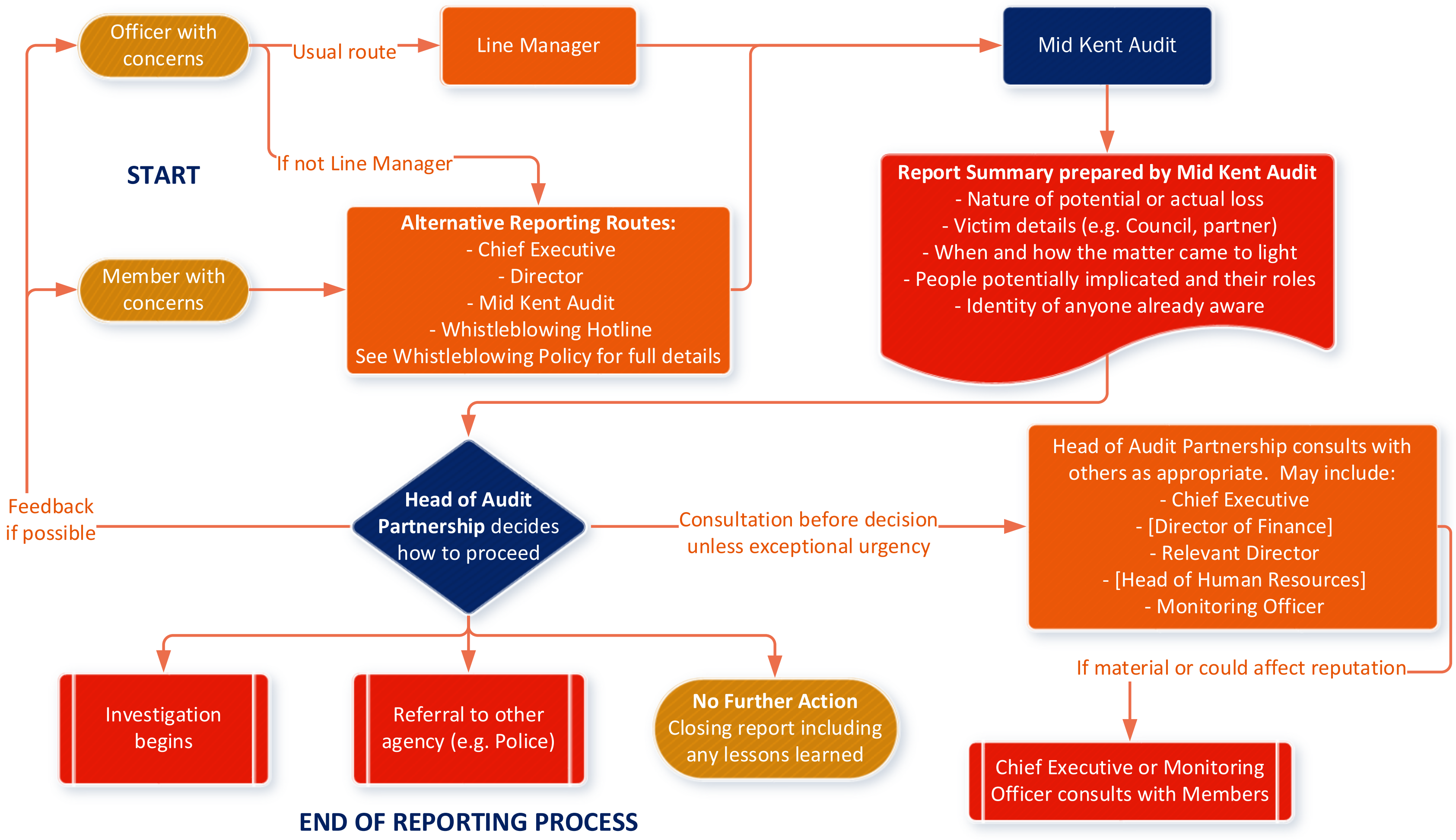
43. We will provide regular updates to Senior Management and Members on reported Economic Crime and result of investigations. We will also report progress towards delivery of each year's counter fraud plan.

