

# AUDIT COMMITTEE

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Tuesday, 23 January 2018 at 7.00 p.m.

MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent,  
London E14 2BG.

This meeting is open to the public to attend.

**Members:**

Chair: Councillor Candida Ronald

Vice-Chair: Councillor Danny Hassell

Councillor Ayas Miah, Councillor Ohid Ahmed, Councillor Andrew Wood and Councillor Rabina Khan

**Deputies:**

Councillor Rajib Ahmed, Councillor Shiria Khatun, Councillor Marc Francis, Councillor Harun Miah, Councillor Craig Aston and Councillor Shafi Ahmed

[The quorum for this body is 3 Members]

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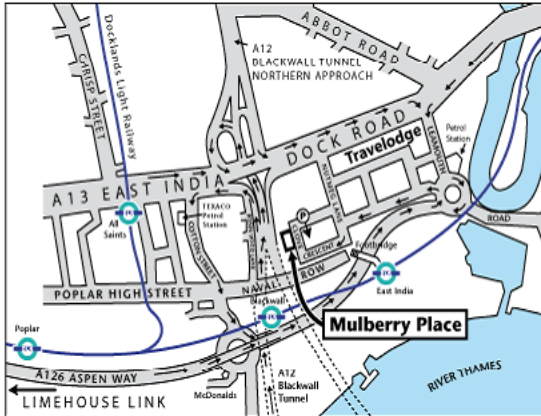
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## **APOLOGIES FOR ABSENCE**

- |  |                  |
|--|------------------|
| <b>1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST</b>   | <b>5 - 8</b>     |
| To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Monitoring Officer. |                  |
| <b>2. MINUTES OF THE PREVIOUS MEETING(S)</b>   | <b>9 - 16</b>    |
| To confirm the minutes of the Audit Committee held on 16 <sup>th</sup> November 2017.  |                  |
| <b>3. KPMG ITEMS FOR CONSIDERATION</b>   | <b>17 - 24</b>   |
| <b>4. TOWER HAMLETS ITEMS FOR CONSIDERATION</b>  |                  |
| <b>4 .1 Risk Presentation on Children's Services</b>   |                  |
| <b>4 .2 Quarterly Internal Audit Assurance report</b>  | <b>25 - 76</b>   |
| <b>4 .3 Whistleblowing Update</b>  | <b>77 - 84</b>   |
| <b>4 .4 Anti-Fraud Update</b>  | <b>85 - 92</b>   |
| <b>4 .5 Quarterly Risk Management Update Q3 2017/18</b>  | <b>93 - 122</b>  |
| <b>4 .6 Treasury Management Strategy Statement For 2018-19</b>   | <b>123 - 178</b> |
| <b>4 .7 Draft Accounting Policies 2017-18 and 2018-19</b>  | <b>179 - 200</b> |
| <b>4 .8 Updated Annual Internal Audit Plan 2017-18</b>   | <b>201 - 252</b> |
| <b>5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT</b>  |                  |

**Next Meeting of the Committee:**

Thursday, 29 March 2018 at 7.00 p.m. to be held in the C1, 1st Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG.

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# Agenda Item 1

## **DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER**

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

### **Interests and Disclosable Pecuniary Interests (DPIs)**

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

### **Effect of a Disclosable Pecuniary Interest on participation at meetings**

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

**Further advice**

For further advice please contact:-

Asmat Hussain, Corporate Director of Governance 0207 364 4800

## APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to the Member's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

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**LONDON BOROUGH OF TOWER HAMLETS**

**MINUTES OF THE AUDIT COMMITTEE**

**HELD AT 7.04 P.M. ON THURSDAY, 16 NOVEMBER 2017**

**C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT,  
LONDON, E14 2BG**

**Members Present:**

Councillor Candida Ronald (Chair)  
Councillor Danny Hassell  
Councillor Ayas Miah  
Councillor Ohid Ahmed  
Councillor Andrew Wood

**Apologies:**

Councillor Rabina Khan

**Officers Present:**

Neville Murton	Divisional Director, Finance, Procurement & Audit
Holly Bell	Trainee Solicitor
Paul Greeno	Senior Corporate and Governance Lawyer, Legal Services
Asmat Hussain	Corporate Director, Governance and Monitoring Officer
Minesh Jani	Head of Audit and Risk Management, Resources
Tony Qayum	Anti-Fraud Manager, Risk Management , Resources
Farhana Zia	Committee Services Officer

**1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST**

No declarations of disclosable pecuniary interest were disclosed by the Members.

**2. MINUTES OF THE PREVIOUS MEETING(S)**

The minutes from the 27<sup>th</sup> September 2017 were agreed to be an accurate record of the meeting and were signed off by the Committee.

**3. KPMG ITEMS FOR CONSIDERATION**

**3.1 Annual Audit Letter 2015-16 and 2016-17**

*This item was a late edition of the agenda and was numbered as item 4.7 in the supplement agenda however as this is the KPMG item this was taken at this point in the meeting.*

Neville Murton, Divisional Director for Finance, Procurement and Audit stated that it was a requirement under the Accounts and Audit regulations (2015) (s20) for the Committee to consider and approve the Annual Audit letter as soon as practically possible after its completion and then to publish it on the website and make it available for interested parties.

He apologised for the late edition of the item to the agenda and stated that the Audit Letters were received in early November and whilst it had missed the publication deadline for the November Committee meeting, it was important to seek approval of the letters in order to meet the statutory publication guidance.

Neville Murton informed Members they had seen the draft letters at the previous meeting and as such was seeking the Committee's approval.

Members of the Committee made the following comments:

- What was the reason for the late edition? Members need time to read and grasp the content before approving it.
- Have the Audited accounts been signed off and published?  
*Neville Murton responded stating the accounts had been signed off; the Audited Letters need to be approved before the Audit certificate could be issued. There are remaining outstanding objections to the accounts in relation to PFI schemes and parking, both of which are issues wider than just Tower Hamlets. The objection in respect to LOBO loans has been resolved.*

Members of the Audit Committee

1. Considered and **APPROVED** the Annual Audit Letters for 2015-16 and 2016-17.

#### **4. TOWER HAMLETS ITEMS FOR CONSIDERATION**

##### **4.1 Review of Internal Audit, Counter Fraud & Risk Management**

Robert Patterson, Head of Internal Audit and Counter Fraud at Kent County Council provided feedback on the quality assessment he had undertaken of Tower Hamlets Internal Audit, Counter Fraud and Risk Management function.

Mr Patterson stated the quality assessment had been conducted in August 2017 and the service was assessed against the 57 standards as identified by the Public Sector Internal Audit Standards (PSIAS) requirements. He said an external quality assessment was required once every 5 years and the deadline for the assessment was March 2018.

He said the Counter Fraud function was reviewed against the relevant CIPFA code of practice and the Risk Management operation was also reviewed.

The presentation covered in detail the findings under each heading and Mr Patterson's recommendations. The main points to note were:

- Tower Hamlets currently spends a net £1.3m on the entire audit, counter fraud and risk management function,
- The largest element – nearly £850K – is on internal audit.
- There is a disparity between what Officers think should be on the risk register and the recommendations arising from this.
- The Audit Committee is a statutory function and Internal Audit requires a higher profile within the organisation.
- The satisfaction surveys sent to services to complete are not always sent back to Internal Audit.
- Consideration should be given to having a combined Internal Audit and Counter Fraud function.
- The internal audit assurance of “Satisfactory” “Limited” or “No Assurance” provides appropriate challenge and scrutiny and it is good senior officers attend the Audit Committee. However the meaning of ‘what is satisfactory’ needs to be clearly defined.
- Mr Patterson recommended a re-launch of the Service. The Service needs a higher profile and needs to engage more strategically with the council's decision making processes. e.g. mechanisms to raise concerns/risk to the Corporate and Directorate Leadership teams as well as to the Audit Committee, the Mayor, Cabinet and Mayors Advisory Board.
- With respect to Counter Fraud, Mr Patterson praised the work being done but recommended the team develops a counter fraud plan and raises awareness to build an anti-fraud culture within the organisation.

Members of the Committee made the following comments and asked questions in relation to the presentation received:

- Slide 10 refers to the Areas for development and the opinion that many Directors “did not think the opinion was representative of TH or TH Homes”. You quoted 70%. What does this refer to? That 70% agreed or disagreed?
- £1.3M is spent on the Internal Audit function. Do you think this is a sufficient amount given the volume of work output?
- Members welcomed the report and recommendations and the Chair agreed the service needed a more strategic role in identifying key trends.
- Which type of audit reports go to the Corporate Leadership Team and what happens when service areas are non-compliant?
- Interesting to hear the method used at Kent County Council where services are asked to self-assess and take ownership of their risks. Do you think TH could adopt this approach or there is still work to be done beforehand?

- When services report slippages in meeting the recommendations set out by internal audit, should these be escalated to the Executive?
- What are the processes to capture risk other than the workshops referred to?
- What level/grade are the Risk Champions?
- Should consider having a simpler matrix rather than a numerical score, so Officers can understand it. Need to make it more accessible.
- The Risk Register needs to identify key risks. Why are KPI's not monitored?

The Chair, Councillor Ronald stated the presentation and the recommendations had provided a lot of useful information and **MOVED** to form a small working group of Members to further scrutinise the recommendations before providing Mr Neville Murton and Mr Minesh Jani with the Committee's views.

The Committee Members **AGREED** with the Chair and stated they would agree a date to meet, after the conclusion of the Audit Committee meeting.

It was also suggested the Chief Executive should be invited to the next meeting of the Audit Committee.

The Chair on behalf of the Committee thanked Mr Robert Patterson and Ms Sarah Bubb for their presentation.

#### 4.2 Whistleblowing – New policy and processes

Asmat Hussain, Corporate Director for Governance and Monitoring Officer accompanied by Mr Paul Greeno, Senior Corporate and Governance Lawyer and Holly Bell, Trainee Solicitor presented the Whistleblowing report.

Ms Bell explained that following a review undertaken by Grant Thornton UK LLP the Council had revised its whistleblowing policy and procedure. She asked Members to note the appendices which provided guidance for Managers and Investigators as well as the e-learning module, which members of staff will need to complete.

Ms Bell referred Members to point 3.10 in the report which provided statistical information on the number of Whistleblowing cases dealt with. Of the 105 concerns only 37 had fallen within the framework of the Whistleblowing policy, with 25 cases being investigated and closed and 12 outstanding.

Members of the Committee asked the following questions:

- As the Monitoring Officer, are you confident all concerns raised under whistle blowing are accurately recorded and investigated?
- Page 21, point 3.10 refers to the statistics. Is this benchmarked with other local Authorities?

- Often whistle blowers are scared of reporting incidents. How do we ensure they are protected?
- Need to ensure the whistleblowing policy is promoted throughout the Council. Page 33 makes reference to Councillors and states they can “report and pursue concerns reasonably believed to be in the public interest”. This sentence needs to be clearer as some Members may raise a whistleblowing case via a member enquiry.
- Who does the whistleblowing policy cover? Are sub-contractors and agency staff also included?
- **ACTION:** *Members AGREED to receive a quarterly update report on whistleblowing with anonymised case studies showing the types and nature of whistleblowing cases dealt with.*

The Committee **AGREED** the recommendations in the report and **NOTED**:

1. The revised Whistleblowing Policy, Procedure, Guidance for Managers and Guidance for Investigators at Appendices 1 to 4;
2. The proposed E-learning module at Appendix 5;
3. The Council’s proposed Action Plan for the implementation of a more effective whistleblowing framework and Appendix 6; and
4. That the Audit Committee will be the responsible committee for the oversight of Whistleblowing and will be asked to assess the effectiveness of the Policy as well as monitoring the implementation of the policy.

#### 4.3 Corporate Anti-Fraud Team Outturn 2016-17 report

Tony Qayum, Corporate Anti-Fraud Manager presented his report. He referred Members to page 81 of the agenda and the table which showed the notional savings made. He said 44 properties had been retrieved to a value of £11m. With regard to the Right to Buy Prevention, the team had exceeded the target and had already dealt with more than 12 cases. The overall figures for this year are positive and the team has recruited to most of the vacancies. There is one outstanding vacancy and the post will be re-advertised shortly.

Tony Qayum said he intended to make better use of data and data matching and had been working with the communication team to publicise the work of the Anti-Fraud team. He said there will be a campaign in January 2018 which will focus on Housing relating matters such as properties recovered from sub-letting and Blue Badge recoveries. He said the publicity would not only highlight the work of the team but will also present an opportunity for people to whistle blow and report more cases of fraud.

In reference to the previous item, Tony stated wider analysis was required to identify poor practice and highlight the work of the Anti-Fraud Team. His team would be working closely with the legal team to investigate whistleblowing in relation to anti-fraud.

Members of the Committee made the following comments and asked questions relating to the report:

- Can a breakdown be provided of Directorates, band and pay brackets showing the types and nature of whistle-blowing reported in relation to anti-fraud.

Members of the Committee **NOTED** the report.

#### **4.4 National Fraud Initiative 2016 Progress**

Tony Qayum, Corporate Anti-Fraud Manager stated the report provided an update on the National Fraud Initiative. He informed members the National Fraud Initiative was a bi-annual data matching exercise whereby all Local Authorities and some other government agencies match their data to prevent and detect fraud and error in their systems.

He referred members to page 86 of the agenda pack and point 5.5 and said the recovery of 26 blue badges was a positive outcome for the Council. He said his team were pursuing the 51 others identified and this would result in the Council recovering approximately £8k a year.

Members of the Committee made the following comments:

- Excellent to see the positive contribution made by the Anti-fraud team – Wholeheartedly agree the message needs to 'get out there' and the work being done with the Communications team. It is important to deter others from committing fraud, if we can.

#### **4.5 Treasury Management Mid-Year Report 2017/18**

Neville Murton, Divisional Director for Finance, Procurement and Audit presented the Treasury Management quarterly update report stating the report updated Members on the Council's borrowing and investment opportunities from 1<sup>st</sup> April 2017 to 30<sup>th</sup> September 2017. It provided a summary of the Prudential and Treasury indicators as well as information on the projected investment returns.

He said the Council had earned an average return of 0.53% on its lending, outperforming the rolling average 7 day LIBID rate of 0.11%.

Neville Murton referred Members to tables 2 and 3 on page 93 of the agenda pack and said the Corporate Finance team was working closely with Arlingclose – the Council's Treasury Management Consultant's to consider ways to improve investment returns taking into account risk appetite in addition to how the increase in the interest base rate will affect investments in the long term.

Mr Murton referred to the 'opt out' status under the MiFID process and referred Members to Appendix 4. Treasury Management was working closely with their advisors before continuing with investments.

Members of the Committee asked the following questions:

- In reference to LOBO's, what has been done to reduce the cost of these investments?  
*The interest rate on these products are 'fixed' unless the lender exercises their option to increase at which point the Council has the option to repay without penalty. However, in the current climate that is not expected to happen. The premia costs of redemption, in the absence of the lender option being exercised, was currently prohibitively expensive amounting to around 98% of original capital loan value. Increases in interest rate does improve the position but the recent modest rise will not have a significant impact. This is kept under review with the Council's advisers.*
- Are we achieving a good return for our investments?  
*The Council is meeting our advisers in the next week to look specifically at ways to improve our investment returns as part of the Council's MTFS.*
- In reference to lending to other Authorities - to whom are we lending money to?  
*The Council lends to other local authorities to support their cashflow needs; inter authority lending is relatively common as there is a clear understanding of the counterparty risk from those transactions.*
- In reference to page 108 – Canada seems a favourable country to invest. Is there a particular reason for this?  
*We will look into that aspect and report back to a future meeting of the Committee.*

Members of the Committee **NOTED**:

1. The contents of the treasury management activities and performance against targets for half year ending 30<sup>th</sup> September 2017;
2. The Council's outstanding investments which amount to £447.1m at 30<sup>th</sup> September 2017 (Appendix 2)
3. The potential impact on the Council of becoming a retail clients with effect from 3<sup>rd</sup> January 2018 as set out at section 3.7; and
4. The protections available to retail clients that the Council will forgo as a result of opting up to professional client (Appendix 4)

#### 4.6 Audit Forward Plan

Minesh Jani, Service Head for Risk Management referred Members to the forward plan and asked them to note the report.

He said at the next meeting the Committee would receive reports on the following topics:

- Quarterly Internal Audit Assurance report
- Updated Annual Internal Audit Plan -2017/18

- Anti-Fraud Update report
- KPMG Report
- Review of accounting policies
- Treasury Management Strategy and
- A risk presentation on Children's services

Members of the Committee **NOTED** the forward plan.

**5. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT**

The meeting ended at 8.53 p.m.

Chair, Councillor Candida Ronald  
Audit Committee





# Annual Report on grants and returns 2016/17

**London Borough of Tower Hamlets**

December 2017



# Contents

The contacts at KPMG in connection with this report are:

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Page 18

	<b>Page</b>
<b>Headlines</b>	3
<b>Summary of certification work outcomes</b>	5
<b>Fees</b>	7

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointments' website ([www.psa.co.uk](http://www.psa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact [Andrew Sayers, the engagement lead to the Authority and the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, who will try to resolve your complaint. After this, in relation to the certification of the Housing Benefit Subsidy grant claim, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

### Introduction and background

This report summarises the results of work we have carried out on the Council's 2016/17 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2016/17 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2016/17 Housing Benefit Subsidy claim. This had a value of £268 million.
- Under separate engagements we issued reports on two claims/returns as listed below.
- Teachers' Pensions Return (total contributions paid were £28.3 million); and
- Pooling of Housing Capital Receipts return (total housing receipts subject to pooling were £41.9 million).

Page 19

### Certification and assurance results (Pages 3-4)

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, the claim was subject to a qualification letter.

- Our testing of 100 cases (60 initial cases and 40 additional cases) identified three cases with errors. Two errors resulted in an underpayment of subsidy and one in an over payment of £77.48.
- The DWP requires auditors to extrapolate any over payment errors. This calculation identified that the extrapolated impact of the error was £11,262. Whilst a final determination is awaited from the DWP, the nature of the error means that it is not expected that the extrapolated error will affect the amount of subsidy payable to the Council.
- In the previous year we tested 100 cases (60 initial cases and 40 additional cases) and identified two cases with errors. One of the errors resulted in an underpayment of subsidy and one in an over payment of £58.45. The extrapolated error value was £2,587.

Our work to complete 'Agreed Upon Procedures' (AUP) on the *Pooling of Housing Capital Receipts* return included testing of entries specified by the Department for Communities and Local Government (DCLG) as follows:

- total expenditure incurred by the Council in buying a relevant interest in the relevant quarter;
- total receipts received by the Council in the relevant quarter arising from disposal of dwellings under Right to Buy (RTB) or any other disposal to which the Schedule to Regulations applies;
- total receipts received by the Council in the relevant quarter arising from disposals of dwellings made before 01 April 2012 under RTB or equivalent provision;
- number of sales made by the Council in the relevant quarter to which the Schedule applies;
- quarterly attributable debt for the relevant quarter; and
- actual amount of new-build expenditure between 01 April 2016 and 31 March 2017.

## Headlines

Our completion of the AUPs work on the Pooling of Housing Capital Receipts return assurance engagement resulted in an unqualified conclusion such that, based upon the work performed, in our opinion, the entries in the return specified by the DCLG had been prepared, in all material respects, in accordance with the regulations underpinning the Pooling of Housing Capital Receipts scheme.