Further Advice and Support

44. We recognise the primary responsibility for prevention and detection of fraud rests with management. It is essential that Officers report irregularities or suspected irregularities to their line manager or, alternatively, to the Head of Service or Mid Kent Audit. We will provide all reasonable protection to those who raise genuine concerns in good faith.

45. If you have a matter you wish to discuss, you can contact the Head of Audit Partnership on extension 2056 or rich.clarke@midkent.gov.uk for confidential advice.

Appendix A: Counter Fraud & Corruption – Reporting Process



Appendix B – Economic Crime Offences

Fraud

The Fraud Act 2006 defines three principal ways of committing fraud:

- Fraud by false representation (section 2);
- Fraud by failing to disclose information (section 3), and
- Fraud by abuse of position (section 4).

For fraud to occur, the person's conduct must be dishonest. It must also intend to make a gain, or cause loss (or risk of loss) to someone.

The gain intended does not have to be personal for the individual, but could be for another person (who does not even need to know of the conduct).

It is not necessary for the conduct to succeed to be a crime. Even where the Council detects fraud before suffering loss, the person may have committed a criminal offence.

The Fraud Act also covers behaviour often known by other names, such as deception, forgery, extortion, conspiracy, embezzlement, misappropriation, peculation or false accounting.

Fraud carries a maximum sentence of 10 years imprisonment and an unlimited fine. Offenders may also face resulting action seeking to recover any assets gained because of criminal acts.

Bribery and Corruption

Bribery is giving or offering someone a financial or other advantage aiming to encourage that person to perform their duties improperly or to reward someone for having done so. It also covers asking for, agreeing to receive or accepting the advantage offered.

The Bribery Act 2010 reformed the law of bribery, making offences clearer and helping tackle it proactively. This includes separate offences for offering a bribe (section 1) and accepting a bribe (section 2).

It also introduced a corporate offence, which means the Council (and its individual senior officers) could face exposure to criminal liability for failing to prevent bribery (section 7).

What might form a 'bribe' is much broader than just money. It includes offering, seeking or accepting any advantage which can include gift, services or offers of employment.

Bribery carries a maximum sentence of 10 years imprisonment and an unlimited fine. Offenders may also face resulting action seeking to recover any assets gained because of criminal acts.

Theft

Under the Theft Act 1968, theft is physical misappropriation of any tangible assets. A person is guilty if they dishonestly appropriate property belonging to another with the intention of permanently depriving the other of it.

Theft carries a maximum sentence of 7 years' imprisonment. Offenders may also face resulting action seeking to recover any assets gained because of criminal acts.

Money Laundering

The Money Laundering Regulations set out that this is how criminals seek to disguise the origins and ownership of the results of their crimes. The intended result is to leave the criminal with money that no one can trace back so the criminal can then use it without suspicion.

Councils are increasingly used by criminals as unwitting parties in money laundering scams. All employees should be aware of the risk of money laundering and follow the procedures set out when they see suspicious transactions.

Economic Crime related to Council Tax and Business Rates

The Council keeps a separate Revenues Compliance team who lead on efforts to prevent and detect Economic Crime in these fields. See separate policies for further information.

Appendix C – Economic Crime Investigation Protocol

[Information about the process of undertaking an investigation, including specifics on the roles of officers in supporting investigation. For example, on safeguarding evidence and submitting to interview. This appendix will not be published in full outside the audit team or with advice from the audit team as it gives details of method].

Appendix D – Whistleblowing Policy & Procedures

[Existing policy will be copy/pasted into this document, with minor updates to reflect changes to communication systems since its original agreement].

Appendix E – Anti Bribery Policy & Procedures

[Further detail, including specifics on what we regard as 'adequate procedures' to act as a shield against the section 7 Corporate offence. Also will include information on 'facilitation payments' and other euphemisms that might seek to cover offences. Will be developed after further consultation with officers in relevant services].

Appendix F – Anti Money Laundering Policy & Procedures

[Policy and procedures maintained by Finance, will copy/paste existing position into this document].

Appendix G – Investigation Liaison Protocols

[Any specific intra-council protocols. One already exists between audit/HR and there is scope for similar between audit/legal and audit/IT. These will be added to this document as they are developed. Could potentially include protocols with third parties, but they are more likely to be case-by-case. Will not be published in full outside the audit team and relevant services as they will give details of method].

AUDIT, GOVERNANCE & STANDARDS COMMITTEE	15 January 2018

Treasury Management Strategy 2018/19

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 for 2018/19 for consideration by the Audit, Governance & Standards Committee and recommendation to Council for adoption. The strategy statement and associated documents 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 2018/19 attached at 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 24th January 2018.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	15th January 2018
Council	28th February 2018

Treasury Management Strategy 2018/19

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). 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."*

1.5 The current 2017/18 Strategy was reviewed by this Committee and agreed by Council in March 2017. 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 2018/19, 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 sought due to the high security of the borrower which enables investment over a longer period where funds are not required immediately.

1.6 The strategy statement is set out at **Appendix A** to this report. It is consistent with the requirements of the CIPFA and DCLG and has been developed in line with currently approved spending and financing proposals.

1.7 **Appendix B** details the proposed list of investment counterparties based on current ratings against the selection criteria set out in the strategy.

1.8 The Policy & Resources Committee will consider a capital programme for the period 2018/19 to 2022/23 at its meeting on 24th January 2018. 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.

1.9 This strategy is compiled in accordance with the current Treasury Management Code of Practice. The Government has recently consulted on proposed changes to the Prudential Framework. The Government's proposed changes, as circulated for consultation, are not so restrictive as to prevent the relatively limited use of prudential borrowing anticipated by the Council. However, if the changes finally implemented to the Prudential Framework require the Treasury Management Strategy to be amended, an updated strategy will be presented to the Audit, Governance & Standards Committee for scrutiny during 2018.

1.10 The following table shows the maximum and expected prudential borrowing required to fund the draft capital programme. The maximum borrowing limit excludes any internal borrowing:

	2018/19 £	**2019/20 £**	**2020/21 £**
Capital Programme	23,947,645	22,635,500	15,303,330
Other Funding Streams (incl. New Homes Bonus)	(4,000,000)	(4,200,000)	(800,000)
Maximum Prudential Borrowing	19,947,645	18,435,500	14,503,330
Estimated Internal Borrowing	(18,401,000)	0	0
Expected Borrowing	1,546,645	18,435,500	14,503,330

1.11 The prudential indicators for the proposed strategy are set out within **Appendix C** to this report.

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2. AVAILABLE OPTIONS

2.1 **Option 1:** The Committee could decide not to recommend the strategy to Council. The Council must adopt a strategy for 2018/19 and should the Committee decide not to recommend the attached strategy it would need to recommend an alternative to Council. The strategy is in line with the necessary codes and practice guides and takes a low risk approach favouring liquidity over return and as such is considered suitable for this Council.

2.2 **Option 2:** Subject to any legal obligations placed upon the Council, the Committee could amend the strategy prior to recommendation to Council. The Committee would need to provide Council with detailed reasons for the amendment and the risks and benefits that the proposed amendment provides in order for the Council to make a fully informed decision on the recommendation. Areas where amendments could be made include the following, which are detailed along with current reasons for not changing

2.2.1 Limits: the proposed strategy allows maximum investments with certain institutions of £8m. The current limit could be retained, increased or reduced. Given the difficulty in identifying opportunities to lend at suitable rates within the counterparty list, it is considered appropriate to incorporate sufficient flexibility by retaining the current limit for investments with the most secure organisations.

2.2.2 Counterparties: the proposed strategy allows non-specified investments with other local authorities and the rated/unrated building societies that are within Arlingclose's suggested counterparty list. The strategy could propose to utilise additional counterparties from the non-specified investments group. However, due to the fact that this would involve an increased level of risk to the security of the council's cash, this is not considered to represent a prudent course of action.

2.2.3 Alternative use of cash: the resources invested in expenditure could be utilised to deliver key priority outcomes. However the core cash held by the Council is either set aside for future expenditure, such as the capital programme, or held as a form of risk mitigation, such as the minimum level of revenue balances. To utilise these resources for alternative projects could compromise liquidity and put the Council at future risk should an unforeseen event occur.