Our work to complete AUPs on the *Teachers' Pensions* return followed the instructions issued by the Teachers' Pensions agency (TP) and included:

- completing a comparison of the actual employee's and employer's contributions included in the return with the expected value using the contributory salary reported in the return for each tier (ie the teachers' pensions scheme has six tiers related to salary with a different contribution rates for each);
- sample testing confirming that contributory salaries have been extracted correctly from payroll records, teachers' contributions have been deducted at the appropriate rate, employer's contributions have been calculated correctly and where relevant that 'other' contributions had been dealt with correctly; and
- completing testing in relation to any refunds of contributions made to teachers.

For the first AUP above (comparing the actual employee's and employer's contributions included in the return with the expected value using the contributory salary reported in the return for each tier) the TP allowed no tolerance. Consequently, we reported very small differences for several tiers (£110 in total on combined contributions of £28.3 million) along with the Council's explanation of what has caused them.

We did not report any other matters to the TP as a result of completing the specified AUPs.

No adjustments were necessary to the Council's grants and returns as a result of our certification work this year.

There was one minor adjustment to the Pooling of Housing Capital Receipts return in 2015/16 relating to the 'Quarterly Attributable Debt' for Quarter 3.

### Recommendations

We have not made any recommendations to the Council from our work this year or last year.

### Fees (Page 7)

Our fee for certifying the Council's 2016/17 Housing Benefit Subsidy grant was £22,838, which is in line with the indicative fee set by PSAA.

Our fee for the Teachers' Pensions Return was subject to agreement directly with the Council and was £3,750.

Our fee for the Pooling of Housing Capital Receipts Return was subject to agreement directly with the Council and was £3,250.

# Summary of reporting outcomes

Overall, we carried out work on three grants and returns:




- One was unqualified with no amendment;
- One required a report to be sent to the grant paying body; and
- One required a qualification to our audit certificate.

Detailed comments are provided overleaf.

Page 21

Detailed below is a summary of the reporting outcomes from our work on the Council’s 2016/17 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council’s compliance with a scheme’s requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Issue reported	Minor adjustment	Unqualified/no issues reported
<b>Public Sector Audit Appointments regime</b>					
— Housing Benefit Subsidy	1				
<b>Other grant/return engagements</b>					
— Teachers’ Pensions Return	2				
— Pooling of Housing Capital Receipts Return	3				
		1	1	0	1

# Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	<p><b>Housing Benefit Subsidy</b></p> <ul style="list-style-type: none"> <li>— The Council’s 2016/17 Housing Benefit Subsidy claim has a value of £268 million.</li> <li>— Our initial testing of 60 cases (20 each from Non-HRA; HRA; and Rent Allowances) identified one case with an error relating to HRA Rebates. The error resulted in an over payment of £77.48.</li> <li>— As a consequence of the errors the DWP requires the auditor to undertake additional testing. Our additional testing of 40 HRA cases identified two further errors. Both errors resulted in an underpayment of subsidy.</li> <li>— The DWP requires auditors to extrapolate any over payment errors. This calculation identified that the extrapolated impact of the error was £11,262. We reported the position to the DWP in the form of a qualification to the claim. No amendment was made to the claim for the error identified or the extrapolation. Whilst a final determination is awaited from the DWP, the nature of the error means that it is not expected that the extrapolated error will affect the amount of subsidy payable to the Council.</li> </ul>	NIL
2	<p><b>Teachers’ Pensions Return</b></p> <ul style="list-style-type: none"> <li>— The AUP requiring a comparison of the actual employee’s and employer’s contributions included in the return with the expected value using the contributory salary reported in the return for each tier allows no tolerance. Consequently, we reported very small differences for ten of the 12 entries in this section of the return (the total difference was £110 on combined contributions of £28.3 million). The TP also required the Council to explain what has caused the differences and these were included in our report to the TP.</li> <li>— We did not report any other matters to the TP as a result of completing the specified AUPs.</li> </ul>	NIL
3	<p><b>Pooling of Housing Capital Receipts Return</b></p> <ul style="list-style-type: none"> <li>— The Return was certified with an unqualified reporting accountants’ report.</li> </ul>	NIL

# Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2016/17 was £29,838.

## Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council’s Housing Benefit Subsidy claim in 2016/17 of £22,838. Our actual fee was the same as the indicative fee, and this compares to the 2015/16 fee for this claim of £20,327.

The reason the fee has increased is caused by the methodology used by Public Sector Audit Appointments to set the scale fee, as it uses the fee from 2014/15 as the base. Thus the scale fee for 2014/15 and 2016/17 is £22,838, whereas the scale fee for 2015/16 and 2017/18 is £20,327.

## Grants subject to other engagements

The fees for our work on other grants/returns are agreed directly with the Council. Our fees for 2016/17 were in line with those in 2015/16. The reason for the small increase for the Teachers’ Pensions Return was due to additional testing needed to meet the TPs AUP requirements.

## Breakdown of fees for grants and returns work

Breakdown of fee by grant/return		
	2016/17 (£)	2015/16 (£)
Housing Benefit Subsidy claim	22,838	20,327
Teachers’ Pensions return	3,750	3,500
Pooling of Housing Capital Receipts return	3,250	3,250
<b>Total fee</b>	<b>29,838</b>	<b>27,027</b>



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<p>Non-Executive Report of the:</p> <p><b>Audit Committee</b></p> <p>23<sup>rd</sup> January 2018</p>	 <p><b>TOWER HAMLETS</b> Classification: Unrestricted</p>
<p><b>Report of:</b> Zena Cooke - Corporate Director - Resources</p>	
<p><b>Quarterly Assurance Report</b></p>	

<b>Originating Officer(s)</b>	Minesh Jani
<b>Wards affected</b>	All wards

## 1. SUMMARY

- 1.1. This report summarises the work of Internal Audit for the period covering September to December 2017.
- 1.2. The report sets out the assurance rating of each audit finalised in the period and gives an overall assurance rating. The quarterly assurance report feeds into the annual internal audit opinion which will be produced at the end of the financial year.

## 2. RECOMMENDATION

- 2.1. Members are asked to note the contents of this report and to take account of the assurance opinion assigned to the systems reviewed during the period.

### 3. Background

- 3.1. From April 2005, we have assigned each review one of four ratings, depending upon the level of our findings. The ratings we use are: -

<b>Assurance</b>	<b>Definition</b>
<b>Full</b>	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
<b>Substantial</b>	While there is a basically sound system there are weaknesses which put some of the control objectives at risk or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;
<b>Limited</b>	Weakness in the system of controls are such as to put the system objectives at risk or the level of non-compliance puts the system objectives at risk;
<b>Nil</b>	Control is generally weak leaving the system open to significant error or abuse, or significant non-compliance with basic controls leaves the system open to error or abuse.

- 3.2. In addition, each review is also considered in terms of its significance to the authority in line with the previously agreed methodology. The significance of each auditable area is assigned, based on the following factors: -





<b>Significance</b>	<b>Definition</b>
<b>Extensive</b>	High Risk, High Impact area including Fundamental Financial Systems, Major Service activity, Scale of Service in excess of £5m.
<b>Moderate</b>	Medium impact, key systems and / or Scale of Service £1m- £5m.
<b>Low</b>	Low impact service area, Scale of Service below £1m.

### 4. Overall Audit Opinion

- 4.1. Overall, based on work performed in the year to date, I am able to give a substantial level of assurance over the systems and controls in place over the areas reviewed.

#### 4.2. Direction of Travel

Each audit summary presented at Appendix 2, shows the Direction of Travel for that audit. Each Direction of Travel is defined in the following Table.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
	Not previously visited by Internal Audit.

#### 5. Overview of finalised audits

5.1. Since the last Assurance Report that was presented to the Audit Committee in September 2017, eighteen final reports have been issued. The findings of these audits are presented as follows:

- Chart 1 below summarises the assurance rating assigned by the level of significance of each report.
- Appendix 1 provides a list of the audits organised by assurance rating and significance.
- Appendix 2 provides a brief summary of each audit.

5.2. **Members are invited to consider the following:**

- The overall level of assurance provided (para 5.3-5.5).
- The findings of individual reports. Members may wish to focus on those with a higher level of significance and those assigned Nil or Limited assurance. These are clearly set out in Appendix 1.

5.3. The chart ranks the overall adequacy and effectiveness of the controls in place. This assurance rating will feed into Internal Audit's overall assessment of the adequacy of governance arrangements that is required as part of the Accounts and Audit Regulations 2005 and the 2013 Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector.

(Please refer to the table on the next page).

**Chart 1 Analysis of Assurance Levels**

<b>SUMMARY</b>		<b>Assurance</b>				
		Full	Substantial	Limited	Nil	Total
<b>Significance</b>	Extensive	-	8	8	-	16
	Moderate	-	2	-	-	2
	Low	-	-	-	-	-
<b>Total Numbers</b>		-	10	8	-	18
<b>Total %</b>		-	56%	44%	-	100%

- 5.4. From the table above it can be seen that of the sixteen finalised audits which focused on high risk or high value areas; eight were assigned Substantial Assurance and eight were assigned Limited assurance. A further two audits were of moderate significance and were assigned Substantial Assurance.
- 5.5. Overall, 56% of audits resulted in an adequate assurance (substantial or full). The remaining 44% of audits have an inadequate assurance rating (limited or nil).

## 6. Performance Indicators

- 6.1. At the start of the year, three performance indicators were formulated to monitor the delivery of the Internal Audit service as part of the Monitoring process. The table below shows the actual and targets for each indicator for the period:-

Performance measure	Target	Actual
Percentage of Audit Plan completed up to November 2017	60%	54%
Percentage of Priority 1 Audit Recommendations implemented up to November 2017 by Auditees at six monthly follow up audit stage	100%	88% 22 of 25 (*)
Percentage of Priority 2 Audit Recommendations implemented up to November 2017 by Auditees at six monthly follow up audit stage	95%	87% 20 of 23

- 6.2. Percentage of audit plan completed up to November 2017 was 54% against a target of 60%. The percentage of priority 1 recommendations fully implemented at the follow up stage was 88%, whereas the percentage of priority 2 recommendations was 87%. Details of priority 1 and priority 2 recommendations not implemented are set out in Appendix 3. Details of recommendations not implemented for each Follow Up audit are sent to the relevant Divisional Director and the Corporate Director for any appropriate action they would like to take.

- \* Four recommendations relating to the establishment control and community languages have either been subsequently reported as implemented or are subject to a larger change management programme and will be captured as part of the new arrangements.

## 7. Comments of the Chief Finance Officers

- 7.1. This is a quarterly noting report covering the period from September to December 2017 highlighting findings arising from the work of the internal audit. There are no specific financial implications arising from the contents of this report.
- 7.2. The implications from each audit report will be considered in terms of risk and any costs as part of the normal budget monitoring process.

## **8. Legal Comments**

- 8.1. The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 8.2. Pursuant to Regulation 3 of the Accounts and Audit Regulations 2015 ('the 2015 Regulations'), the Council is required to ensure that it has a sound system of internal control that facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.
- 8.3 The Council is also required by Regulation 5(1) of the 2015 Regulations to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.
- 8.4 Quarterly Assurance Reporting from Internal Audit is an integral part of ensuring compliance with these duties.

## **9. One Tower Hamlets**

- 9.1. There are no specific one Tower Hamlets considerations.
- 9.2. There are no specific Anti-Poverty issues arising from this report

## **10. Best Value Implications**

- 10.1. This report highlights areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

## **11. Risk Management Implications**

- 11.1. This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

## **12. Sustainable Action for a Greener Environment (SAGE)**

- 12.1. There are no specific SAGE implications.

## **13. Crime and Disorder Reduction Implications**

- 13.1. By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.

## Assurance ratings – Table of Audits and level of Assurance


Assurance level	Significance	Directorate	Audit title
<b>Limited</b>	Extensive	Corporate	Management and Monitoring of Purchase Cards
	Extensive	Corporate	Monitoring and Delivery of Economic Benefits
	Extensive	Corporate	Establishment Control – Follow Up
	Extensive	Children’s Services	Community Languages
	Extensive	Governance	Control and Monitoring of Members’ Gifts and Hospitalities
	Extensive	Tower Hamlets Homes	Management of Housing Disrepairs
	Extensive	Place	Inspections of Playgrounds
	Extensive	Resources	Programme and Project Management
<b>Substantial</b>	Extensive	Resources	IR35 Compliance
	Extensive	Resources	Enforcement and Tracing - Follow Up
	Extensive	Resources	Pensions Statements - Follow Up
	Extensive	Heath, Adults and Community	Domiciliary Care procurement
	Extensive	Place	Penalty Charge Notices - Follow Up


<b>Assurance level</b>	<b>Significance</b>	<b>Directorate</b>	<b>Audit title</b>
	Extensive	Tower Hamlets Homes	Corporate Health and Safety - Follow Up
	Extensive	Tower Hamlets Homes	Major Works - Follow Up
	Extensive	Tower Hamlets Homes	Specialist Repairs Contract - Follow Up
	Moderate	Resources	One Stop Shops - Follow Up
	Moderate	Place	Licences - Follow Up



**Summary of Audits Undertaken  
Limited Assurance**

**APPENDIX 2**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Corporate Purchase Cards	Sept. 2017	<p>This audit examined systems and procedures for the control and monitoring of payments made by using the Council’s Corporate Purchase Card facility. Purchase Cards are a quick and convenient way to manage certain types and ranges of purchases of low value items. The total amount procured using payment cards between April 2016 and March 2017 was £854.6k against a target of £850k.</p> <p>Our review showed that there were corporate guidance and procedures in place for purchase card holders and for managers to follow. The Integrated Youth and Community Services Team (IYCS) now operate a clear requisition and advance approval system for P-card purchases. This provided an upfront control on P-Card expenditure and we have recommended that this control should be applied across the organisation to promote more compliance. We reported the following control issues which required management action:</p> <ul style="list-style-type: none"> <li>• There were significant numbers of transactions which were not being reviewed and/or approved. This increased the risk of unauthorised payments and breach of Financial Procedures. Our review showed for transactions for the period 2016/17, 59% were reviewed and approved; 37% reviewed by the cardholders but not approved by the budget holders, and 4% of the transactions were neither reviewed nor approved.</li> <li>• Our testing of 21 transactions for VAT accounting showed that 15 of these were eligible for reclaiming VAT. However, no VAT was reclaimed for 10 of the 15 transactions, and the total VAT not reclaimed was £254.65. One of the transactions was for purchase of flowers, which may not be deemed as legitimate Council expenditure in accordance with the Council’s Purchase Card procedures.</li> </ul>	Extensive	Limited  

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management and Control of Corporate Purchase Cards	Sept. 2017	<ul style="list-style-type: none"> <li>• The Council's Finance Compliance function has responsibility for identifying and investigating non-compliance with P-Card procedures. However, this function had not undertaken routine monthly compliance checks on P-card transactions, due to other work priorities.</li> <li>• Some active Cardholders' agreements dated before 2008 had been disposed of as per the Council's Retention Schedule. We have advised Procurement that Retention Schedules should be revised so that agreements are retained for at least seven years after the cards cease to be in use.</li> <li>• Our testing showed that in four of the 21 cases, the P-Card approvers were not authorised signatories on Agresso (Council's finance system). For a further two sample cases, the approvers were authorised signatories for different cost centres on Agresso.</li> <li>• Good quality and reliable management reports for effective analysis and monitoring of P-Card activities could not be produced efficiently from the existing IT system. Instead, manual reports were being produced which was time consuming and tedious, and may not capture all information reliably.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director - Finance , Procurement and Audit. A copy of Final report was issued to all Corporate Directors.</p>	Extensive	Limited 

### Management Comments

The current Purchase Card contract and system was introduced as a convenient and cost effective method of purchasing low value goods and services. Purchase Cards are a quick, convenient and efficient way to manage certain types and ranges of purchases. They are essentially used for low value and high volume goods or services where the risk associated with the purchase or the item itself is low. The transactional cost associated with the normal purchase is thus saving time and money. The use of purchase cards provides a number of benefits such as reducing procurement processing times and supporting the Government's prompt payment initiative for Small and Medium Enterprises.


Through our Procurement Category Management activities considerable work has been undertaken to control the use of purchasing card expenditure and re-direct spend through appropriate contracts. The improved controls, implemented as part of the Best Value Action Plan, have helped to reduce spend through purchase cards considerably from almost £7 million in 2008/09 to just under £1 million in 2016/17 (reduction of 17.36% against 16/17 spend). Total Council spend through purchase card is now just **0.27%** of the overall £320m annual procurement spend.

Since August 2017, work has been underway to replace the current purchase cards supplied by Barclays as well as the legacy D-Cal system used for the approval of purchase card transactions, supplied by First Data. A mini-competition was conducted through the Crown Commercial Services Framework with all three suppliers invited to tender. The outcome of the tender resulted in RBS (Natwest) securing the contract. The solution offered by Natwest will allow the council to have a better control on the use and management of purchase cards.

The new system offers significant improvements in reporting capability and the quality of management information. Such capabilities will allow for effective contract management from financial compliance and a procurement perspective, providing an enhanced platform from which to spot trends and spend patterns where there may be opportunities to establish new corporate contracts.

As part of the new contract implementation, all existing purchase card related process and procedures has been refreshed to strengthen compliance as well as respond to the audit recommendations. A new User Acceptance form has also been introduced and signed by all card holders to ensure our records are up to date including a complete refresh of budget holders and approvers. User guidance and other associated documentation has also been updated. New cards have only been issued upon completion of the mandatory purchase card training.