2.2.4 External Fund Managers: by appointing external managers local authorities may possibly benefit from security of investments, diversification of investment instruments, liquidity management and the potential of enhanced returns. Managers do operate within the parameters set by local authorities but this involves varying degrees of risk. This option has been discounted on the basis of the risk which would make it difficult to ascertain a suitable sum to assign to an external manager.

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

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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 The recommended option is Option 3, to recommend to Council the strategy set out in Appendix A. In agreeing this option the committee should note the potential change in the level of prudential borrowing if there are any changes to the council's proposed capital spending plans.

3.2 As stated above, the proposed strategy has been produced in line with current guidance from CIPFA and the Department for Communities and Local Government (DCLG).

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4. RISKS

4.1 Detailed risk management policies are included within the Treasury Management Practices 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 Statement .

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.

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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 28th February 2018.

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 financial implications are therefore detailed within the body of the report.	Director of Finance & Business Improvement
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 Statement
- Appendix B: Proposed List of Investment Counterparties
- Appendix C: Prudential Indicators

9. BACKGROUND PAPERS

9.1 None

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Maidstone Borough Council
2018/19

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 2011 Edition* ('the 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);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how investments and borrowings are organised) including treasury indicators; and
- an investment strategy (the parameters for how investments are to be managed).

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

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and determining whether any policies require revision if the assumptions on which this strategy is based were to change significantly. In accordance guidance issued by Department for Communities and Local

Government (DCLG), 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.

1.3 Treasury Management Strategy for 2018/19

The strategy for 2018/19 covers two main areas:

Capital issues

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

Treasury management issues

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

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

1.4 Treasury management consultants

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

Responsibility for treasury management decisions ultimately remains within the 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 Arlingclose 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:

2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000
14,146	23,948	22,636	15,303	5,025

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.

CFR projections are shown in the table below:

2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000
-18,401	1,547	19,982	34,486	38,711

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.

2017/18 %	2018/19 %	2019/20 %	2020/21 %	2021/22 %
-0.6	-0.4	1.1	2.5	2.9

2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
-105	-77	210	449	528

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

2.4 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the five year capital programme recommended in this budget cycle compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support.

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

	2017/18 £.p	2018/19 £.p	2019/20 £.p	2020/21 £.p	2021/22 £.p
Council tax - band D	0.09	0.75	0.92	0.53	0.00

2.5 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 negative on 31st March 2018 and in line with the DCLG Guidance it will therefore charge no MRP in 2018/19.

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 therelevant 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	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Debt	0	1,547	19,982	34,486
Other long term liabilities	4,033	3,526	3,005	2,483
Total	4,033	5,073	22,987	36,969

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	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Debt	4,000	5,547	23,982	38,486
Other long term liabilities	4,033	3,526	3,005	2,483
Total	8,033	9,073	26,987	40,969

3.2 Prospects for interest rates

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

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.19
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.22
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.20
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.27
Arlingclose Central Case	0.70	0.70	0.70	0.70	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.77
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	-0.26
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	0.75	0.75	0.80	0.80	0.80	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	0.89
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.25	1.25	1.25	1.25	1.25	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.55	1.36
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.85	1.85	1.85	1.85	1.85	1.90	1.90	1.95	1.95	2.00	2.05	2.05	2.05	1.93
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.38
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
Arlingclose Central Case	1.70	1.70	1.70	1.70	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.95	1.95	1.82
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.39

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. Ongoing decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- The MPC minutes emphasised that any prospective increases in Bank Rate would be expected to be gradual and to a limited extent.
- It is expected that the depreciation in sterling may assist the economy to rebalance away from spending while export volumes are likely to increase.
- Arlingclose suggest that gilt yields will remain broadly stable across the medium term. Upward movement will be limited.

3.3 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing

Requirement), has been funded using cash supporting the Council's reserves, balances and cash flow as a temporary measure, rather than through loan debt. This strategy is prudent as currently investment returns are low and counterparty risk is relatively high 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 £5,547m for the financing of capital expenditure and day to day cash flow liquidity within 2018/19 is included in the current capital programme and the current prudential indicators. The 2018/19 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 foregone 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. Arlingclose 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 2018/19 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 2018/19, 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
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK public and private sector pension funds (except the Kent County Council Pension Fund)

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

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

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:

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

3.4 Policy on borrowing in advance of need

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

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £14.6 and £39.9 million.