The new contract will be actively managed and administrated by the Commercial & Contracts Manager and the Contracts & Administration Officer within the Procurement Team. All areas of the NatWest solution will be monitored closely during the initial period of the contract and a formal supplier review meeting will be scheduled for at the end of the first quarter of 2018 and reported to Strategic Procurement Board.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Monitoring and Delivery of Economic Benefits	Sep 2017	<p>The Council has established a Procurement Strategy which sets a clear path for the organisation to use its procurement practices to both contribute the overall savings targets and to bring social and economic benefits, over and above the services provided to its residents.</p> <p>The audit was designed to provide assurance that the Council has effective systems and controls in place for timely identification, managing and monitoring various economic benefits, delivered through various agreements and contracts. This area was also the subject of an Overview and Scrutiny (O&amp;S) Committee study in May 2017 and some of the findings of this study align with the audit findings. It should be noted that Tower Hamlets is perceived to be ahead of other similar councils in this developing area and the audit findings provide opportunity to improve controls further. The main issues reported were as follows:-</p> <ul style="list-style-type: none"> <li>• The Auditor obtained the London Borough of Tower Hamlets Procurement Policy and the Sustainable Procurement Policy. However, the Sustainable Procurement Policy was last updated in May 2013 and was therefore deemed to be out-of-date. Furthermore, examination of the documents, and discussion with the Economic Benefits Manager and the Procurement Manager (Policy and Development), identified that there is not currently any clear guidance, policies or procedures in place that set out how the Economic Benefits Team will be involved in procurement activities of the Council, without interfering with the procurement process itself.</li> <li>• Through discussion with the Economic Benefits Manager, the Auditor identified that currently there is no schedule of contracts maintained by the Economic Benefits Team for contracts that may be applicable to attaining economic benefits. As a result, when the Auditor examined a report of all live contracts, and filtered the report for those which contain economic benefits (from the total of 226 live contracts as at 7 March 2017), 104 were declared as having an inclusion of economic benefits.</li> </ul>	Extensive	Limited 

		<ul style="list-style-type: none"> <li>• The Auditor selected a sample of 20 contracts from the report of live contracts, to confirm that the Output Schedule had been completed, thus documenting the economic benefit. However, the Auditor was unable to confirm, in four instances, that the contract had an economic benefit inclusion as the Output Schedule had not been completed and retained on file. Six contracts included the requirement for Employment and Community Benefits as part of the Method Statement but lacked clarity on specific measurable outputs.</li> <li>• Of the 10 instances where the contract had an economic benefit inclusion, verified via the Output Schedule being completed and retained on file, the Auditor was unable to verify, in nine instances, that the contracts were sufficiently monitored for the delivery of economic benefits as per the Output Schedule (following attempts to consult with the relevant Contract Managers). In the one remaining case, the Auditor was only able to verify that some the commitments stated had been partially monitored.</li> <li>• Through discussion with the Economic Benefits Manager and the Procurement Manager (Policy and Development), the Auditor was unable to identify that management information is prepared and reported to management informing them of the success, or otherwise, in delivering the principles of procurement imperatives in relation to economic benefits.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director for Growth and Economic Development and Head of Procurement, and reported to the Corporate Director of Resources and Corporate Director of Governance.</p>		
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### **Management Comments**

Growth and Economic Development (GED) and Procurement have strengthened their working relationship since the audit. GED have been involved in a number of larger contracts including waste management, facilities and the Tower Hamlets Community Homes (THCH) contract. The Firesouls project, which explores the use of a social value toolkit, is underway and is being piloted within the THCH contract. This pilot as well as enhanced GED engagement on larger contracts, will help to shape the community and economic benefit output schedule going forward. Areas for further development of joint working include the systematic notification of the Economic Benefits team of upcoming contracts, mutual agreement on the financial threshold for the inclusion of economic benefits in contracts and the adoption of an effective and sustainable methodology for the monitoring of economic benefits.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Establishment Control – Follow Up Audit	August 2017	<p>The Council's establishment data is maintained on a system known as ResourceLink by the HR Service. Responsibility for managing the Council's establishment list lies with the Divisional Directors. Amendments to the establishment list are subject to appropriate authorisation.</p> <p>A full systems audit was undertaken (finalised in September 2016) to review the systems and processes in place, in order to provide assurance around the effective management of the Council's establishment levels. A Limited assurance opinion was awarded to this work.</p> <p>The follow up audit showed that, of the three high priority and two medium priority recommendations made in the original report, one medium priority recommendation has been fully implemented, two high priority and one medium priority recommendations have been partly implemented and one high priority recommendation has not been implemented.</p> <p>The following areas were reported:</p> <ul style="list-style-type: none"> <li>• The Consultancy Business &amp; Performance Manager confirmed that there is currently no requirement for a reminder to be sent to managers regarding the need to notify HR about any changes required to establishment lists. The Auditor was provided with a copy of the report considered by the One HR Programme Board dated 16th May in which set out the current processes for managing the ongoing maintenance for establishment control.</li> <li>• The Consultancy Business &amp; Performance Manager explained to the Auditor that the cleanse of the establishment data held on ResourceLink was subject to an establishment validation programme which commenced in March 2017 as agreed by the Corporate Leadership Team. The deadline for this was 31st July 2017 (as set out in the report considered by the Council's Corporate Leadership Team on 26th April - a copy of which was provided to the Auditor).</li> </ul>	Extensive	Limited 

		<ul style="list-style-type: none"> <li>No monthly reconciliations had been carried out between the Agresso list and ResourceLink to verify each post was funded.</li> </ul> <p>All findings and recommendations were agreed with the Consultancy Business and Performance Manager and reported to the Corporate Director of Resources.</p>		
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### Management Comments

#### Recommendation 1:

- There is currently no requirement for a reminder to be sent to managers regarding the need to notify HR about any changes required to establishment lists. Discussions are taking place as to the best way to implement confirmation of compliance which, when finalised will be built into the HR Systems Improvement project plan for development.

The Auditor was provided with a copy of the report considered by the One HR Programme Board dated 16th May in which set out the current processes for managing the ongoing maintenance for establishment control. Revised post creation and post deletion forms have been uploaded on to the Intranet.

#### Recommendation 2:

- The deadline for managers to verify their establishment data was 31<sup>st</sup> July 2017 and all changes notified to the HR Advisor's team as part of the Establishment Validation Programme were completed by September 2017. The establishment report was provided to the Finance service for them to undertake a reconciliation with the data held on the Agresso system with a deadline with a completion date for reconciliation of 31<sup>st</sup> October 2017. The HR Advisor's team continue to make ongoing business as usual changes and changes resulting from restructures.
- The Divisional Director, IT has separately requested that a data cleansing project with HR be carried out as he has concerns regarding the number of people listed on the ICT Active Directory. Consideration is being given to a proposal to link this workstream with the ongoing establishment data cleansing exercise.

#### Recommendation 3:

- The deadline for managers to verify their establishment data was 31<sup>st</sup> July 2017 and all changes notified to the HR Advisor's team as part of the Establishment Validation Programme were completed by September 2017. The establishment report was subsequently provided to the Finance service for them to undertake a reconciliation with the data held on the Agresso system with the deadline for completion of the reconciliation being 31<sup>st</sup> October 2017. The HR Advisor's team continue to make ongoing BAU changes and changes



resulting from restructures.

**Recommendation 4:**

As a result of technical limitations it is currently not possible for Agilisys to produce a weekly report and as such the HR Business Information Manager is looking at a potential workaround which may include commissioning bespoke work on Resourclink. Monthly budget reports continue to be emailed to budget holders by Finance.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Community Language Service Follow-Up	August 2017	<p>The Community Language Service (CLS) provides two separate educational programmes to school children across the borough as follows:</p> <p>Out of School Language Classes - Out of school language classes are held in 46 venues across the borough including both primary and secondary schools, Idea Stores, local community centres, churches and mosques. The classes deliver the following languages: Arabic, Bengali, Cantonese, Lithuanian, Mandarin, Somali, Urdu and Vietnamese. Over 1,777 children are registered to attend these classes every week. The service employs over 112 permanent tutors.</p> <p>Early GCSE Programme - The programme offers an opportunity for children to take an early GCSE in Community Languages. This programme terminated at the end of June 2017.</p> <p>A systems audit of Community Language Services was undertaken as a part of the 2015/16 agreed Internal Audit Plan and the final audit report was issued in June 2016. This audit was assigned Nil Assurance and nine recommendations were raised (nine high priority recommendations).</p> <p>This report presents the findings and recommendations of the follow up audit and the objective was to assess whether the agreed recommendations at the conclusion of the original full systems audit have been implemented.</p> <p>Our follow up review showed that of the nine high priority recommendations made at the conclusion of the original June 2016 full systems audit, two have been implemented, five have been partly implemented and two have not been implemented.</p> <p>We raised seven recommendations and reported the following findings:</p> <ul style="list-style-type: none"> <li>• There was no: <ul style="list-style-type: none"> <li>- guidance in respect of a minimum number of students who need to be enrolled, or</li> </ul> </li> </ul>	Extensive	Limited ⇒

		<ul style="list-style-type: none"> <li>- key performance indicators to compare the effectiveness and cost of the service being provided with other similar councils.</li> <li>• The Service Level Agreement (SLA) Template was still under review by senior management and Legal Services.</li> </ul> <p>The Auditor selected a sample of five out of 45 Community Language Service SLAs (covering September 2016 to July 2017). Testing identified that in all five cases the SLAs were:</p> <ul style="list-style-type: none"> <li>- not signed by a Council representative; and</li> <li>- did not include the terms and conditions under which the provider organisation is to perform its responsibilities.</li> </ul> <ul style="list-style-type: none"> <li>• The Auditor identified that the Child Safeguarding Policy did not indicate the date the policy was last reviewed and the date of approval.</li> <li>• Testing of five out of 654 payment claim forms made between December 2016 and June 2017 identified that, in one instance (S.A. Payment Claim form), the payment claim form was not dated by the CLS certifying officer. In addition, there was not a signatory list in place.</li> <li>• Through review of the Staff Handbook, the Auditor identified that there was no version control indicating: <ul style="list-style-type: none"> <li>- date of review and name of the reviewer; or</li> <li>- date of approval and name of the approver.</li> </ul> </li> </ul> <p>Furthermore, the Auditor identified that the Handbook did not cover the following elements expected to fall within a tutor's responsibility:</p> <ul style="list-style-type: none"> <li>- recording of learner progress;</li> <li>- lesson planning; and</li> <li>- lesson observation and teaching &amp; learning procedure.</li> </ul> <ul style="list-style-type: none"> <li>• The Curriculum and Quality Assurance Manager explained to the Auditor that the Draft Monitoring Visit Guidance had not been yet been approved by senior management. Furthermore, the Auditor identified that the Draft Monitoring Visit Guidance was last reviewed in 2015.</li> </ul> <p>Further testing of five out of eight Monitoring Reports, obtained from the</p>		
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		<p>Curriculum and Quality Assurance Manager (for monitoring visits carried out from January 2017 to May 2017), identified that:</p> <ul style="list-style-type: none"> <li>- In one instance, the date of the visit was not recorded on the Monitoring Visit Schedule (14/05/2017 Wapping Women Centre visit).</li> <li>- In all five instances, the overall grade of the visit and action plan were not indicated on the Monitoring Visit Schedule (26/01/2017 Cubitt Town BCA visit; 17/01/2017 Wapping Women Centre; 18/05/2017 Stewart Headlam Primary School for two tutors; and 14/05/2017 Wapping Women Centre visit).</li> <li>- In all five instances, the number of students attending the class and its conformity to the SLA were not indicated in the Monitoring Report (26/01/2017 Cubitt Town BCA visit; 17/01/2017 Wapping Women Centre; 18/05/2017 Stewart Headlam Primary School for two tutors; and 14/05/2017 Wapping Women Centre visit).</li> <li>• The procedure on tutor appointment had not been updated following the centre reorganisations. However, the CLS Service Manager communicated that there had not been any tutors recruited since the full audit.</li> </ul> <p>All findings and recommendations were agreed with the Acting Divisional Director for Sports, Leisure and Culture and Deputy Head of Lifelong Learning One Stop and reported to the Corporate Director (Children's Services).</p>		
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## Management Comments

All follow-up actions from the audit have been completed within the agreed timeframes.

**1.1** - Curriculum model has been developed and disseminated to all partner organisations. Documents given are:

- Curriculum Plan
- Tutor PDR annual Targets

**1.2** - KPIs developed and are used to assess performance of tutors and partners during monitoring visits.

**1.3** - Observation reports of formal monitoring visits are being produced.

**1.4** - Observation Guidelines have been updated and the final version given to all Tutors in the Annual PDR sessions on 18th and 20th October 2017.

**2.1 to 2.3** - Revised SLAs issued to all partner organisations with deadlines to return signed copies. New SLA includes provision for signature by CLS Service Manager. An authorised signatory from the management committee of the partner organisation will sign the SLA. Responsibilities of the organisation and terms and conditions to comply with Council's policies have been inserted. SLA has been approved by senior management and Legal Service was sent the new SLA; no further amendment of the SLA was suggested by the Legal Service. All SLAs have been signed and dated by partner organisations and CLS Service Manager.

**3.1** - All partners have submitted the updated Child Protection and Safeguarding Policy signed and dated by end of November 2017.

**4.1** - All payment claim forms are scrutinised and signed by CLS Service Manager from October 2017. Some incomplete pay claim forms have been rejected and returned to claimants for correction and re-submission.

**4.2** - Authorised Signatory lists have been collected and kept in the SLA folders which are matched with countersignatures from partner organisations.

**5.1** - Staff Handbook reviewed and passed on to HR for amendments and approval.

**5.2** – Updates to the staff handbook and recommendations to the audit have been inserted.


**5.3** - All responsibilities of tutors inserted.

**6.1** - Monitoring visit guidance implemented and guidelines shared with all tutors and partners.

**6.2** - Monitoring Visit guidance included details recommended by audit.

**6.3** - New Monitoring Visit Schedule includes details recommended by audit.

**7.1 to 7.3** - All recruitment of staff is carried throughout and is in compliance with the Council's HR procedures

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Control and Monitoring of Members' Gifts and Hospitality	Oct. 2017	<p>This audit was designed to provide assurance to management that the system of control around the Members Gifts and Hospitality is sound, secure and adequate. Within Part 5, Para 5.4. – Codes and Protocols of the Council's Constitution, there is a short protocol for Members on Gifts and Hospitality set out within Sections 13.1 to 13.3. This advises members of treating "... with extreme caution any offer or gift, favour or hospitality that is made to you personally...". Our review showed that members were reminded twice annually of their obligation to declare their interests and gifts and hospitality offered / received. A Register had been established for this purpose. Our audit highlighted the following:</p> <ul style="list-style-type: none"> <li>• The guidance to Members in the three short paragraphs was not sufficient to make an informed decision on whether to accept or reject the offers. We carried out a benchmarking exercise to compare LBTH's Protocol with two other London authorities and found that these two authorities provided further detailed guidance and advice to Members on a range of issues on gifts and hospitality. Copies of these authorities' guidance were given to the Head of Members' Support so that the examples can be considered and included within the LBTH protocols.</li> <li>• We noted that the current Protocol and the Members' Handbook did not state the timescale for reporting gifts and hospitality accepted to the Council and whether gifts declined should be declared. Therefore, there was risk that offers of gifts and hospitality may not be declared on a timely basis or at all. For example, the other two London Boroughs benchmarked require Members to register gifts or hospitality within 28 days of receiving them.</li> <li>• Our testing of the Gifts and Hospitality Registers for the period April 2014 to March 2017 showed that in 8 out of 20 cases, the dates of actual receipt of gift/hospitality was not recorded in the Register. We also noted that some gifts and hospitality were disclosed months after their receipt.</li> </ul>	Extensive	Limited 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
		<ul style="list-style-type: none"> <li>• Our review showed that there was no standard approach promoted to the reporting of gifts and hospitality, which may lead to inconsistencies, duplication and errors. For example, Members can complete the declaration form and hand the form in personally, or notify the Members Support via e-mail, or submit it via the online facility.</li> <li>• Internal staff procedures needed to be reviewed and revised to reflect current practice and any changes to the protocols.</li> <li>• Procedures for monitoring and formal sign-off of the Register by the Monitoring Officer needed to be formalised and roles of officers involved in recording and monitoring information clearly defined.</li> </ul> <p>All findings and recommendations were agreed with the Head of Member's Support and the Council's Monitoring Officer. Final report was issued to the Chief Executive and the Monitoring Officer.</p>		

### Management Comments


Guidance for Members was developed and refreshed. The guidance prepared for Members provides clear guidance on reporting gifts and hospitality, and advice on contact details for clarification. It defines the reporting requirements and timeframes, and includes examples, frequently asked questions and has a prescribed form to ensure all required information is submitted. Standards Advisory Committee on 19th October 2017 agreed the revised guidance and to receive regular updates on the declarations made.

Ethics and Probity training was conducted for all elected and co-opted Members on the 13th September 2017 and 2nd October 2017. The training, discussion and exercises included a strong emphasis on offers and receipt of gifts and hospitality.

Staff received a briefing regarding Members' declaration of offers and receipts of gifts and hospitality on the 10th October 2017. The forms and details will be incorporated into the Council's intranet. Detailed desk procedures which identify roles and responsibilities are presently being reviewed.

Periodic review of the gifts and hospitality declarations occurs as part of the Monitoring Officer role, to see who is being approached and why and the reasons, i.e. development, procurement, etc. All notifications made by the Members are published on their individual web page and regular updates of the register will be presented to the Standards Advisory Committee.




Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Housing Disrepairs	Oct. 2017	<p>This audit examined systems of control for managing and monitoring Housing Disrepairs claims by Tower Hamlets Homes (THH). As the landlord, the Council has a legal obligation to repair its housing portfolio and maintain it to a certain decent standard and this is discharged by THH. The following issues were highlighted:-</p> <ul style="list-style-type: none"> <li>• There was no THH Policy Statement on Housing Disrepairs defining the aims, purpose and objectives of the service. Due to lack of audit trails and relevant information not being made available in a coherent manner, audit testing was limited on how claims for Disrepairs were being processed, managed, controlled and monitored.</li> <li>• There was a lack of adequate separation of duties. We noted that one officer was made responsible for the entire process in performing the administrative, technical and management functions in respect of claims for disrepair.</li> <li>• There was an absence of a robust case management system which hindered management's ability to keep track of progress of claims.</li> <li>• The present governance arrangements between THH and LBTH's Legal Team did not provide clarity on who was responsible for making the final decision on whether claims should be defended in court, or settled out of court.</li> <li>• The true cost of settling a claim over the period of the claim was not transparent.</li> </ul> <p>All findings and recommendations were agreed with the head of repairs and Interim Director of Asset Management. Final report was issued to the THH Chief Executive and LBTH Divisional Director of Housing and Regeneration.</p>	Extensive	Limited 

**Management Comments**

The actions as set out in the previous Audit update are underway. A project has been agreed, led by Repairs Area Manager. Initial meetings have been held with representatives from LBTH Legal Team, to ensure their requirements are met in any new procedure.

NB: Due dates are mainly March 2018 to June 2018, therefore none are complete at this time.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Inspections Of Playgrounds	Nov. 2017	<p>The objective of this audit was to assure management that the systems and controls for inspecting playgrounds are sound and secure. The management of the Parks and Open Spaces within the Council is divided between two separate Directorates. Mile End Park and Victoria Park fall under the management of the Head of Arts, Parks and Events Team within Children’s Services Directorate. Whereas the Clean Green Team, within the Place Directorate, are responsible for maintaining the remaining parks and open spaces within the borough, which was the subject of this audit. A separate audit on inspections of playgrounds in Mile End and Victoria Parks is currently being carried out.</p> <p>Our review showed that inspections are carried out on a weekly (Visual), quarterly (Operational) and annual basis, in line with the standards laid down by RPII and the ROSPA guidance. Routine and Operational inspections are carried out in house by Registered Inspectors and annual inspections are undertaken by an external independent organisation. Our testing showed the following issues:-</p> <ul style="list-style-type: none"> <li>• There was a lack of detailed procedures for undertaking visual and operational inspections; for monitoring and spot checks of inspections; and for carrying out post inspections of repairs and maintenance works undertaken.</li> <li>• There appeared to be no set programme of visual and quarterly inspections. This combined with lack of management reports produced from “My Pi” system meant that management could not demonstrate to Audit whether any monitoring control was in place to ensure that the required inspections were being completed within the set time.</li> <li>• Our testing showed that there was a lack of clear guidance and criteria for undertaking risk assessments to identify the risks associated with the conditions of the equipment and other items inspected.</li> <li>• Although post inspections of completed works were undertaken before an invoice was paid, there was no monitoring and spot checks of the quality of post inspections.</li> </ul>	Extensive	Limited 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
		<ul style="list-style-type: none"> <li>A review of the invoices paid showed that the costs charged by the contractor had not been market tested as a competitive procurement exercise was not undertaken to procure these works as required by Council's Procurement Procedures. As at 25<sup>th</sup> August 2017, the service had spent £236,617 with the one supplier without competition. The service was advised to report this breach to the S151 Officer and the monitoring officer. We now understand that a separate contract for the works has now been procured following a competitive tendering process.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director, Public Realm. Final report was issued to the Acting Corporate Director, Place.</p>		

### Management Comments

#### Finding 1

The existing procedure has been updated to be more detailed and encompass all operations that are undertaken in respect of maintenance of play areas managed by the Green Team

#### Finding 2

Included within the updated procedure is a full programme of visual and quarterly inspection and details of the mechanism for how these are monitored and reports correlated for KPI

#### Finding 3


The standard for assessing risk on play equipment faults is detailed within RPII qualifications and guidance for which all staff who undertakes inspections are fully qualified to the required level. Further details of this are included within the updated procedure and to make this process auditable, Included within the procedure is a clear chart detailing how the risk rating is calculated in line with RPII guidance

#### Finding 4

New systems to be implemented whereby a percentage of post inspections are re inspected for quality monitoring. Details of this are within the newly updated procedure

**Finding 5**

Newly tendered contract has been evaluated following procurement process and has been through Competition board process. Following a query from one bidder this is with legal and once the query has been responded to standstill letters will be issued in anticipation of awarding the play contract.