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

Strategy: Given the increasing risk and continued low returns from short-term unsecured bank investments, the council aims to further diversify into more secure and/or higher yielding asset classes during 2018/19. 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 deposits, certificates of deposit, money market funds and cash enhanced funds. This diversification will represent a continuation of the new strategy.

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 3 years	£5m 4 years	£5m 10 years	£3m 4 years	£3m 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, Arlingclose. 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 Arlingclose 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 Fitch, Moody's or Standard & Poor's. 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 an insignificant risk of insolvency. 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, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds: Shares 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.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

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. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

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

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

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

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

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

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

Non-Specified Investment Limits

	Cash limit
Total long-term investments	£5m
Total investments without credit ratings or rated	£5m

below A-	
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£8m
Total non-specified investments	£18m

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

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

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

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 £8 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	£5m per broker
Foreign countries	£5m per country
Registered Providers	£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.

Non-Treasury Investments
Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the DCLG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses and landlords, or as equity investments and loans to the Authority's subsidiaries.
Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

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 Investment strategy

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

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

Maximum principal sums invested > 364 days			
	2018/19 £000	**2019/20 £000**	**2020/21 £000**
Principal sums invested > 364 days	5,000	5,000	5,000

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

	2018/19 £000	2019/20 £000	2020/21 £000
Upper limit on fixed interest rate exposure	-38,453	-20,018	-5,514
Upper limit on variable interest rate exposure	-32,000	-32,000	-32,000

The upper limit on fixed interest rates incorporates maximum borrowing of £10.36m within the strategy which reduced the negative investment limit within 2018/19. The upper limit on variable interest rate exposure is calculated as being 80% of the projected highest level of investments during 2018/19.

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%	100%
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

4.3 End of year investment report

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

4.4 Other Items

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

The council 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.

This strategy is compiled in accordance with the current Treasury Management Code of Practice , however due to the consultation in relation to the proposed changes to the Prudential Framework of Capital Finance, an amended report may be presented to the Audit, Governance & Standards Committee for scrutiny during 2018. It is predicted that the results of the consultation will be circulated in January 2018.

INVESTMENT COUNTERPARTY LIST

Appendix B

UK Institutions

Banks	Group	Unsecured Investments Duration	Amount	Credit Rating
Bank of Scotland Plc	1	6 months	£3,000,000	A+
Barclays Bank Plc		100 days	£3,000,000	A+
Close Brothers Limited		6 months	£3,000,000	A
Goldman Sachs Int Bank		100 days	£3,000,000	A
HSBC Bank Plc		6 months	£3,000,000	AA-
Lloyds Bank Plc	1	6 months	£3,000,000	A+
National Westminster Bank Plc	2	35 days	£2,000,000	BBB+
Royal Bank of Scotland Plc	2	35 days	£2,000,000	BBB+
Santander UK Plc		6 Months	£3,000,000	A
Standard Chartered		100 days	£3,000,000	A+

Building Societies	Unsecured Investments Duration	Amount	Credit Rating
Coventry Building Society	6 months	£3,000,000	A
Darlington Building Society	100 days	£1,000,000	Unrated
Furness Building Society	100 days	£1,000,000	Unrated
Hinckley & Rugby Building Society	100 days	£1,000,000	Unrated
Leeds Building Society	100 days	£3,000,000	A-
Leek United Building Society	100 days	£1,000,000	Unrated
Mansfield Building Society	100 days	£1,000,000	Unrated
Marsden Building Society	100 days	£1,000,000	Unrated
Melton Mowbray Building Society	100 days	£1,000,000	Unrated
National Counties Building Society	100 days	£1,000,000	Unrated
Nationwide Building Society	6 months	£3,000,000	A+
Newbury Building Society	100 days	£1,000,000	Unrated
Scottish Building Society	100 days	£1,000,000	Unrated
Tipton & Coseley Building Society	100 days	£1,000,000	Unrated