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Programme and Project Management	Dec. 2017	<p>This audit sought to provide assurance that systems and governance in place for Programme and Project Management were sound and secure. On 2nd November 2016, the CLT agreed to establish a new Corporate Programme Management Office (PMO) to deliver all Medium Term Financial Strategy (MTFS) projects along with some non MTFS projects. This audit was undertaken at the request of the Divisional Director, Finance, Procurement and Audit, following risks around the timely delivery of key projects. The audit review identified the following control weaknesses which were also reported by the new interim Head of PMO in her diagnostic review of the service.</p> <ul style="list-style-type: none"> <li>• There was a lack of corporate standards, policies and procedures, roles and responsibilities, project management tools and performance measures and targets. Due to these weaknesses, various working practices emerged across the whole programme delivery which could put the systems objectives at risk.</li> <li>• There was confusion over the ownership of the savings programme and the underpinning projects, including lack of clarity on how projects were grouped and sequenced under each programme. A clear communication plan was not in place to facilitate information share.</li> <li>• The overall accountability for the Savings Programme was with the Transformation Board, responsible for overseeing the delivery of the Savings Programme. However, the terms of reference for the Transformation Board and individual Programme Boards was not formalised. The terms of references for a number of projects boards were being developed.</li> </ul> <p>All findings and recommendations were agreed with the interim Head of PMO and Divisional Director of Finance, Procurement and Audit. Final report was issued to the Corporate Director of Resources.</p>	Extensive	Limited 

## Management Comments

Over the past few months, the Corporate PMO has developed a portfolio, programme and project management framework setting corporate standards for delivery, governance and controls. A suite of supporting tools and templates are in the process of being developed with the intention of publishing documents on the PMO intranet pages in January 2018.


The purpose and role of the PMO – to ensure the right investments are made rather than a support function to track and deliver MTFS savings – has been clarified. A comprehensive review has also been completed to identify those change initiatives that require investment and therefore PMO resource assigned. The Transformation Board approved the criteria for scoring initiatives to identify those initiatives that should be prioritised. The priority initiatives have now been sensibly categorised and grouped into overarching programmes. Detailed plans to sequence delivery are in development and will be underpinned by planning assumptions that will be routinely tested.

A governance review is being carried out with a view to engage senior stakeholders early in the New Year and secure approval from the Transformation Board in January 2018. This will set out the governance arrangements for delivery and likely escalation triggers for consistent reporting on milestone achievements. A standard template for Board and Working Group forums has been developed. All existing terms of reference will be reviewed on approval of recommendations in the governance review.


A stakeholder engagement strategy and communications plan has been developed. Work is now underway to link the Smarter Together Programme narrative to the Council blueprint setting out the vision for 2022. This will be the final stage for clearly communicating the role and function of the PMO.


Accountability for making organisational savings remains with the Corporate Leadership Team. Those change initiatives delivering MTFS savings and outside the PMO remit will be reported as part of the budget monitoring process. Change initiatives in scope for PMO delivery will be supported by HMT's five-point business case and monitored via a benefits dashboard on an activity/FTE basis. The business case for historic change initiatives will be re-validated where they are in scope for PMO delivery.

**Substantial Assurance**

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
IR 35 Compliance		<p>This audit provided assurance over the Council’s arrangements for complying with the IR35 regulations. HMRC introduced stricter controls over classification of staff “employed” for the purposes of taxation from 01/04/2017. Those who are deemed to be “in scope” are treated as employees of the organisation and subject to deduction of income tax and national insurance at source through PAYE system. Apart from the staff engaged via normal HR process, the Council engages staff through agencies using Comensura, through procurement process on Proactis and those paid directly on submission of an invoice via Agresso. Stringent checks need to be applied to these categories. Our review showed that arrangements were being developed to ensure compliance across the Council. All agency staff via Comensura was treated as being “In Scope” pending an assessment of their tax status, reducing the risk of non-compliance with IR35. The initial assessments carried out by hiring managers were reviewed by an independent officer. However, we highlighted the following issues for management to address:-</p> <ul style="list-style-type: none"> <li>• There needed to be an adequate awareness of IR35 and its implications throughout the organisation. Management’s ability to monitor compliance in respect of suppliers procured via Proactis was initially hindered by the lack of a reporting tool which would enable checks to be performed to confirm whether assessments undertaken by the “end client” were correct. We understand that a reporting tool has now been introduced.</li> <li>• Reporting of compliance with IR35 via the different systems of engagement needed to be co-ordinated and reported centrally to provide management with an overview of how compliance was managed across all areas of the Council. An increased level of compliance monitoring from the Finance Compliance function was required.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director of HR and WD and final report was issued to the Corporate Director of Resources.</p>	Extensive	<p>Substantial</p> 




Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Enforcement and Tracing Follow Up	Sept. 2017	<p>This follow up audit assessed the progress made in implementing the recommendations agreed at the conclusion of the original audit in June 2016.</p> <p>Our testing showed that out of six medium priority recommendations followed up, four had had been progressed and two recommendations had not been fully implemented. The key findings were as follows:-</p> <ul style="list-style-type: none"> <li>• Formalised contract administration and monitoring procedures needed to be developed as required by the Council's Corporate Contract Management Guidance and Toolkits. This should include clear definition of services to be provided by the contractor, key activities and responsibilities for managing the contract, the monitoring process, risks and risk transfers, the agreed KPIs, and the frequency with which agreed KPIs are to be reported and monitored.</li> <li>• An effective monitoring system needed to be introduced to ensure that the contractors had the necessary insurance provisions as required by the contract.</li> </ul> <p>All findings and recommendations were agreed with the Head of Revenues and final report was issued to the Corporate Director of Resources.</p>	Extensive	Substantial 


Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions Statements Follow Up Audit		<p>This follow up assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit in February 2017 which was undertaken following a data protection breach. A significant number of employees had received Annual Benefits Statements (ABS) of other active members of the Local Government Pension Scheme. This represented a clear breach of the Data Protection Act, which was reported to the Information Commissioner's Office (ICO).</p> <p>The follow up audit showed that of the nine high priority recommendations followed up, one was fully implemented, eight had been partially implemented. The following issues were highlighted:-</p> <ul style="list-style-type: none"> <li>• The production 2017 annual statements was automated which eradicated the necessity to use formulae on Excel spread sheets, which was the root cause of data corruption last year.</li> <li>• However, the pensions system (Altair) was not being updated from the HR system on a programmed basis and the update was not independently checked to confirm completeness of the update. Audit testing of a sample of 24 cases identified that in 2 cases, member address amendments made on Resource Link had not been captured on Altair during the interface process.</li> <li>• The level of quality control undertaken on the accuracy of the addresses printed on the 2017 ABS prior to their dispatch was not sound. No records were kept of the quality control checks undertaken as recommended in the last audit to identify statements posted to incorrect addresses.</li> </ul>	Extensive	Substantial  

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Pensions Statements Follow Up Audit		<ul style="list-style-type: none"> <li>• The project to implement an online member self-service system whereby, members are able to access their current pension scheme data in real time thus avoiding need to update Altair from HR system, was delayed and has still not been implemented.</li> <li>• The Pension Team were unable to provide Internal Audit with evidence of the final outcome of the full 2016 ABS address anomalies interrogation exercise and resulting rectification actions, as advised to the ICO.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director, HR and WD and final report was issued to the Corporate Director of Resources.</p>	Extensive	

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Domiciliary Care procurement	Sept. 2017	<p>This review determined whether the EU Regulations, and the Council's Procurement Procedures and Financial Regulations had been complied with in procuring the Domiciliary Care Block contracts. Adult Services procured a total of fourteen contracts. The total value of the 5 year contract was estimated at £108M. Our review showed that EU Regulations and the Councils' Procurement procedures were largely complied with. However, there were some key issues for the service and for Procurement to address, as follows:-</p> <ul style="list-style-type: none"> <li>• Although approval was sought from Cabinet on 5/01/2016 for the tendering and subsequent awarding of contracts, the indicative contract sum was not included within the Cabinet report. This should have been picked up by Legal and Finance when providing legal and Finance comments.</li> <li>• Conflict of Interest and Confidentiality Agreement forms had been completed by officers in the tender evaluation panel for Lots A to H. However, two of the three officers for the evaluation panel for Lot G completed their forms retrospectively in July 2017.</li> <li>• In absence of clear guidance on the formation of the tender evaluation panel and moderation process, we noted that the complex tender evaluation was not checked and moderated by an independent officer.</li> <li>• Successful bidders' financial viability was to be assessed prior to contract award. Documentation to confirm that these checks had been done was not provided to Audit for review, as officers undertaking those checks had left the Council and the documentation could not be located.</li> <li>• Contract extension and the associated costs needed to be formally approved.</li> </ul> <p>All findings and recommendations were agreed with the Divisional Director - Integrated Commissioning and final report was issued to the Corporate Director, Health, Adults and Community.</p>	Extensive	Substantial ↕

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Penalty Charge Notices (PCNs) Follow-Up	August 2017	<p>A Penalty Charge Notice (PCN) can be issued, by London Borough of Tower Hamlets (Council) employed Civil Enforcement Officers, for parking offences or for breaking traffic rules. The issue of PCNs is considered to be a legal case and can be subject to challenge at various stages by the recipient of the PCN. The PCN formally becomes a debt once a warrant is issued. The Council works alongside contracted bailiffs to recover any monies that are due as a result of the issue of PCNs.</p> <p>The total number of PCNs issued in 2016/17 was 116,986, and year-to-date for 2017/18 was 36,870 (as at June 2017). The income collected in the period 2016/17 was £6,785,187.23 and the income collected from the PCNs issued from March 2017 to June 2017 was £1,345,808.00.</p> <p>The follow up review identified that, of the four medium recommendations made in the original March 2017 full systems audit report, all four have been partly implemented.</p> <p>We have made four recommendations. The areas of weakness are as follows:</p> <ul style="list-style-type: none"> <li>• Through our engagement with the Deputy Enforcement Managers (DEMs), it was identified that there was no record of the weekly spot checks undertaken by the DEMs.</li> <li>• The Auditor tested a sample of five out of 180 cancellations from March 2017 to June 2017 and identified that, in one instance (PCN TT25393854), there was no response given by the Appeal and Cancellation Adviser (to London Tribunals) to accept or provide evidence (case pack) to contest the appeal.</li> <li>• At the date of the audit, no write offs have been completed. The Parking Appeals &amp; Permits Manager confirmed, to the Auditor, that the Corporate Team proposed to commission the list of aged outstanding debt to a bailiff</li> </ul>	Extensive	Substantial 

		<p>(Phoenix Enforcement) to recover the debt instead of writing these off (aged outstanding debt 2013/14).</p> <ul style="list-style-type: none"><li>• The Auditor selected a sample of five days from March 2017 to June 2017 (490 cheques) to check whether a segregation of duties had been enforced during the cheques recording process. Testing identified that, in three instances, cheques were processed into the CHIPSIDE system and approved by the same officer (07/04/2017 Cheque payment BATCH TT 00002030 for £130; 28/04/2017 Cheque payment BATCH TT 00002044 for £1,355.00 and 06/06/2017 Cheque payment BATCH TT 00002071 for £925.00).</li></ul> <p>Furthermore, the Auditor identified that, in one instance (15/05/2017 Cheque payment BATCH TT 00002056 for £1,430.00), the cheque reconciliation form was not signed off by the approving officer.</p> <p>All findings and recommendations were agreed with the Operations Manager and reported to the Acting Corporate Director – Place and Strategic Director.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Corporate H&S Follow-Up	August 2017	<p>Tower Hamlets Homes (THH) is responsible for ensuring a safe and healthy workplace in accordance with the Health and Safety at Work Act 1974. Health and safety compliance is monitored via dashboard reporting and meetings of the bi-monthly Health and Safety Forum. Within THH, health and safety services are provided by the Health and Safety Manager, who reports to the Director of Asset Management. Policies and procedures for health and safety have been created, and an accident reporting system, maintained by Santia, is in place.</p> <p>A full systems audit on THH Health and Safety audit was undertaken as part of the agreed 2015/16 Audit Plan. This audit was assigned Limited Assurance. The objective of the follow up audit was to assess whether the agreed recommendations at the conclusion of the original systems audit had been implemented. From the two high priority recommendations and the two medium priority recommendations given at the end of the full systems audit, the Auditor identified that one of the high priority recommendations and one of the medium priorities have been implemented with the remaining two recommendations being partly implemented.</p> <p>We have made two recommendations. The areas of weakness are as follows:</p> <ul style="list-style-type: none"> <li>• The Auditor sampled five out of 28 incident investigation forms, of which one had over a month's delay in investigating the incident, one had recorded the incorrect date of the investigation and one had not been signed by the Manager who had completed the form.</li> <li>• There were eight incident cases out of the 28 provided since the beginning of December 2016 where an incident investigation was yet to have been undertaken. In seven out of the eight, the Manager had not been reminded to complete the expected Investigation Form.</li> </ul> <p>All findings and recommendations were agreed with the Head of Health and Safety (THH) and reported to the Director of Asset Management (THH) and Chief Executive (THH).</p>	Extensive	Substantial 

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
THH Major Works Follow Up	August 2017	<p>Major works are usually large 'one-off' projects designed to extend and improve the life of a building, and could include the replacement of old windows or the replacement of a broken lift. They are typically payable under the terms of leaseholders' agreements with the Council. Where works are carried out on buildings in which leaseholder properties are located, the leaseholders are liable for a proportion of the costs incurred. As at July 2017 there were 98 blocks where major works were being undertaken. These projects include external refurbishment (Better Neighbourhoods), lift renewals, door entry renewals and installation of new water tanks.</p> <p>As per Section 20 of the Landlord and Tenant Act 1985, Tower Hamlets Homes (THH) is required to carry out statutory consultations with leaseholders for all repairs and maintenance expenditure over the statutory levels of £250 for any one leaseholder for works of maintenance, repair or improvements, or £100 for any one leaseholder for works carried out under a qualifying long term agreement. Following the completion of the consultation process, THH is also obliged to provide adequate notification to the leaseholders of the intention to commence the work, the specific proposal, and invoices for the work once completed. At the end of 2016/17 there was an outstanding debt of £5.3m and since then a further £11.6m has been issued.</p> <p>Two high priority recommendations and seven medium priority recommendations were made in the original audit report, which was awarded Limited Assurance. Our follow up review identified that, of these, one high priority recommendation and four medium priority recommendations have been fully implemented. One high priority recommendation and two medium priority recommendation remain partly implemented. One medium priority recommendation has not been implemented.</p> <p>We have made three recommendations. The areas of weakness are as follows:</p> <ul style="list-style-type: none"> <li>• There is a six to eight week time lapse for debt recovery between the reminder letter and the final demand letter being sent. No further action is</li> </ul>	Extensive	Substantial ⇒




		<p>undertaken in the interim.</p> <ul style="list-style-type: none"><li>• Policies and procedures were not provided to the Auditor and therefore assurance could not be provided to verify that guidance is subject to review and approval every two years.</li><li>• It was identified that, where the final accounts for Major Works blocks had been obtained, they had not been signed by the responsible officer at the Council to confirm they had been agreed.</li></ul> <p>All findings and recommendations were agreed with the Acting Head of Leasehold Services and reported to the THH Director of Finance, Director of Asset Management and Chief Executive.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>THH Specialist Repairs Contracts</p> <p>Follow Up</p>	<p>August 2017</p>	<p>As an ALMO, THH manages the tenancies and leases on behalf of the Council as all properties remain Council-owned. THH has a legal responsibility to conduct checks each year on every gas boiler or other installation located in a tenanted property, and residents have a responsibility to allow access for the gas safety checks, per their tenancy agreements. THH is also responsible for conducting repairs and maintenance on any gas installations on behalf of their tenants, and in void properties.</p> <p>The communal gas maintenance, servicing and repairs contract was previously held by Gem, a subcontractor of Mears, until the end of the financial year 2015/16, and from April 2016 has been held by Mears (with the now subcontractor, Castlepoint).</p> <p>This follow up review identified that of the two medium priority recommendations made in the original audit report, one recommendation has been fully implemented, with one recommendation only partly implemented.</p> <p>We have made one recommendation. The area of weakness was as follows:</p> <ul style="list-style-type: none"> <li>• There was an issue with the interface used to populate the Key Performance Indicator (KPI) for the number of jobs overdue. A number of jobs that were classed as overdue had actually been completed but not closed down. The Team is now focusing on a data cleansing technique to identify which jobs are actually completed and to close them down as appropriate.</li> </ul> <p>All findings and recommendations were agreed with the THH Head of Repairs and reported to the THH Director of Asset Management and Chief Executive.</p>	<p>Extensive</p>	<p>Substantial</p> <p style="text-align: center;">↔</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
One Stop Shops Follow-Up	August 2017	<p>This follow-up audit has been undertaken as part of the 2016/17 agreed Internal Audit Plan.</p> <p>The London Borough of Tower Hamlets Council's One Stop Shops provide face-to-face contact to members of the public, and offer information on as well as support with accessing the Council's services. The most common interactions are in respect of Housing Benefit in addition to the Council Tax Reduction Scheme as well as housing provided by Tower Hamlets Homes, Council Tax, Social Services, and Parking.</p> <p>The One Stop Shops aim to ensure that experienced customer care professionals are available at all times to put the needs of the customers first, and provide advice on, or solutions to, enquiries about Council services.</p> <p>Regular surgeries are held offering advice on pensions, debt and other services available in Tower Hamlets, and the One Stop Shops offer details on these in the branches during opening hours.</p> <p>The One Stop Shops in Tower Hamlets are open for six days each week, and are located at four different sites across the Borough; Bethnal Green, Bow &amp; North Poplar, South Poplar, and Stepney &amp; Wapping.</p> <p>The One Stop Shops planned budget for 2016/17 was set at £862,589 and at the end of the 2016/17 financial there was overspend of £43,687 (2016/17 year end outturn: £906,276).</p> <p>The budget for 2017/18 was set at £903,813 and, as at May 2017 (quarter 1), the expenditure was £231,116.19.</p> <p>The original full systems audit undertaken for the One Stop Shops was a regularity audit and therefore an opinion was not provided. We have however included an opinion for the purposes of follow and have assessed (below) how far the recommendations raised in the original 2015/16 full systems audit have been implemented.</p>	Extensive	Substantial  <i>(Direction of Travel N/A)</i>