Non-UK Institutions	Country	Unsecured Investments Duration	Amount	Credit Rating
Australia & New Zealand Banking Group	Australia	6 months	£3,000,000	AA-
Commonwealth Bank of Australia	Australia	6 months	£3,000,000	AA-
National Australia Bank	Australia	6 months	£3,000,000	AA-
Westpac Banking Group	Australia	6 months	£3,000,000	AA-
Bank of Montreal	Canada	6 months	£3,000,000	AA-
Bank of Novia Scotia	Canada	6 months	£3,000,000	AA-
Canadian Imperial Bank of Commerce	Canada	6 months	£3,000,000	AA-
Royal Bank of Canada	Canada	6 months	£3,000,000	AA
Toronto Dominion Bank	Canada	6 months	£3,000,000	AA-
Danske Bank	Denmark	100 days	£3,000,000	A
OP Corporate Bank	Finland	6 months	£3,000,000	AA-
Landesbank Hessen-Thuringen (Helaba)	Germany	6 months	£3,000,000	A+
ING Bank	Netherlands	100 days	£3,000,000	A+
Rabobank	Netherlands	13 months	£3,000,000	AA-
DBS Bank Ltd	Singapore	13 months	£3,000,000	AA-
Oversea-Chinese Banking Corp	Singapore	13 months	£3,000,000	AA-
United Overseas Bank	Singapore	13 months	£3,000,000	AA-
Nordea Bank AB	Sweden	13 months	£3,000,000	AA-
Svenska Handelsbanken	Sweden	13 months	£3,000,000	AA
Credit Suisse	Switzerland	100 days	£3,000,000	A

MONEY MARKET FUNDS (AAA RATED)	Group	Amount	
Goldman Sachs		£8,000,000	AAA
Standard Life	1	£8,000,000	AAA
Federated	2	£8,000,000	AAA

CASH ENHANCED FUNDS (AAA RATED)	Group	Amount	
Standard Life	1	£8,000,000	AAA
Federated	2	£8,000,000	AAA

LOCAL AUTHORITIES	Amount	
Districts, Boroughs, Unitaries and Counties	£5,000,000	-

Government Stock	Amount	
UK Government	Unlimited	-

PRUDENTIAL INDICATORS

Ratio of Financing Costs to Net Revenue Stream

2017/18 %	2018/19 %	2019/20 %	2020/21 %	2021/22 %
-0.6	-0.4	1.1	2.5	2.9
2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000
-105	-77	210	449	528

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

Incremental Impact of Capital Investment Decisions on the Council Tax

	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000
i) Forecast of total capital finance requirement no changes to capital programme	13,046	16,432	14,695	11,215	5,025
ii) Forecast of total capital finance requirement after changes to capital programme	14,146	23,948	22,636	15,303	5,025
iii) Additional Council Tax Required in £.p.	0.09	0.75	0.92	0.53	0.00

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

Current Financial Plan

2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000
14,146	23,948	22,636	15,303	5,025

This prudential indicator is a summary of the Council's proposed capital expenditure plans. These figures are being discussed at Policy & Resources Committee on 24th January 2018.

Capital Financing Requirement

2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000
-18,401	1,547	19,982	34,486	38,711

This is a measure of the capital expenditure incurred historically by the council that has yet to be financed. It is a measure of the Council's borrowing need to fund the proposed capital programme. A negative amount shows the Council has more funding than capital expenditure.

Operational Boundary

	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000
Borrowing	0	1,547	19,982	34,486	38,711
Other Long Term Liabilities	4,033	3,526	3,005	2,483	1,967
Total	4,033	5,073	22,987	36,969	40,678

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

Authorised Limit for External Debt

	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000
Borrowing	4,000	5,547	23,982	38,486	42,711
Other Long Term Liabilities	4,033	3,526	3,005	2,483	1,967
Total	8,033	9,073	26,987	40,969	44,678

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

Upper Limit for Fixed Interest Rate Exposure

2017/18	2018/19	2019/20	2020/21	2021/22
£,000	£,000	£,000	£,000	£,000
-40,000	-38,453	-20,018	-5,514	-1,289

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

Upper Limit for Variable Interest Rate Exposure

2017/18	2018/19	2019/20	2020/21	2021/22
£,000	£,000	£,000	£,000	£,000
-32,000	-32,000	-32,000	-32,000	-32,000

This is the maximum amount of net borrowing and investment that can be at a variable rate. The upper limit on variable interest rate exposure is calculated as being 80% of the projected highest level of investments during 2017/18.