		<p>Our follow up review identified that, of the two medium priority recommendations made in the original audit report, both have been partly implemented.</p> <p>We have made three recommendations. The areas of weakness are as follows:</p> <ul style="list-style-type: none"><li>• There were no documented records of the management reviews for the Key Performance Indicators (KPIs) and the action plans which were put in place to enable the achievement of the One Stop Shops' targets (the key target relating to the waiting time for customers who enter the One Stop Shops).</li><li>• The Auditor identified that the reconciliation process flowchart did not specify that the daily reconciliation sheet should still be countersigned and dated by the reviewing officer where no discrepancies were found.</li><li>• Examination of five daily reconciliation sheets (05/05/2017, 20/04/2017, 15/03/2017, 23/02/2017 and 10/01/2017), the Auditor identified that, in all five cases, the daily reconciliation sheets were signed but not dated by the reviewer (Team Leader).</li></ul> <p>All findings and recommendations were agreed with the One Stop Shop Manager And Head of Customer Services and reported to the Corporate Director (Resources).</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Licence Applications Follow-Up	August 2017	<p>A full systems audit of Licence Applications was finalised in December 2016. This follow-up audit was undertaken to provide assurance as to whether the two medium priority recommendations raised at the time of the full systems audit have been subsequently implemented.</p> <p>The Licensing Act 2003 requires local authorities to publish a licensing policy. The legislation provides a clear focus on the promotion of four statutory objectives which must be addressed when licensing functions are undertaken, these are:</p> <ul style="list-style-type: none"> <li>• The prevention of crime and disorder;</li> <li>• Public safety;</li> <li>• The prevention of public nuisance; and</li> <li>• The protection of children from harm.</li> </ul> <p>The licensing policy relates to the following activities (known as licensable activities) that are required to be licensed under the Act:</p> <ul style="list-style-type: none"> <li>• The retail sale of alcohol including licensing of individuals, premises, wholesale of alcohol to members of the public and purchases via the internet or mail order;</li> <li>• The supply of alcohol to members of club premises;</li> <li>• The provision of regulated entertainment in the presence of an audience;</li> <li>• The licensing of activities on a temporary basis, TENs (temporary event notices); and</li> <li>• The provision of late night refreshment (hot food or drink between 23:00 and 05:00 hours).</li> </ul> <p>There are 1,143 Licences currently in place.</p> <p>Our follow up review identified that the two medium priority recommendations made in the original audit report had been partly implemented.</p> <p>We have made two recommendations. The areas of weakness are as follows:</p> <ul style="list-style-type: none"> <li>• Testing five out of 49 Licence Applications (received between December 2016 and April 2017) identified that, in one instance (APP 98062), no</li> </ul>	Extensive	Substantial 

		<p>licence was issued after a deemed letter (a letter sent to the individual explaining that they have been granted the licence, used until the official licence is produced) was sent.</p> <ul style="list-style-type: none"> <li>• The Auditor reviewed the March 2017 Licence Application spot check and identified that it did not indicate: the date and the name of the officer who performed the check, the areas that were being checked (supporting documentation presence and correctness of the information entered into the system), the result of the verification and whether or not actions were required.</li> <li>• Testing of five out of 133 outstanding licence renewal fees (from February 2017 to April 2017) identified that, in one case (Licence application APP 80167), a suspension letter was not sent in a timely manner and the outstanding payment was not referred for debt recovery.</li> </ul> <p>In four of the five cases tested, no suspension letters were sent for outstanding payments of licence renewal fees (Licence Applications: APP 73338, APP 18036, APP 89341 and APP 53151).</p> <p>All findings and recommendations were agreed with the Head of Environmental Health and Trading Standards and Licensing Team Leader and reported to the Corporate Director (Place).</p>		
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## Follow Up Audits – List of Priority 1 Recommendations to be Implemented

Audit Subject	Recommendation	Divisional Director	Officer Name
Establishment Control	The Council should ensure a new process, which has already been identified by the HR Service as an improvement, is implemented so there is a reminder for service managers to produce a monthly return notifying HR that either there have been no changes or that amendments are required to the establishment list. Management should monitor the receipt of such returns to ensure that all managers are complying with the requirement to provide a monthly return.	Heather Daley	Nick Harvey
Establishment Control	Posts identified as vacant for a substantial period of time should be identified and reviewed to determine whether they should be removed from the establishment list.	Heather Daley	Catriona Hunt
Community Languages	Management should issue guidance in respect of a minimum number of students who need to be enrolled before a course / class can be held and should monitor class sizes on an ongoing basis to ensure that the minimum stipulated class sizes are being achieved and, where they are not, take appropriate action. Guidance in respect of what monitoring officers are expected to consider when undertaking their monitoring visits and how monitoring visits are to be conducted and recorded effectively to identify areas of concern highlighted by the visits should also be issued.	Shazia Hussain	Showkat Khan
Community Languages	Management should identify key performance indicators and service standards for the service and require that the performance against these indicators is reported to them regularly.	Shazia Hussain	Showkat Khan
Pensions Statements	The completion of each update on the Pensions System (Altair) from HR system (Resource link) should be checked by another officer and signed off by both officers and a record of this should be retained to ensure that the update is full and complete.	Heather Daley	Ken Fontenard

<b>Audit Subject</b>	<b>Recommendation</b>	<b>Divisional Director</b>	<b>Officer Name</b>
THH Corporate Health and Safety	An officer should be made responsible for reviewing a sample of accident and incident reports cases on a monthly basis and also performing spot checks to confirm that forms have been completed and that accidents are investigated in a timely manner.	John Tunney	Janice Tofts
Major Works	Debt recovery actions should be taken on a regular basis using the debt recovery procedures in place. System generated reminder letters should be instigated by the Collections Officer according to the arrears records maintained.	John Tunney	Will Manning




**Follow Up Audits – List of Priority 2 Recommendations still to be implemented**

<b>Audit Subject</b>	<b>Recommendation</b>	<b>Divisional Director/ Corporate Director</b>	<b>Officer Name</b>
Enforcement and Tracing Contract Monitoring	Ensure that formalised contract monitoring recording processes are introduced for all aspects of the contracts in accordance with the new corporate contract monitoring framework.	Roger Jones	Michael Alderson
Enforcement and Tracing Contract Monitoring	Ensure that copies of all insurance policies required by the contract are held by the Revenues Team	Roger Jones	Michael Alderson
THH Specialist Repairs Contracts	The Repairs Team should ensure that, once works are completed, they are appropriately closed down in a timely manner, to avoid skewing KPIs. It is suggested that a monitoring and escalation process be implemented to allow managers to utilise the data and implement swift remedial action in this area.	John Tunney	Keith Peirson
One Stop Shops	In order to help achieve the set performance targets, a documented record/trail should be maintained (subject to monitoring) to help track the achievement of the Key Performance Indicators.	Shazia Hussain	Keith Paulin
Licence Applications	Management should decide whether there is a need to further investigate the potential extent of any non-compliance in identifying how many cases have not had the full licences issued. The decision whether to pursue this recommendation should be made by management against whether or not the risk and impact of exceptions warrants such additional investigation.	Roy Ormsby	Karen Freeman





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Non-Executive Report of the:  <b>Audit Committee</b>  23 <sup>rd</sup> January 2018	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Asmat Hussain, Corporate Director, Governance and Monitoring Officer	<b>Classification:</b> Unrestricted
<b>Whistleblowing Update</b>	

<b>Originating Officer(s)</b>	Paul Greeno, Senior Corporate and Governance Lawyer
<b>Wards affected</b>	All

### Summary

This is a periodic report updating on the Council’s whistleblowing and investigation monitoring information

### Recommendations:

The Audit Committee is asked to:

1. Note the whistleblowing and investigation monitoring information contained in Appendix 1 to this report.

## **1. REASONS FOR THE DECISIONS**

1.1 This is a noting report.

## **2. ALTERNATIVE OPTIONS**

2.1 This is a noting report.

## **3. DETAILS OF REPORT**

3.1 Since April 2016, the Council's Whistleblowing process has been monitored by the Monitoring Officer. Between now and then 41 Whistleblower concerns have been raised in respect of which 30 have been completed and closed. Of those 30,

- 4 were upheld (of which 1 was partial)
- 3 were closed as further information that was required in respect of those concerns to enable them to be investigated was not provided
- 2 were referred to other agencies to investigate
- 21 were not upheld

3.2 In respect of the 21 not upheld, the final Investigation Reports were reviewed and where it was considered that there were lessons to be learnt, then recommendations were made. This occurred in 6 cases as follows:

- If the person who raised the initial allegation had been written to with an acknowledgment of the allegation then it would not have ended up being raised as a Whistleblower concern. The relevant Service was reminded that it was important to acknowledge allegations that were raised.
- A service review has been requested to ensure that the controls over the application of and user control of public sector parking permits within the Directorate involved are strengthened as per the report.
- The introduction of a stock control form should be introduced.
- Procedures in THH regarding the viewings of properties and the subsequent offers of tenancy were strengthened.
- A detailed Council wide review of the use of card purchases is being conducted by the Corporate Risk and Audit Team.
- Managers in the relevant Service are being reminded of the need to continually balance out workflows to meet demands that are placed on the Service and that that is to be done with current work demands borne in mind. Managers are also being asked to remind staff of their responsibilities such as answering colleagues' phones both at Team meetings and as part of their 121 programme.

- 3.3 There were no recurring themes of lessons to be learnt in those matters however.
- 3.4 Appendix 1 sets out anonymised details of those Whistleblowing matters that were upheld.
- 3.5 As to the 11 matters still ongoing, these are all at various stages and an update in relation to those matters will be provided at the next meeting of the Audit Committee and which is currently scheduled for 29<sup>th</sup> March 2018.

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 There are no direct financial implications arising from the recommendations within this report.

#### **5. LEGAL COMMENTS**

- 5.1 Whistleblowing law is located in the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998). It provides the right for a worker to take a case to an employment tribunal if they have been victimised at work or they have lost their job because they have 'blown the whistle'. The law does not however require employers to have a whistleblowing policy in place but it is accepted good practice. The existence of a whistleblowing policy shows an employer's commitment to listen to the concerns of workers. Further the Department for Business Innovation and Skills ('BIS') Guidance and Code of Practice provides that it is good practice for employers to have a whistleblowing policy or appropriate written procedures in place.
- 5.2 As an employer, the Council wishes to create an open, transparent and safe working environment where workers feel able to speak up and it has a whistleblowing policy. This policy was last revised in November 2017.

#### **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 Monitoring of whistleblowing is a continuation of the Council's improvement to its organisational culture. It demonstrates a commitment to put the concerns of employees and local people first and for fair and transparent decision making and which contributes to the delivery of One Tower Hamlets priorities and objectives.

#### **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 Whilst the report does not propose any direct expenditure, it is looking to put in place arrangements in the exercise of its functions having regard to efficiency and thereby also economy and effectiveness.

**8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

8.1 None.

**9. RISK MANAGEMENT IMPLICATIONS**

9.1 Ensuring a culture whereby persons feel empowered to raise concerns when there is a reasonable belief (and it is in the public interest) that one or more of a criminal offence, a breach of legal obligation, a miscarriage of justice, a danger to the health and safety of an individual, damage to the environment, and/ or a deliberate attempt to conceal one of these, has occurred or is likely to occur is an important part of risk management and should reduce risks.

**10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

10.1 Ensuring a culture whereby persons feel empowered to raise concerns when there is a reasonable belief (and it is in the public interest) that a criminal offence, a miscarriage of justice is likely to occur should assist in reducing crime.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- NONE

**Appendices**

- 1 – Table of completed investigations where allegation upheld

**Local Government Act, 1972 Section 100D (As amended)**

**List of “Background Papers” used in the preparation of this report**

- NONE.

**Officer contact details for documents:**

- N/A




# APPENDIX 1

No.	Details of Concern	Outcome
1.	<p>Allegation that particular staff are coming in late and leaving early. That staff are smoking in work vehicles. A member of staff is leaving early to go and do private work. An officer has gone off sick because that officer said that they had not been off sick for a while and wants to try to get ill health retirement.</p>	<p>There was evidence to show that on one day an officer had come in late whereas their timesheet indicated they had arrived 40 minutes early. However on other days came that officer came in approximately 30 before the time stated on their timesheet.</p> <p>There was evidence of smoking in work vehicles but not who was smoking. There was no evidence regarding the allegations.</p> <p>The Manager raised issues of timekeeping and that timesheets should be honest and accurate at a Team Meeting on 27/04/2017. That was sufficient and no further action required.</p> <p>As to smoking in vehicles, whilst there is evidence of smoking, it could not be established who had been smoking. Again, the Manager raised the issue of smoking in work vehicles at Team Meeting on 27/04/2017 and that it was a criminal offence. Again, that was sufficient and no further action required.</p>
2.	<p>Allegation that an officer was claiming sick pay whilst fit for work and was going abroad on holiday.</p> <p>Also that the officer was in charge of a company that was undertaking fraudulent practices</p>	<p>It was established that times off sick matched times on holiday and the matter is now subject to a disciplinary investigation.</p> <p>The business the subject of the alleged fraudulent practices is under investigation by the Police and therefore inappropriate for the Council to also investigate.</p>
3.	<p>Allegation for the same officer as above but different holiday dates.</p> <p>Also that the officer was in charge of a different company that undertaking fraudulent practices</p>	<p>It was established that times off sick matched times on holiday and the matter is now subject to a disciplinary investigation.</p> <p>The business the subject of the alleged fraudulent practices is under investigation by the Police and therefore inappropriate for the Council to also investigate.</p>

4.	This allegation overlapped with a matter carried forward from the Clear-Up Team (Case Ref. No. CU 023)	A total of 11 recommendations were made and which have been separately published. To date, 10 of those recommendations are still to be completed but these are being monitored and regularly reported to the Corporate Leadership Team as well as reports to both the Best Value Improvement Board and Cabinet
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<p><i>Non-Executive Report of the:</i>  <b>Audit Committee</b>          23rd January 2018</p>	 <b>TOWER HAMLETS</b>
<p><b>Report of:</b> Zena Cooke - Corporate Director - Resources</p>	<p><b>Classification:</b>          Unrestricted</p>
<p><b>Corporate Anti-Fraud Team Investigations Update.</b></p>	

<b>Originating Officer(s)</b>	Tony Qayum
<b>Wards affected</b>	All wards

## 1. **INTRODUCTION**

- 1.1 This report provides an update of the Corporate Anti-Fraud Team's investigation work.

## 2. **RECOMMENDATIONS**

- 2.1 The Audit Committee is asked to note the contents of the report.

## 3. **BACKGROUND**

- 3.1 The Corporate Anti-Fraud Team (CAFT) is based within the Risk Management Service and is led by the Corporate Anti-Fraud Manager.
- 3.2 Following a restructure of the team a number of posts were advertised, two for Corporate Fraud and one for Social Housing investigation. Attached at Appendix A is current structure. The team is broken down into four teams that make up the unit and each is led by a designated team leader.
- 3.3 The Corporate Anti-Fraud team considers allegations of fraud, corruption and impropriety and focus on internal matters, contractual relationships and service provision that may be the subject of financial abuse. The team via its Team Leader is also the Council's key contact for the National Fraud Initiative.
- 3.4 There is also a Social Housing Fraud investigation team that considers abuse of housing tenancy in the form of subletting, abandonment and false entitlement to housing allocation and more recently the integrity of Right to Buy applications and disposals. The team is partly funded by THH and offers a service to all Registered Providers in the borough. We also have a small Blue Badge team that we manage on behalf of Parking Services via a Service Level Agreement that considers the investigation of misuse and abuse of Blue

Badges and persistent evaders of parking fines and undertakes pro-active drives with the Police to clamp down on misuse and other public facing initiatives to protect the public and make better use of public assets.

This team reports directly to the Corporate Anti-Fraud Manager.

- 3.5 The last team is the Intelligence Team that takes an overview with the Corporate Anti-Fraud Manager of trends and linkages between enquiries in order to take a more holistic approach to the investigation of abuse and where possible assist in improvement of systems through robust evidenced based Intelligence.
- 3.6 Each referral is profiled through internal systems interrogation to establish the provenance of an allegation/ management referral and to assist the early data gathering for an investigator to undertake an enquiry. The ability to undertake both internal and external data vouching is considered particularly helpful as it enables investigators to make more informed case management decisions and reduces investigation time because much of the required intelligence has already been gathered for them.
- 3.7 The Intelligence Team also provides support to other elements of the wider Anti-Fraud Team and Internal Audit / Insurance services.
- 3.8 Where necessary and appropriate the CAFT can draw resources from the Internal Audit Section as mentioned in their annual Audit Plan.

#### **4. CORPORATE ANTI-FRAUD TEAM CASES INVESTIGATED**

##### **4.1 Summary of activity during the period**

The table below summarises the activity of the CAFT for the current financial year 2017/18 and highlights a number of notional savings valued at almost £6 million so far this financial year.

<b>Activity</b>	<b>Fraud Proven 2017/18 (April to June)</b>	<b>Notional Value of Fraud Identified 2017/18 (£'s)</b>	<b>Fraud Proven 2017/18 (Apr to December)</b>	<b>Notional Value of Fraud Identified 2017/18 to date (£'s)</b>
Social Housing (inc Subletting, abandonment and false applications)	10	<b>750,000</b>	33	<b>2,475,000</b>
RTB	3	<b>311,700</b>	14	<b>1,454,600</b>
Parking Blue Badges	24	<b>192,000</b>	81	<b>648,000</b>

Recovered				
Parking Permits Cancelled	15	<b>120,000</b>	28	<b>224,000</b>
Parking Control Notices	5	<b>300</b>	30	<b>1,600</b>
National Fraud Initiative 2014/15 Creditors, Pensions, Housing and payroll	-	<b>1,045,069</b>	-	<b>1,045,069</b>
<b>Total</b>	<b>87</b>	<b>2, 419,069</b>	<b>186</b>	<b>5,874,855</b>

## 5. FRAUD PREVENTION ACTIVITIES

### 5.1 E- Learning

- 5.1.1 The Risk Management service introduced an E-Learning programme that sought to enhance existing arrangements around awareness of the risk of Fraud and provided all staff and members with a short but focused programme that demonstrated how to identify key fraud risks and awarded a certificate if the multiple choice questions were answered correctly.
- 5.1.2 The course reaches the whole organisation, individual directorates, management and individuals and creates an enhanced awareness of the Council's anti-fraud policies and culture.
- 5.1.3 We have continued to promote an anti-fraud culture and have delivered training in various forms to local teams and the wider audience through risk talks and presentations as part of borough wide risk presentations.
- 5.1.4 For example we presented to all Departmental Leadership Teams in September 2017 on the arrangements for Anti-Fraud and Corruption and Whistleblowing and undertook a Risk Management talk to the Council on what Fraud is and how it affects you in October 2017 and this was followed up by a talk on the work of the Social Housing Fraud Team and how it works with THH and the Councils Lettings team in December 2017.
- 5.1.5 It is intended to continue these themes at local Departmental Leadership Teams in the final quarter of this financial year.

5.1.6 We have engaged with the Monitoring Officer on specific risks around Right to Buy irregularity and Money Laundering matters and we are also active members of the London Boroughs Fraud Investigation Group on which we sit on its Executive Committee and are working closely with CIPFA on the Anti-Fraud landscape and further professionalization of the anti-fraud offering within Local Authorities.

## **5.2 Right to Buy**

6.2.1 The number of Right to Buy applications continue to increase with tenants benefitting from the scheme's discounts of up to a maximum of £103,900.

6.2.2 With such significant discounts available to prospective purchasers there is an increased risk of fraud. In order to minimise this risk the Corporate Anti-Fraud Team have applied enhanced fraud prevention processes to all new RTB applications, including anti-money laundering questionnaires as well as financial and residential verification. This has meant that many applications having been referred to the CAFT have been reviewed and assessed and those applications have been either rejected or the applicant has withdrawn their application following due diligence reviews.

6.2.3 In order to enhance the control environment we have worked very closely with the RTB team at Tower Hamlets Homes (THH) and the Council's Legal Service which have adopted new practices and closer working. The resultant practices have encouraged THH to fund a post managed by the CAFT to act as a link between themselves, Legal Services and ourselves to embed improved procedures and undertake financial checks with our Intel team. The post was recruited to in November 2017.

6.2.4 We have engaged with CASCADE the Mortgage lenders intelligence group and providers forum, following a presentation we delivered to the industry in October 2016 and played a key part in generating an SLA with the National Hunter mortgage vouching service.

6.2.5 We have also engaged with the Solicitors Regulatory Authority to highlight poor practice with solicitors acting inappropriately and with Lloyds in mortgage lending review.

## **6.3 CORPORATE INVESTIGATIONS**

6.3.1 Corporate Investigations involve cases that affect the internal operations of the Council as mentioned in 3.2 above and relate to employee fraud or other third party fraud which does not necessarily fall within the other services the CAFT covers.

6.3.2 It is intended to provide regular updates on the team's activity several times during the municipal year.



## **7 COMMENTS OF THE CHIEF FINANCE OFFICER**

- 7.1.1 This report provides an update on the Corporate Anti-Fraud Team's investigation work for the financial year 2017/18 to date.
- 7.1.2 There are no specific financial implications emanating from this report. The report however highlights a number of notional savings valued at almost £6 million as a result of successful investigations leading to prosecution in some instances, system improvements and facilitated future preventative measures that will be put in place.

## **8 LEGAL COMMENTS**

- 8.1. Under the Local Government Act 1972 the Chief Financial Officer has a duty to ensure that there is an adequate process of Internal Audit to ensure the independent appraisal of the Council's systems of internal control, practices and systems. This requirement is further reinforced by the Local Audit and Accountability Act 2014 which established new arrangements for the auditing of local public bodies.
- 8.2. Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

## **9. ONE TOWER HAMLETS CONSIDERATIONS**

- 9.1 This report highlights risks arising from exploitation of assets for personal gain. The ongoing management of risks through enhanced vouching and control will assist so that effective governance can be put in place to manage the authority's exposure to risk.

## **10. ANTI-POVERTY CONSIDERATIONS**

- 10.1 There are no specific Anti-Poverty issues arising from this report.

## **11. RISK MANAGEMENT IMPLICATIONS**

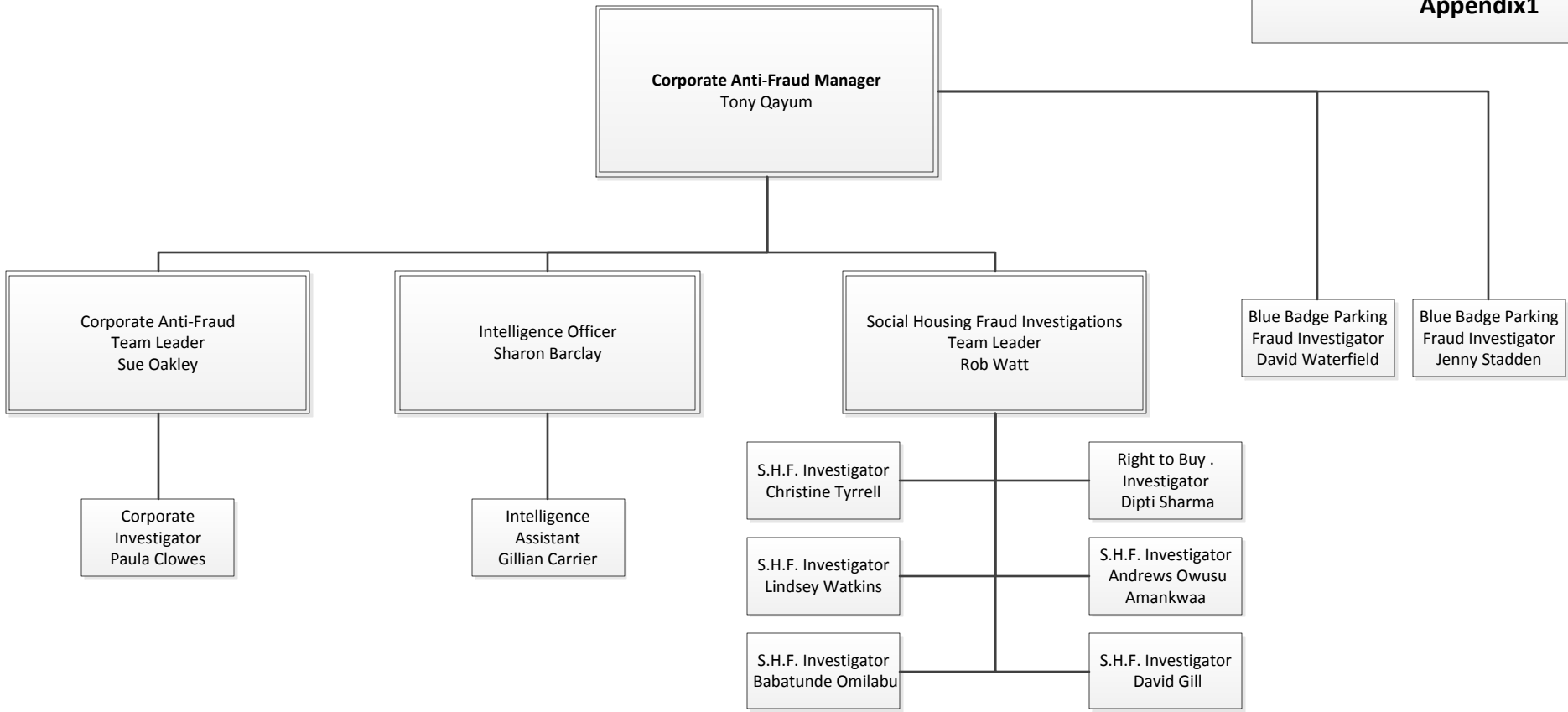
- 11.1 This report highlights risks relating to the coverage of Anti-Fraud within the Council and the arrangements to respond to allegations of Fraud and Corruption. It demonstrates how the Council is responding to potential risks to the control framework that may be exploited by fraudsters.

## **12. SAGE**


12.1 There are no specific SAGE implications.

## **13. CRIME AND DISORDER IMPLICATIONS**

13.1 By having sound systems of control, the Council can safeguard against fraud and abuse of financial resources and assets.



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Non-Executive Report of the:  <b>Audit Committee</b>  23 January 2018	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke - Corporate Director, Resources	<b>Classification:</b> [Unrestricted or Exempt]
<b>Quarterly Risk Management Update</b>	

<b>Originating Officer(s)</b>	Minesh Jani
<b>Wards affected</b>	All Wards

### Summary

The purpose of this report is to provide the Audit Committee with:

- a) An oversight of the authority’s processes to facilitate the identification and management of its significant business risks.
- b) Summary of the Q3 2017/18 Corporate Risk Register and update since last reported in September 2017.

### Recommendations

The Audit Committee is recommended to:

1. Note the corporate risks and recommend changes and updates as necessary;
2. Request risk owners(s) requiring further scrutiny provide a detailed update on the treatment and mitigation of the risk including impact on the corporate objectives at its next meeting; and
3. Determine if risks on the corporate risk register are a significant threat to the achievement of corporate objectives or the performance of activities to satisfy core statutory objectives.

## **1. REASONS FOR THE DECISIONS**

- 1.1 The report is brought quarterly to provide the Committee with an oversight of the authority's processes to facilitate the identification and management of the council's significant business risks.

## **2. ALTERNATIVE OPTIONS**

- 2.1 None.

## **3. DETAILS OF REPORT**

- 3.1 Risk management is an integral part of good corporate governance. There are many definitions of corporate governance but the one used by CIPFA is ".....the procedures associated with the decision making, performance and control of organisations, with providing structures to give overall direction to the organisation and to satisfy expectations of accountability to those outside it".
- 3.2 All organisations face risks in everything that they do but by the proper management of its risks, organisations can benefit by reducing their significance; either by reducing the level of impact, or making the risk less likely to happen. Over the last few years, the use of risk management as a tool in the public sector has gained strength as the appreciation of how risk management can be used as a technique for delivering an efficient and effective service to all its stakeholders. This is demonstrated in guidance issued by CIPFA / SOLACE, "Delivering Good Governance in Local Government", which makes reference to the need for effective management of risks and suggest how authorities can use audit committees to support a framework for effective systems of internal control.

The council has developed a formal Risk Management framework and processes which are supported by the Risk Management and Audit team. This is part of the council's corporate governance process and contributes to its compliance with Financial Regulations and Procedures as well as the Accounts and Audit Regulations 2015. It is also a key part of the council's Annual Governance Statement which is approved by the Audit Committee in June each year.

The council recognises that it has responsibility to manage business risks and opportunities in a structured manner in order to achieve its corporate objectives and enhance the value of services it provides to the community.

The ongoing risk and assurance aims are:

- To give members and senior officers an understanding of the key risks facing the Council and its community, and to show how these risks are being responded to;
- To implement and maintain a fluid process for the everyday management of risks relevant to our objective's, outcomes, services and assets;

- To improve the Council’s risk management culture and transparent ownership of risks and issues; and
- To continue to meet the requirements of our external auditor and compliance providers.

Risks are assessed using the Council’s risk assessment process, in terms of how likely a risk is to occur and what the consequences would be if they did. Based on that assessment risks are classified as follows:

- **Red (Severe)** indicates that the risk is very significant and requires immediate and comprehensive management attention;
- **Amber (Significant)** indicates that the consequences of a risk materialising would be significant, but not disastrous. Some immediate action (but not as time critical) is required plus the development of a comprehensive action plan;
- **Yellow (Material)** indicates that the consequences of the risk are of concern although treating the risk will be through contingency planning;
- **Green (Low)** indicates the likelihood and impact of the risk relatively unimportant.

### Corporate risk register

The current risk register contains a total of 13 risks rated as three red, seven amber and three yellow (see para above for the risk definitions and Appendix 4 for significance of risks).

The table below is a breakdown of the number of corporate risks by directorate for quarter 3, 2017/18.

Directorate	6	8	9	12	15	20	25	Grand Total
HAC	0	0	0	1	1	1	0	3
CSD	0	0	0	3	0	0	1	4
PD	0	0	0	0	2	0	0	2
GD	0	1	0	0	0	0	0	1
Resources	1	1	0	0	0	1	0	3
Total	1	2	0	4	3	2	1	13

*Table 2. The number of risks within each directorate by risk score.*

Key: **HAC** – Health, Adults and Community directorate  
**CSD** – Children’s Services directorate  
**PD** – Place directorate  
**GD** – Governance directorate  
**Resources** – Resources directorate

The Council’s strategic priorities detailed within the Corporate Strategy are as follows:

Creating opportunity by supporting aspiration and tackling poverty

- A dynamic local economy, with high levels of growth that is shared by residents.
- Residents in good quality, well – paid jobs.
- Children get the best start in life and young people realise their potential.
- People are healthy and independent for longer.
- Gaps in inequality have reduced and diversity is embraced.

Creating and maintaining a vibrant and successful place

- An improved local environment
- People feel safe and places have less crime and anti-social behaviour.
- Better quality homes for all.
- Communities are engaged, resilient and cohesive.

Working smarter together as one team with our partners and community

- An enabling and efficient council.

The table below shows the number of risks associated with these corporate priorities.

<b>Corporate Priority</b>	<b>Q4 2016/17</b>	<b>Q1 2017/18</b>	<b>Q2 2017/18</b>	<b>Q3 2017/18</b>
<i>Creating opportunity by supporting aspiration and tackling poverty</i>	3	3	3	3
<i>Creating and maintaining a vibrant, successful place</i>	2	2	1	1
<i>A transformed council, making best use of resources and with an outward looking culture</i>	8	8	8	9
<b>Total</b>	13	13	12	13

Table 1. The number of risks identified by Corporate priority



## **Current Corporate risks**

A summary of the Council's corporate risk registers is attached at Appendix 1. A detailed risk register is attached at Appendix 2, which sets out the nature of the risks and steps taken already to manage the risks and further actions planned to improve the management of the risk. Finally, the dashboard at Appendix 3 sets out the heat map of the Council's corporate risks and performance information in respect of the risks.

### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 There are no specific financial implications arising from the recommendations within this report. General comments with regards the importance of effective risk management and the consequences of failure to monitor and manage organisational risks are contained within the body of the report.

### **5. LEGAL COMMENTS**

- 5.1 The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 5.2 Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions

### **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 There are no specific one Tower Hamlets considerations arising from the recommendations in this report.

### **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 The Council operates a risk management framework governed by a risk management policy to allow risk to be considered using a consistent model. The risk management cycle consists of the key steps for effective risk management which enables the Council to meet its best value duty to secure continuous improvement with regard to economy, efficiency and effectiveness.

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There are no specific proposals in the report contributing to a sustainable environmental action for a greener environment.

## **9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 The report sets out arrangements for mitigating risks to the Council and actions taken to treat and eliminate identified risks.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 There are no specific crime and disorder reduction implications arising from this report.
- 

### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Appendix 1 Corporate risk register
- Appendix 2 – Detailed risk register.
- Appendix 3 – Corporate risk Dashboard
- Appendix 4 – Risk Scoring Matrix

#### **Local Government Act, 1972 Section 100D (As amended)**

#### **List of “Background Papers” used in the preparation of this report**

List any background documents not already in the public domain including officer contact information.

- NONE

#### **Officer contact details for documents:**

- A.Sotande-Peters Ext:4051

# Appendix 1 Corporate Risk Register



Risk Ref	Risk Event	Current Risk Rating	Controlled Risk Rating	Risk Owner
CSD0016 <i>Corporate Level</i>	<p>Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.</p> <p>There was an Ofsted Inspection Jan-Feb 2017 which found CSC services to be overall inadequate. The report stated that children and young people are being left in situations of harm and the DFE have issued directions to the borough. A Department for Education improvement advisor will also be identified to work with the Council to support the necessary improvement.</p>	25	16	Nancy Meehan
REV0007 <i>Corporate Level</i>	<p>Impact on local income from appeals on the new local rating effective from 1/4/17.</p> <p>On the 1/4/17 all business premises will have a new rateable value to reflect a more up to date economic valuation of their premises. All ratepayers have the right to appeal against their valuation and at the beginning of any new valuation list there is always a dramatic increase in the number of appeals by ratepayers and their agents. Traditionally the government sets the new multiplier higher in the first year of a revaluation to take into account the losses of income due to these appeals. If the multiplier is set too low, then LBTH will suffer losses of income as appeals are settled and reductions in RV are achieved.</p>	20	10	Roger Jones
CSA0002 <i>Corporate Level</i>	Community Unrest.	16	12	Ann Corbett
ASD0015 <i>Corporate Level</i>	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	15	10	David Jones
PLC0013 <i>Corporate Level</i>	<p>Following the Grenfell Fire tragedy residents of tower blocks in the borough are not safe or do not feel safe from fire following reassurance, advice, interim measures and completed, in progress or scheduled remedial actions to improve fire safety.</p> <p>Local housing authorities have a statutory duty to keep local housing conditions under review. Following the Grenfell Fire tragedy the Department for Communities and Local Government (DCLG) has reminded all Local Authority Chief Executives of this duty and asked them to actively ensure ALL building owners of residential tower blocks are taking measures to ensure their residents are safe and feel safe.</p> <p>Regardless of who carries it out, the Responsible Person (for the Fire Risk Assessment) will be liable to prosecution if, as a result of an inadequate fire risk assessment, people are placed at the risk of death or serious injury.</p>	15	5	Ann Sutcliffe
DRCPCD002 <i>Corporate Level</i>	Failure to have in place a lease extension for Mulberry Place (or alternative temporary office location) one year prior to the end of the current lease (June 2019).	15	10	Richard Chilcott
ASD0017 <i>Corporate Level</i>	Risk that should a major incident take place affecting Council services, there may be a failure to implement an effective response. The risk is increased if there was to be more than one incident at the same time.	12	4	Denise Radley

# Basic Risk Report



Risk Ref	Risk Event	Current Risk Rating	Controlled Risk Rating	Risk Owner
CSDSC0004 <i>Corporate Level</i>	Incidents of serious violence where young people known to or in the care (LAC) of the Local Authority are harmed or perpetrate harm in a community setting	12	12	Nikki Bradley
CSDSC0005 <i>Corporate Level</i>	Loss of resources as a result of a failure to reach target Payment by Results claims, resulting in loss of capacity to deliver the Troubled Families programme. Reputational risk of being the only Local Authority in England to be withdrawn from the programme.	12	9	Nikki Bradley
CSDR0011 <i>Corporate Level</i>	There is a risk that the Council may be challenged in Court for making a formal decision under the 1967 Act, to retain for educational purposes the newly constructed Christ Church Primary School's nursery building, which is built on a disused burial ground. (The basic premise of the challenge is that the school had no right to erect the building, and that it is unlawful to erect the building on a disused burial ground, and that it should be demolished.)	12	8	Ronke Martins-Taylor
LPGLS0001 <i>Corporate Level</i>	Non-compliance with corporate governance procedures	8	6	Asmat Hussain
RSB0019 <i>Corporate Level</i>	Maintaining and strengthen financial viability/balance across MTFS period to 2020.	8	8	Neville Murton
ICT-CT0010 <i>Corporate Level</i>	That Agilisys are unable to perform as a strategic supplier with significant and consistent failures to meet SLAs	6	4	Khaled Hussein

## Appendix 2 - Detailed Risk Report (Corporate Risks)

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
GSD0016	<p>Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.</p> <p>There was an Ofsted Inspection Jan-Feb 2017 which found CSC services to be overall inadequate. The report stated that children and young people are being left in situations of harm and the DFE have issued directions to the borough. A Department for Education improvement advisor will also be identified to work with the Council to support the necessary improvement.</p>	<p>Ofsted report indicated shortfalls in following areas across the service:</p> <ul style="list-style-type: none"> <li>Overall management oversight was weak.</li> <li>Non-compliance in core statutory and local requirements</li> <li>Absence of child care centred practice</li> <li>Key threshold decisions</li> <li>Risk assessment and Risk Management</li> <li>Children's plans and reviews</li> <li>Achieving permanence</li> <li>Drift, delay and escalation</li> <li>Supervision</li> <li>Staff development and competence</li> <li>Quality assurance and Performance Management</li> </ul>	<p>Harm to an individuals</p> <p>Children and young people being left in situations of risk and or unassisted harm.</p> <p>Poorer than expected outcomes for a child.</p> <p>Poor audit/review findings</p> <p>Reputational damage to the council.</p> <p>Loss of experienced professional staff.</p> <p>Potential for legal proceedings against the council leading to financial loss</p> <p>Loss of confidence in safeguarding capability across the council, partnership and wider.</p>	<p>Adherence to statutory government guidance, policies and procedures laid down by the council and LSCB / SAB Local Safeguarding Children's Board</p> <p>Statutory government guidance, policies and procedures in place. Management oversight including supervision is in place. Quality Assurance framework to check and audit various areas is in place.</p> <p>All the above are being revised as part of LBTH improvement plan</p> <p>Quality assurance systems including case audits, LSCB and SAB sub-groups.</p> <p>There is a new approach being taken to multiagency audits via the LSCB sub group and CSC are reviewing their QA framework with a view to achieve less process, more assurance and better feedback.</p> <p>There is an active internal audit programme that does pick up key areas of risk and challenge within safeguarding. The effectiveness of this system is a work in progress.</p> <p>CSC have an improvement plan which is being implemented which is being overseen by the Children Services Improvement Board and Operational Group.</p> <p>Effective working relations and swift communication across</p>	5	5	25	4	4	16	Nancy Meehan	Creating Opportunity By Supporting Aspiration And Tackling Poverty

Page 101

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
				<p>partnership agencies .... Effective working relations and swift communication across partnership agencies that is held at different levels of Children's services. LSCB has an executive board for Directors and Chief Executive Officer level across the partnership.</p> <p>Continue to implement Signs of Safety as overarching practice framework Signs of Safety is a well established intervention which has some evidence of effectiveness. To strengthen the implementation of Signs of Safety in LBTH it has been agreed that it needs to be part of a wider practice model which includes systemic practice as clear Practice Standards. Training and development work is part of the CSC workforce strategy.</p> <p>LSCB and CSC has Quality Assurance systems in place. This should provide evidence and assurance to safeguarding board and partners that service is being delivered to expected standards, there are clear (proxy) indicators and where it is not so remedial action can be taken.</p> <p>As part of the response to the Ofsted inspection and subsequent improvement plan, the QA framework has been revised. The LSCB is reviewing its priorities and audit programme.</p> <p>Serious case review/learning process in place There has been a refreshed case alert process disseminated within Children Social Care, which feeds</p>				<p>integrated commissioning partnership at the most senior level.</p> <p><b>Nancy Meehan</b> <b><u>Required Control Measure Target Date:</u></b> <b>30/08/2017</b></p>							