Maturity Structure of New Fixed Rate Borrowing taken during 2018/19

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

This indicator is set to control the Authority’s exposure to refinancing risk. The Council will source the cheapest funding possible which currently is short term funding, however this may lead to refinacing risk.

Principal Invested for more than 364 Days

2017/18	2018/19	2019/20	2020/21	2021/22
£,000	£,000	£,000	£,000	£,000
5,000	5,000	5,000	5,000	5,000

The maximum set aside for long term investment.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE	**15 January 2018**

Budget Strategy – Risk Assessment Update

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

Executive Summary

This report provides an update on the budget risks facing the Council. There remains a high overriding risk from uncertainty about the national economic position and the future funding of local government, but recent announcements from government about the 2018/19 Local Government Finance Settlement have provided greater certainty about the position in the short term.

This report makes the following recommendations to this Committee:

That the Audit Governance and Standards Committee notes the updated risk assessment of the Budget Strategy provided at Appendix A.

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	15 January 2018

Budget Strategy – Risk Assessment Update

1. INTRODUCTION AND BACKGROUND

1.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.

1.2 The key element in the Council's budget strategy is its rolling five year Medium Term Financial Strategy (MTFS). An updated five year MTFS for 2018/19 – 2022/23 was agreed by Council at its meeting on 25th October.

1.3 Given uncertainty about the future, MTFS projections were prepared on the basis of various potential scenarios, representing (a) favourable, (b) neutral and (c) adverse sets of circumstances. All scenarios assumed that budget savings included within the existing MTFS can be delivered.

1.4 Budget proposals have now been developed in response to the projections set out in the MTFS and are currently subject to consultation with the Service Committees. Heads of Service were asked to develop proposals both in response to the neutral scenario and to the adverse scenario. 'Neutral scenario' proposals were based on achieving further service efficiencies, increasing income, and investing to generate revenue growth. The 'neutral' budget proposals, if delivered, will ensure that the budget remit of a balanced position for 2018/19 can be secured.

1.5 'Adverse scenario' proposals were developed for contingency planning purposes, based on a more radical approach, including service cuts. It is not proposed to explore these options further at this stage, given that the 'neutral' proposals and existing agreed savings proposals are sufficient to meet the budget remit. The 'adverse' budget proposals will be revisited and updated as necessary if it appears that the assumptions on which neutral scenario is based are no longer valid.

1.6 The funding context has now been clarified by a government announcement on 19th December 2017 on the 2018/19 local government finance settlement. This confirmed that the settlement for next year will be in line with the previously announced four year settlement 2016/17 – 2019/20. The Secretary of State also said that CLG will 'be looking at fair and affordable options for dealing with Negative RSG'. Maidstone Council is facing £1.6m of negative RSG in 2019/20, so this is very welcome.

1.7 In the light of higher than anticipated inflation, the government is giving councils the ability to increase Council Tax by an additional 1% without a local referendum. The Council will have to consider whether we wish to take advantage of this as part of the budget setting process for 2018/19.

1.8 Finally, it was announced that Kent & Medway will be a 100% Business Rates pilot area in 2018/19. This will provide a one-off additional amount of business rates income in 2018/19, provisionally estimated as £640,000. Proposals will be going to Policy & Resources Committee later this month about the budget allocation of this amount.

1.9 There have been indications that restrictions may be introduced on local authority borrowing. This followed adverse publicity for substantial borrowing undertaken by a small minority of local councils. Government has consulted on changes to the Prudential Framework, intended to address this. The proposed changes, as circulated for consultation, are not considered so restrictive as to prevent the relatively limited use of prudential borrowing envisaged by Maidstone Borough Council.

1.10 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	The government has recently provided confirmation of the local government funding position for 2018/19, and has stated that it will look at options for dealing with negative RSG (which severely impacts Maidstone) in 2019/20.	Impact – no change Likelihood – reduced
I	Constraints on Council Tax increases	The government has increased the referendum cap from 2% to 3% in 2018/19. This provides a small measure of greater flexibility should the Council wish to take advantage of this.	Impact – no change Likelihood – reduced
J	Capital programme cannot be funded	The MTFS assumes that the Council will be able to borrow from the PWLB at competitive rates. There has been a threat that controls may be introduced over local authority borrowing. However, recent government consultations and announcements do not indicate a direct impact for Maidstone Council's spending plans.	Impact – no change Likelihood - reduced

2. AVAILABLE OPTIONS

2.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact the Council's service planning and/or be reflected in the developing Medium Term Financial Strategy.

2.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.

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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

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

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4. RISK

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

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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

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

5.2 Public consultation on the budget last year took the form of a short survey. Residents were asked to prioritise ten areas of spending and then to consider whether the spending for those ten areas should remain the same, be reduced or cut altogether. The results of the consultation were set out in reports to the Service Committees on the budget proposals.

5.3 A Residents' Survey was undertaken during Summer 2017 and has informed the Council's response to the financial projections in the updated MTFS. Detailed budget proposals for 2018/19 are currently subject to public consultation and review by the Service Committees.

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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.

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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 and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Director of Finance and 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

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8. REPORT APPENDICES

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

- Appendix A: Budget Strategy Risks

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9. BACKGROUND PAPERS

None.

APPENDIX A

Budget Strategy Risks

Summary

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

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

Budget Strategy Risk Register 2017/18

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

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
A	**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 2017/18. - 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 in excess of £16 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	The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy.	- The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
	deliver the expected level of income.	Income generation from commercial activities supports the revenue budget and is required in ordered to pay back capital investment.	available to cover short term losses. - Individual risks associated with specific 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 Autumn 2017.			
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

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
F	**Insufficient Balances** Minimum balance is insufficient to cover unexpected events OR Minimum balances exceed the real need and resources are held without identified purpose with low investment returns	Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves. The Council would not gain best value from its resources as Investment returns are low in the current market.	- The Council has set a lower limit below which General Fund balances cannot fall of £2 million. - At the beginning of the 2016/17 financial year General Fund balances stood at £4.6 million.	3	2	6
G	**Inflation rate predications underlying 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% target but CPI is now well above this level..	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 will no longer receive Revenue Support Grant (RSG) after 2016/17 and will be subject to 'negative RSG' in 2019/20. The government has now announced that it will look at options for dealing with negative RSG.	- The Medium Term Financial Strategy to 2022/23 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	2	8
I	**Constraints on council tax increases** The limit on Council Tax increases means that the Council must manage expenditure	The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be	- Planning for the budget 2018/19 has been based upon a £4.95 (2.06%) increase, as agreed by Policy and Resources Committee at its meeting on	2	1	2

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
	pressures even if these potentially give rise to cost increases greater than 2% per annum.	absorbed by making savings elsewhere.	25 July 2017 and by full Council at its meeting on 25 October 2017. - The Government has now increased the referendum cap for 2018/19 from £4.95 / 2% to 3%..			
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.	4	2	8
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 small number of occasions the financial consequences of future events are likely to be 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	- 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	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
		in relation to taxes not yet collected. Business rates due are in excess of £60 million for 2017/18. Council tax due is in excess of £80 million per annum.	discounts, etc.			
M	**Business Rates pool** Changes to rateable value (RV) or instability of business rates growth within the pool means that members require support from the Council	Membership of Business Rates Pool precludes access to the central government safety net. Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.	- Provisions exist so any loss of income would relate to the excess over the provision already made. - The pool is monitored quarterly Kent wide and Maidstone is the Pool administrator. The projected benefit of pool increased from £5.1m to £7.5m in 2017/18. - The Council has the ability to exit the pool on 1st April in any year by giving notice by the previous September. - The Council has applied with other Kent authorities to take part in a 100% Business Rates Retention pilot in 2018/19, which would generate further additional benefits.	3	2	6

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 (2)	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