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>into the LSCB case review group. Any ongoing SCR work is held at service head level and a communication flow is done to the CMT Corporate Safeguarding Group, chaired by Chief Executive Officer.</p> <p>Safeguarding training programme in place covering induction and workforce development programme</p> <p>A back to basics training course is being developed and will be rolled out to all CSC staff in 2017 as part of the LBTH improvement plan.</p> <p>Staff complete the Health and Care professions Council (HPC) re-registration process every 3 years There is a process to pick up delays/failures in registration so action can be taken by managers.</p> <p>Improvement Arrangements to respond to the Ofsted Report A Children's Services Improvement Board (CSIB) has been established to take forward the improvement work. This will meet every six weeks and will be chaired by an independent advisor appointed by the Dfe.</p> <p>An improvement plan has been drafted to reflect the recommendations detailed in the report and will be reviewed by Ofsted to ensure this is the case. The improvement plan is developing under four main headings which are:</p> <ul style="list-style-type: none"> <li>• A robust model of social work practice</li> <li>• A sufficient and skilled workforce</li> </ul>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
				<ul style="list-style-type: none"> <li>Quality assurance and audit</li> <li>Leadership, management and governance</li> </ul> <p>The improvement plan is being implemented with robust oversight from the Children's Services Operational Group. reporting to the CSIB.</p> <p>Review arrangements of looked after children and child protection is led by the child protection review service. This is a critical challenge role to children's social workers. There is on going work to improve the oversight and authoritative advice role.</p> <p>A new resolution process has been introduced and there is regular reporting of QA activities to CSC management team.</p> <p>Ensure that CMT have a view of the activities within the service .....            Ensure that CMT have a view of the activities within the service and develop some assurance using the corporate accountability framework, risk register, management oversight, audit framework and Forward Plan. CMT safeguarding board is active. The Ofsted SEF document have been through DMT and to lead member. A new Inspection and Improvement Board has been set up.</p>											



Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
REV0007	<p>Impact on local income from appeals on the new local rating effective from 1/4/17.</p> <p>On the 1/4/17 all business premises will have a new rateable value to reflect a more up to date economic valuation of their premises. All ratepayers have the right to appeal against their valuation and at the beginning of any new valuation list there is always a dramatic increase in the number of appeals by ratepayers and their agents. Traditionally the government sets the new multiplier higher in the first year of a revaluation to take into account the losses of income due to these appeals. If the multiplier is set too low, then LBTH will suffer losses of income as appeals are settled and reductions in RV are achieved.</p>	<p>The multiplier for 2017/2018 not being set high enough to take into account losses due to appeals on the new local rating list effective from 1/4/17.</p>	<p>Loss of revenue generated from Business Rates. Impact of revenue loss on provision of services.</p>		5	4	20	<p>Draft new values available September 2017 when estimates can be made on income levels and value of appeals.</p> <p>We have set our level for the provision for appeals in line with Governments calculation of the additional element in the multiplier to take account of appeals in the new 2017 local list. It remains very difficult to estimate whether this will be enough to cover the actual costs of appeals. The Government are also proposing that the cost of appeals could be funded centrally thereby taking the risk away from local government. Further details of this proposal will be available after the general election.</p> <p><b>Roger Jones</b> <b><u>Required Control Measure Target Date:</u></b> <b>17/01/2018</b></p>	5	2	10	Roger Jones	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
CSA0002	Community Unrest.	Wide range of international, national or local incidents. Far right activity. Terrorism, Extremism, Hate crime, Acid attacks or other crime. Police action. Council funding decision exacerbating community tension. Increasing polarisation between communities in the borough.	Rising crime and unrest within the Borough. Vigilante action. Damage to property and harm to persons Reputation damage Increase in social deprivation More segmented society	<p>Formal multi-agency approach in place Formal multi-agency approach in place (including Council, Police, Education, Housing Organisations, Voluntary Sector and Faith Organisations.</p> <p>Cohesion Promotion Programme e.g. No Place for Hate Forum and Events</p> <p>Use of Community Cohesion Contingency Planning &amp; Tension Monitoring Group Community Cohesion Contingency Planning &amp; Tension Monitoring Group that complete cohesion impact assessment around key event</p> <p>Debrief programme in place for after key events/incidents.</p> <p>Cohesion toolkit and impact assessment in place and used</p> <p>Annual cohesion measured through residents' survey.</p> <p>Home Office funded programme of activities including interventions with young people.</p> <p>Multi-agency SAP Panel in place to review case referrals of individuals of concern within the Borough. Multi-agency SAP Panel in place to review case referrals of individuals of concern within the Borough. (Close liaison with Policy and SO15).</p> <p>On-going development of the "Prevent Programme" to include work in schools. Officer appointed to lead this work from May 2014.</p>	4	4	16	<p>Task and Finish groups take forward action plans on areas of potential concern e.g. acid attacks</p> <p><b>Emily Fieran-Reed</b> <b><u>Required Control Measure Target Date:</u></b></p>	3	4	12	Ann Corbett	Creating And Maintaining A Vibrant, Successful Place		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
				<p>Competing prevent agenda action plan funded by Home Office</p> <p>Multi-agency and community based approach including Tension Monitoring Group and comms mechanisms to assess potential or actual impact of incidents.</p> <p>Prevent programme of activity including multi-agency case panel to consider individuals of concern and project activity.</p> <p>No Place for Hate programme of activity.</p> <p>Diversionsary activities with young people.</p> <p>Commissioned activity to give particular parts of the community a voice.</p> <p>Commissioned activity to build cohesion and integration.</p>											
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	<p>There is a failure of one or more of the controls which fails to identify the degree of risk to a vulnerable adult.</p> <p>Poor practice and inadequate management oversight.</p> <p>Failure of quality control systems.</p> <p>Service user fails to work to agreed partnership / agency arrangements.</p> <p>Poor communication and partnership work.</p> <p>Poor resourcing of</p>	<p>Harm to an individual.</p> <p>Reputational damage to the Council.</p> <p>Potential for legal proceedings against the council leading to financial loss.</p> <p>Loss of confidence in safeguarding capability.</p>	<p>Revised safeguarding procedures introduced from care act implemented. Robust safeguarding procedures in place.</p> <p>Oversight through management reporting</p> <p>Social workers have 1:1 supervision monthly on their casework including safeguarding cases.</p> <p>The PSMT meet monthly to review and monitor Adult Safeguarding casework, particularly serious cases and develop and implement action plans and lessons learnt.</p>	3	5	15							David Jones	Creating Opportunity By Supporting Aspiration And Tackling Poverty

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
		<p>service areas against increased demand. Local authority contracted out service do not have sufficiently robust safeguarding arrangements.</p>		<p>Information campaigns to raise awareness of safeguarding oversight from safeguarding adult's board A sub group of the Safeboarding board leads on publicity and promotion of safeguarding</p> <p>4 year (2015 – 2019) adults board strategy The actions within the SAB strategy aim to mitigate the risks associated with safeguarding.</p> <p>Safeguarding issues as part of contract management procedures</p> <p>Target operating module as part of the care act implemented. This includes key worker role assigned.</p> <p>Signs of safety framework implemented. This framework helps identify the risks in a strategic manner.</p> <p>CQC care commission embargo list used. This list is available from the CQC highlighting all providers where the CQC has raised concerns.</p> <p>Failed visit policy and procedures in place. Introduction of safeguarding Star Chamber for front line teams</p> <p>discharge policy in consultation with Bart's</p>								

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
DRPCD0022	Failure to have in place a lease extension for Mulberry Place (or alternative temporary office location) one year prior to the end of the current lease (June 2019).	End of Mulberry Place lease in June 2020 (or as otherwise negotiated)	Additional capital and/or revenue costs (corporate finance) to ensure delivery of a business continuity office location.	<p>Initial dialogue with the landlord on a lease extension took place. Initial dialogue with the landlord on a lease extension took place in 2016. LBTH advised to pause dialogue in light of commercial office market, currently in decline. Commercial dialogue with landlord to re-commence in 4Q, 17.</p> <p>Council appointed JLL consultancy to take conduct commercial negotiations and reach agreement. The council (Asset Management team) to appointed JLL consultancy to conduct commercial negotiations on the council's behalf and reach agreement with the landlord.</p>	3	5	15	Commercial dialogue with Landlord in Q3 or Q4 2017/18	2	5	10	Richard Chilcott	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture		
Page 109															

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures	Target Risk			Responsibility	CPT
					L	I	Total		L	I	Total		
PLC0013	<p>Following the Grenfell Fire tragedy residents of tower blocks in the borough are not safe or do not feel safe from fire following reassurance, advice, interim measures and completed, in progress or scheduled remedial actions to improve fire safety.</p> <p>Local housing authorities have a statutory duty to keep local housing conditions under review. Following the Grenfell Fire tragedy the Department for Communities and Local Government (DCLG) has reminded all Local Authority Chief Executives of this duty and asked them to actively ensure ALL building owners of residential tower blocks are taking measures to ensure their residents are safe and feel safe.</p> <p>Regardless of who carries it out, the Responsible Person (for the Fire Risk Assessment) will be liable to prosecution if, as a result of an inadequate fire risk assessment, people are placed at the risk of death or serious injury.</p>	<p>Accountability for fire safety is not correctly designated, communicated and understood</p> <p>Fire Risk Assessments: * are incomplete, inadequate or not carried out in accordance with the latest advice from DCLG and fire and rescue services * are not published in accordance with the Mayor's commitment * do not include the time limits on recommendations</p> <p>Fire Risk Assessment Action Plans: are not produced and/or delivered within appropriate timescales</p> <p>Limited current contractor supplier chain for scale of identified fire safety works</p> <p>Constrained and limited ability for Tower Hamlets Homes to complete all the Fire Risk Assessment work identified in the new round of comprehensive Fire Risk Assessments</p> <p>Unable to justify block prioritisation policy for programmes of Fire Risk Assessment works</p> <p>Leaseholders do not fit fire rated flat entry doors (ALL flat entrance doors in a block will need to be compliant to achieve</p>	<p>Loss of life</p> <p>Loss of housing stock</p> <p>Lobbying and/or protesting</p> <p>The council and local housing management organisations lose the trust of residents</p> <p>Individual prosecution under a number of Acts of Parliament and common law offences with potential penalties including unlimited fines and a maximum of life imprisonment</p> <p>Corporate prosecution with potential penalties of unlimited fines, remedial orders and publicity orders</p> <p>Adverse national media coverage</p> <p>Uninsured financial loss</p> <p>Council perceived as not having fulfilled statutory duty to keep local housing conditions under review</p>		<p>3</p> <p>5</p> <p>15</p>	<p>Tower Hamlets Homes (THH) Fire Safety Programme progress reported to and monitored by THH and Council</p> <p>Bi-Monthly Operational Meeting - Standing Agenda Item</p> <p>Quarterly Strategic Meeting - Standing Agenda Item</p> <p>Quarterly Mayoral Meeting - Standing Agenda Item</p> <p>Capital Programme Board</p> <p><b>Mark Baigent</b> <b><u>Required Control Measure Target Date:</u></b> <b>31/03/2019</b></p> <p>Work with DCLG to ensure owners of private residential tower blocks are taking measures to ensure their residents safety</p> <p><b>Mark Baigent</b> <b><u>Required Control Measure Target Date:</u></b> <b>31/12/2017</b></p> <p>Council client team to review and agree timetable for publishing remaining Fire Risks Assessments</p> <p><b>Mark Baigent</b> <b><u>Required Control Measure Target Date:</u></b> <b>29/12/2017</b></p> <p>Ensure Fire Risk Assessments are carried out annually or (after works) on ALL council owned housing blocks</p> <p>Capital Programme Board - This is specifically to include blocks who have not yet had programmed work completed</p>	<p>1</p> <p>5</p> <p>5</p>	Ann Sutcliffe	<p>A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture</p>				

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
		good fire compartmentalisation and a 'Tolerable' fire safety standard) Fire safety measures are uncoordinated													
ASD0017	Risk that should a major incident take place affecting Council services, there may be a failure to implement an effective response. The risk is increased if there was to be more than one incident at the same time.	Failure by Directorates to ensure that the Borough Major Emergency Plan (Part 3B) is kept up to date with Directorate information and procedures. Staff are unaware of the EP process. Insufficient resilience in key roles including management, rest centres, BECC and CPU.	(1) Failure of the Council to continue to operate during a crisis period as a consequence of a civil event or situation. (2) Slower than expected management response causing increased disruption to key service delivery, inconvenience to service users and the stakeholders, adverse public criticism and additional costs to the Council.	Business continuity plans kept up to date  Staff with extensive experience in dealing with incidents are in place Officers in the Civil Protection Unit have dealt with incidents on several occasions, and have gained quite extensive experience on dealing with this type of incident and the action that may be required to be taken.  Any future restructure will need to ensure that key posts are retained within the organisation to continue to minimise this risk  Borough Emergency Management Team to co-ordinate the Council's response on tactical matters. B. E. M. Team.  6 month review of EP plan with Directorate changes.  Annual report to CMT  Independently review the Borough Major Emergency Plan to ensure it is fit for purpose. complete  Rollout a refresh training programme for senior managers and officers supporting the emergency plan. Complete  2016 June BC business impact assessment reviews by service areas 2016 June BC plan update	4	3	12	Procurement of an IT system to manage BC plan update  Drafting of a business case to procure IT System to manage BC plan update - the business case is drafted and has been agreed by the Directorate Management Team. The proposal will now go forward to the Corporate Leadership Team in September 2017.  <b>Ann Corbett</b> <b>Required Control Measure Target Date:</b> <b>30/03/2018</b> Additional staff to be sought to be trained and on call if needed.  <b>Ann Corbett</b> <b>Required Control Measure Target Date:</b>  Business Continuity test on key LBTH sites.  <b>Ann Corbett</b> <b>Required Control Measure Target Date:</b>  Sessions on MEP/BC plans for members and senior managers.  <b>Ann Corbett</b> <b>Required Control Measure Target Date:</b>	2	2	4	Denise Radley	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
				notification has been sent to directorates											
CSDR0011	There is a risk that the Council may be challenged in Court for making a formal decision under the 1967 Act, to retain for educational purposes the newly constructed Christ Church Primary School's nursery building, which is built on a disused burial ground. (The basic premise of the challenge is that the school had no right to erect the building, and that it is unlawful to erect the building on a disused burial ground, and that it should be demolished.)	Decision by the Council to allow the Christ Church Primary School to occupy the building for the next academic year may trigger the matter taken to Court by the interested parties calling themselves Spitalfields Open Space (SOS) who object to the new building.	<p>- The Council allowing Christ Church Primary School to occupy the building may result in the matter taken to Court, which could result in an injunction to vacate or not to occupy the building.</p> <p>- The Council's decision under the 1967 Act, to retain the building could be challenged in the High Court by way of a Judicial Review.</p>	<p>Authorise officers to write to SOS with the Council's offers</p> <p>Authorise officers to write to SOS with an offer based on a 25 year life for the building and a commitment to moving the open space to a community trust and a proportion of their stated costs (to be determined by CMT). Letter sent and SOS are considering their position</p> <p>Authorise officers to seek Counsel's opinion</p> <p>Authorise officers to seek Counsel's opinion regarding the likely outcome of the Judicial Review currently held in abeyance (following the 1967 act determination) and on the extent to which populating the building and entering in to a lease with the school may or may not undermine our defence.</p> <p>CMT to agree to move forward with the lease to the School to allow occupation for the Summer Term</p> <p>Subject to the above advice received being marginal, neutral or positive, CMT to agree to move forward with the lease to the School to allow occupation for the Summer Term.</p> <p>CMT to consider if or when to commit any additional resource to the landscaping and improvement of the Open space</p> <p>In the context of the offer to SOS, and pending their reaction to it, CMT to consider if or when to commit any additional resource to the landscaping and improvement of the Open space.</p>	3	4	12				2	4	8	Ronke Martins-Taylor	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture
								<b><u>Required Control Measure Target Date:</u></b>							



Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures	Target Risk			Responsibility	CPT
					L	I	Total		L	I	Total		
CSDSC0004	Incidents of serious violence where young people known to or in the care (LAC) of the Local Authority are harmed or perpetrate harm in a community setting	Postcode tensions due to gang activity, honey trap behaviour or rumours on social media escalating tension between groups of young people who consider themselves to be aligned to a gang or postcode group. Revenge attacks by friends or family of young people who have been targeted for violence or humiliation Increased use of knives and other weapons	Risk of serious harm or death to the young people concerned. Risk of harm to community members who may inadvertently become caught up in the incident. Reputational risk to Local Authority and poor media coverage. LBTH now rank as No 1 for youth violence in London.	Targeted or/and specialist intervention Targeted or/and specialist intervention with young people and their families from a range of services within the Community Safety partnership. Monitoring of intelligence through the monthly gangs unit meetings and daily police intelligence meetings in the Youth Offending Service. Regular reviews to assist risk management using the Risk Management panel. EGGSYV co-ordinator is leading on work to develop a Reducing Youth Violence Strategy and MOPAC bid to secure a specialist knife intervention for schools and early intervention delivery.	3	4	12	Better co-ordination of intelligence through the appointment of a data analyst  Refresh of Risk Management policy is complete. Development of co-ordinated strategic and delivery to recognise vulnerability across CSE, HSB, MAPPA, Gangs matrix and Youth Justice victims work. Further development of Restorative Justice work. A number of strategic groups exist that are hampered by a lack of data analyst that impairs the identification of patterns and impedes co-ordinated action. Funding has been awarded for this role by MOPAC.  <b>Nikki Bradley</b> <b><u>Required Control Measure Target Date:</u></b> <b>31/07/2017</b>	3	4	12	Nikki Bradley	Creating Opportunity By Supporting Aspiration And Tackling Poverty
CSDSC0005	Loss of resources as a result of a failure to reach target Payment by Results claims, resulting in loss of capacity to deliver the Troubled Families programme. Reputational risk of being the only Local Authority in England to be withdrawn from the programme.	Troubled Families data system solution is not yet in place, causing a reliance on manual data sets and work arounds. This has impacted on the Payment by Results claims in the first two years of Phase Two of the SSF programme in LBTH. A lack of strategic drive has weakened the programme's capacity to problems solve and gain cross directorate support and co-operation. A review of the timescale until the	The DCLG who drive the national programme have formally expressed their concern to the CEO in writing. The risk of further attachment fees and unclaimed payment by results funds being withheld is a real risk at this stage as there is no prospect of catch up this financial year. However, Recovery Plan has been accepted	Change of governance arrangements Current governance arrangements enable practice sharing and multiagency consultation but mitigate against quick and focussed decision making. Review of governance is underway to determine clarity of purpose, agile decisions and clear accountability for the programme.  Project Board has been re-established and is meeting regularly	3	4	12	Renewed strategic drive  An additional senior manager has joined the programme delivery to offer a fresh approach and additional management capacity. A rescue plan is being compiled for presentation to the CEO to assist a response to the DCLG Families team  Recovery plan submitted to, and accepted by DCLG by 28th February 2017 Re- established Project Board chaired by DCS Children's Services  Continued focus and robust project management is beginning to impact positively on	3	3	9	Nikki Bradley	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture

Page 113

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
		<p>system goes live is May 2017, beyond this financial year. It is not possible to catch up manually before March 31st 2017.</p> <p>Target date for data system to 'Go live' is now set at 5th May 2017 Manual process of identifying attached families has enabled 1900 attached to date/close to target</p>							<p>performance <b>Nikki Bradley</b> <b><u>Required Control Measure Target Date:</u></b> <b>01/06/2017</b></p>						
LPGLS000 1	Non-compliance with corporate governance procedures	<p>Poor understanding of governance processes / lack of clarity of processes Lack of awareness on areas such as conflict of interest and the Bribery Act Possible pressure from politicians on officers to deviate</p>	<p>Ineffective decision making Potential for reputation damage Poor council performance Failure to optimise opportunities Adverse media reporting Unlawfulness leading to ultra vires decision</p>	<p>Council Constitution in place</p> <p>Annual Governance Statement process reporting to the Audit Committee.</p> <p>Regular meetings of the Statutory Officers Co-ordination Group. Ongoing.</p> <p>Arrangements in place for regular reporting of significant governance matters via Head of Audit and Risk and the Monitoring Off.</p> <p>Financial regulations, Financial and Procurement Procedures have been updated and further clarification of staff, manager and senior officer responsibilities have been incorporated.</p> <p>The post of 'financial compliance manager' has also been created through the restructure of finance and the role of that post is to monitor and report to the section 151 officer on noncompliance in key areas such as use of purchase cards, petty cash, budget monitoring etc....</p>	2	4	8	<p>Review Constitution</p> <p>Proposals to be submitted to CMT by Constitution Working Group piecemeal as changes occur.</p> <p><b>Asmat Hussain</b> <b><u>Required Control Measure Target Date:</u></b> <b>30/11/2017</b></p> <p>Refresh Local Code of Corporate Governance</p> <p>The review will need to be carried out in conjunction with the work of the Governance Group and the new code of corporate governance.</p> <p><b>Asmat Hussain</b> <b><u>Required Control Measure Target Date:</u></b> <b>31/10/2017</b></p> <p>Delivery of the culture change plan of the Best Value Plan.</p> <p><b>Will Tuckley</b> <b><u>Required Control Measure Target Date:</u></b> <b>31/10/2017</b></p> <p>Refresh Officers' Scheme of Delegation</p>	2	3	6	Asmat Hussain	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				<p>Member training provided on Code of Conduct.</p> <p>Training for members and independent co-opted members of Standards Advisory Committee on Standards Framework was held on 14/07/15.</p> <p>Mandatory training programme in place for members of the Planning, Licensing and Grants Scrutiny Committees. Training provided post 2015 Elections and further training delivered due to changes in membership of said Committees.</p> <p>Member Induction Programme took place June - July 2014. (After the Local, Mayor and Euro elections).</p> <p>Strategic Information Governance Board and Information Governance Review Group in place.</p> <p>Governance Review Working Group provide an oversight of continuing development of good governance</p> <p>E-learning anti-fraud and bribery training programme including Bribery Act Provisions The e-learning and the accompanying test provide staff an opportunity to be appraised of the bribery regulations and more generally, of the anti-fraud arrangements.</p> <p>Refresh Members Code of Conduct</p> <p>O&amp;S Grants Scrutiny Sub-committee responsible for pre-decision scrutiny of grants matters</p>								

**Asmat Hussain**  
Required Control Measure Target Date:  
**31/12/2017**  
 Progression to the Mayor taking executive decisions in the absence of the Commissioners

**Will Tuckley**  
Required Control Measure Target Date:  
**03/10/2017**

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
				Discharge of Executive decisions by the Commissioners to ensure that legal requirements are met.								
RSB0019	Maintaining and strengthen financial viability/balance across MTFS period to 2020.	Reduction in government funding NHS integration – unfunded services transferred in through Public Health and Adult Social Care Changes in Government initiatives/priorities Potential inability to manage working capital effectively Increasing expectation of the Council aligned with increasing local need Implications of welfare reform agenda on council services and budgets CSR in Autumn 2015 HRA changes Population growth	Future service cuts Inability to meet public expectation Increased pressure on delivery of statutory and priority services Unfunded base budget pressures/new burdens from government Failure to deliver community plan/strategic plan priorities.	<p>Formal annual budget setting process and medium term financial plan</p> <p>Continuous monitoring of Council's medium term financial plan in place</p> <p>Monthly monitoring and management reporting of Council's financial position</p> <p>Annual External Audit health check on financial processes including budgets and reporting</p> <p>Programme Manager for Council Savings Plan in place.</p> <p>Corporate Programme Board formed to monitor delivery of savings programme. Monitoring in progress.</p> <p>Implement savings programme/opportunities Longer term financial and investment strategy</p> <p>Develop and implement corporate approach to deliver and monitoring of Council savings plan and transformation plan</p> <p>On-going advancement of linkages between the 30 year HRA Business Plan and Council service plans. Longer term financial and investment strategy</p> <p>Methodology for council transformation in place and ongoing Corporate Transformation Programme covering all directorates with a focus on delivering service</p>	2	4	8	2	4	8	Neville Murton	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture
								<b><u>Required Control Measure Target Date:</u></b>				

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
				improvements, efficiencies and savings											
ICT-CT0010	That Agilisys are unable to perform as a strategic supplier with significant and consistent failures to meet SLAs	SLAs missed, projects late, operational issues and relationships showing disconnects.	The Corporate vision of a Digitally Enabled Council will be threatened. Operational SLAs will fail affecting productivity	<p>New enhanced performance regime introduced as part of reset</p> <p>Performance is being reported on, monitored and is generally within target</p> <p>Mulberry Place &amp; Albert Jacobs House Comms room UPS have been upgraded.</p> <ul style="list-style-type: none"> <li>- Some temporary measures to free up storage agreed</li> <li>- SAN remediation being worked on</li> </ul> <p>Relationship is much better than pre -reset</p>	2	3	6	<p>Get Focus on the projects</p> <ul style="list-style-type: none"> <li>- Oldest projects being looked into on regular basis and helping movement (either progress or abandon).</li> <li>- Prioritising projects that really matter is helping</li> <li>- Project dashboard is being reviewed to monitor what matters</li> <li>- Use of formal project appraisal techniques being considered (NPV, ROI) for the future</li> </ul> <p><b>Muhibul Hoque</b></p> <p><b><u>Required Control Measure Target Date:</u></b></p> <p><b>30/11/2017</b></p>	2	2	4	Khaled Hussein	A Transformed Council, Making Best Use Of Resources And With An Outward Looking Culture		





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22 December, 2017

## Probability Impact Heatmap




Almost Certain	0	0	0	1	1
Likely	0	0	1	1	0
Possible	0	0	0	3	3
Unlikely	0	0	1	2	0
Rare	0	0	0	0	0
	Negligible	Low	Medium	High	Very High

## Risk Profile Summary




	No. of Risks	% of Total
	3	23.08%
	7	53.85%
	3	23.08%
	0	0.00%
<b>13</b>		

## Risk Profile Quarterly Movements

### 2017

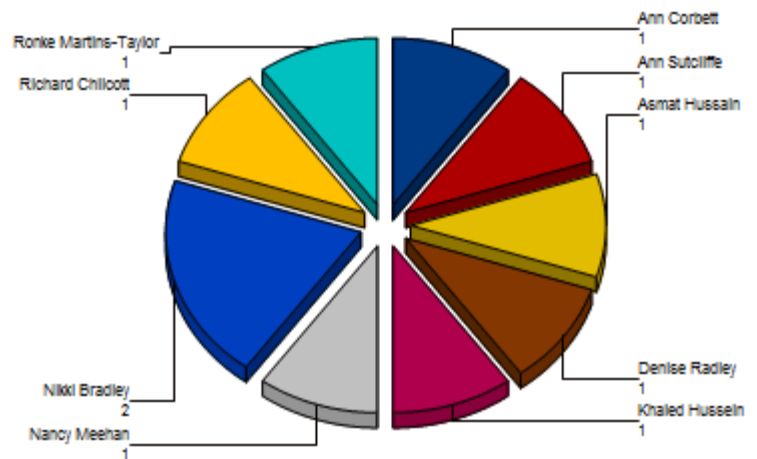
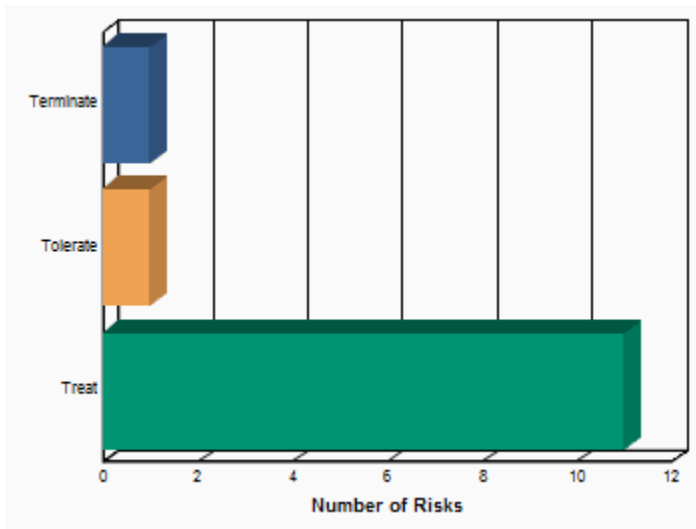
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	1	2	2	0
	9	8	10	12
	2	2	1	1

### 2016

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	0	1	0	0
	10	10	11	10
	1	0	0	1

## Risk Approach Summary

## Overdue Risk by Risk Owner



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## London Borough of Tower Hamlets – Risk Scoring Matrix

### What is a risk?

- A risk can be defined as “an event or set of events that could impact on the achievement of objectives” . A risk can have a negative or a positive impact.
- A risk should be assessed against an objective.
- A risk is measured in terms of likelihood and impact. (see Tables below)
- It is important to note that if the likelihood of the event occurring is *less than* 100%, i.e. it is not a certainty
- A risk may never 100% mitigated, but its risk score may reduce to an acceptable level
- A risk can be dealt with in 4 ways – Treat (mitigate), Tolerate (accept), Transfer to a third party or Terminate (avoid).

### How to use the Risk Scoring Matrix

To assess a risk , first consider the likelihood of that risk occurring. Consult the Likelihood Classification Table below and choose the most appropriate description e.g. **Possible** ,which has a score of 3. Next, consider the impact of that risk occurring using the Impact Classification Table. There may be several impacts of a risk e.g. service disruption and financial loss, choose the highest rated impact e.g. **High** which has a score of 4. It is essential to take into account, when scoring, any existing measures that either reduce the likelihood or/and impact of the risk occurring. Using the Risk Matrix below a likelihood score of **Possible (3)** and an Impact of **High(4)** gives a risk score of **12 (Amber)**. The Risk Definition table indicates the meaning of that score in terms of management action required.

#### Likelihood Classification

Score	Likelihood Description	Definition ( % = Chance of happening)
5	Almost certain	Expected to occur in most circumstances (>80%)
4	Likely	Will probably occur in most circumstances (51% - 80%)
3	Possible	Fairly likely to occur (21% - 50%)
2	Unlikely	Could occur at some point (6% - 20%)
1	Rare	Extremely unlikely or virtually impossible (<5%)

#### Impact Classification

Impact Type / Impact description	Service disruption	Financial Loss	Reputation	Performance	Health and Safety
<b>Very High 5</b>	Total failure of service for a significant period	Financial loss in excess of £1,000,001	National adverse media coverage for more than 3 days. Possible resignation of chief/senior officer's)	Failure to achieve a strategic theme or major corporate objective in the Council's strategic plan	Fatality of employee. Service user or other stakeholder
<b>High 4</b>	Significant service disruption	Financial Loss between £500k to £1,000,000	Adverse national media coverage	Failure to achieve one or more strategic plan objectives	Serious injury/permanent disablement of one or more employees/service users
<b>Medium 3</b>	Disruption to service – causing some concern	Financial loss between £51k - £500k	Adverse local media coverage/significant no of service-user complaints	Failure to achieve a service plan objective	Injury to staff/service user resulting in loss of working time
<b>Low 2</b>	Minor impact on service	Financial loss between £5k and 50k	Service user complaints contained with directorate	Failure to achieve several team plan objectives	Minor injury to service user/staff
<b>Negligible 1</b>	Annoyance but does not disrupt service	Financial loss under £5k	Isolated service user complaints	Failure to achieve unit level objective	Slight injury to an employee/service user

#### Risk Matrix

Likelihood						
Almost certain	5	5	10	15	20	25
Likely	4	4	8	12	16	20
Possible	3	3	6	9	12	15
Unlikely	2	2	4	6	8	10
Rare	1	1	2	3	4	5
		1	2	3	4	5
		Negligible	Low	Medium	High	V High

#### Risk Score definitions

<b>Red (Severe)</b>	Serious concern. Comprehensive Management action required immediately.
<b>Amber (Significant)</b>	Significant concern. Some immediate action required plus comprehensive action plans.
<b>Yellow (Material)</b>	Consequences of risk are of some concern although treating the risk will usually be through contingency planning. Risk to be kept under regular monitoring
<b>Green (Manageable)</b>	The risk is relatively low however risk should be monitored.

Impact

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<b>AUDIT COMMITTEE (23<sup>rd</sup> January 2018) &amp; FULL COUNCIL (21<sup>st</sup> February 2018)</b>	
<b>Report of:</b> Zena Cooke, Corporate Director Resources	<b>Classification:</b> Unrestricted
<b>Treasury Management Strategy Statement For 2018-19</b>	

<b>Originating Officer(s)</b>	Bola Tobun - Investment & Treasury Manager
<b>Wards affected</b>	All wards

**Summary**

- 1) This report fulfils the Council’s legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.
- 2) The Council is required by legislation and guidance to produce three strategy statements in relation to its treasury management arrangements. The three statements are:
  - a) a policy statement on the basis of which provision is to be made in the revenue accounts for the repayment of borrowing – Minimum Revenue Provision (MRP) Policy Statement;
  - b) a Treasury Management Strategy Statement which sets out the Council’s proposed borrowing for the financial year and establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities; and
  - c) an annual Investment Strategy which sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 3) This report also deals with the setting of Prudential Indicators for 2018-19, which ensure that the Council’s capital investment decisions remain affordable, sustainable and prudent; the proposed indicators are detailed in Appendix 1. Under of the government’s self-financing arrangements for the Housing Revenue Account (HRA) there are specific indicators relating to HRA capital investment.
- 4) The Department for Communities and Local Government (DCLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.
- 5) The Council adopted the Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised Code. The Code as it requires the following:

- a) Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities (Appendix 3);
  - b) Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
  - c) Approval by Full Council of Minimum Revenue Provision Policy, an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and prudential indicators for the year ahead together with arrangements for a Mid-year Review Report and an Annual Report covering activities during the previous year;
  - d) Clear delegated responsibility for overseeing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. For this Council the delegated body is the Audit Committee. The scheme of delegation for treasury management is shown in Appendix 4.
- 6) Officers will report details of the Council's treasury management activity to the Audit Committee at each of its meetings during the year. Additionally, a mid-year and full-year report will be presented to Full Council. More detailed reporting arrangements are shown in Appendix 5.
  - 7) The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged as required for members of the Audit Committee who are charged with reviewing and monitoring the Council's treasury management policies. The training of treasury management officers is also periodically reviewed and enhanced as appropriate.

### **Recommendations**

It is recommended that the Full Council to:

- i) Adopt the following policy and strategies:
  - a) The Minimum Revenue Provision Policy Statement set out in section 2 at annex A attached to this report;
  - b) The Treasury Management Strategy Statement set out in sections 5 & 6 at annex A attached to this report;
  - c) The Annual Investment Strategy set out in section 7 at annex A attached to this report, which officers involved in treasury management, must then follow;
- ii) Approve the prudential and treasury management indicators as set out in appendix 1 of annex A attached to this report.
- iii) Delegate authority to Corporate Director, Resources
  - to amend prudential and treasury indicators, once capital expenditure forecast is firmed up.
  - use alternative forms of investment, such as pooled funds should the appropriate opportunity arise to use them, and should it be prudent and of advantage to the Council to do so.

## 1 **REASONS FOR DECISIONS**

- 1.1 It is consistent with the requirements of treasury management specified by CIPFA, to which the Council is required to have regard under the Local Government Act 2003 and regulations made under that Act, for the Council to produce three strategy statements to support the Prudential Indicators which ensure that the Council's capital investment plans are affordable, sustainable and prudent. The three documents that the Council should produce are:
- Minimum Revenue Provision Policy Statement
  - Treasury Management Strategy, including prudential indicators
  - Investment Strategy

## 2 **ALTERNATIVE OPTIONS**

- 2.1 The Council is bound by legislation to have regard to the CIPFA requirements for treasury management. If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that the Council's capital investment plans are affordable, sustainable and prudent.
- 2.2 The strategies and policy statement put forward in the report are considered the best methods of achieving the CIPFA requirements. Whilst it may be possible to adopt variations of the strategies and policy statement, this would risk failing to achieve the goals of affordability, sustainability and prudence.

## 3. **BACKGROUND**

- 3.1 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 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 primarily before considering investment return.
- 3.2 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.
- 3.3 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."*
- 3.4 **REPORTING REQUIREMENTS** -The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

- I. **A treasury management strategy statement** (this report) – it covers:
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);

- the capital plans (including prudential indicators);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

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

III. **A treasury outturn report** – This provides details of annual actual prudential and treasury indicators and annual actual treasury operations compared to the annual estimates within the strategy.

3.5 The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and officers will ensure that undue reliance is not placed upon the external service providers.

3.6 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members' responsible for scrutiny. Training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

### **The 2017/18 Strategy and Current Investment Position and Performance**

3.7 The Strategy for 2017/18 was approved by Full Council in February 2017 and set the following objectives:-

- a) The use of core cash for internal borrowing if not used for longer term investments.
- b) The minimum Fitch credit ratings for the Council's investment policy:
  - Short Term: 'F1' the same criteria as last year
  - Long Term: 'A-' a notch down from 2016/17 criteria 'A'
- c) The Council's budgeted investment return of £1.6m for 2017/18, with average rate of return 0.45% for average portfolio balances of £350m. Below table show the position of the investment income earned for this financial year to 31 December 2017.

Benchmark (Average 7 day LIBID)	Investment interest Earned	Average Cash Balance	Investment Interest Earned
0.23%	0.4%	£478m	£1.8m

- d) The above budget was based on investing upto £100m for over 1 year duration in order to obtain a higher return, unfortunately longer term rates did not improve for the Council's acceptable minimum investment criteria.
- e) Investments over 1 year is standing at £20m
- f) The Council has not borrowed short or long term to date.

## **TREASURY MANAGEMENT STRATEGY FOR 2018/19**

3.8 The strategy for 2018/19 covers two main areas:

### **Capital issues**

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

### **Treasury management considerations:**

- economic and interest rates forecast;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- service/policy investments.

3.9 The above elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

### **Developing the Strategy for 2018/19**

3.10 In formulating and executing the strategy for 2018/19, the Council will continue to have regard for the DCLG's guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectional Guidance Notes.

3.11 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 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.

3.12 The Council will also achieve optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to on lend and make a return is unlawful and the Council will not engage in such activity.

3.13 The Council, in conjunction with its treasury management advisor, Arlingclose, will use Fitch, Moodys and Standard and Poor's ratings to derive its credit criteria. The Council's treasury adviser alerted officers to changes in ratings of all agencies.

3.14 If a downgrade means the counterparty or investment fund no longer meets the Council's minimum criteria, its use for further investment will be withdrawn immediately. If funds are already invested with the downgraded institution, a decision will be made by the Corporate Director, Resources whether to withdraw the funds and potentially incur a penalty.

- 3.15 If an institution or fund is placed under negative rating watch (i.e. there is a probability of a rating change in the short term and the likelihood of that change being negative) and it is currently at the minimum acceptable rating for placing investments, no further investments will be made with that institution.
- 3.16 The Corporate Director, Resources has delegated responsibility to add or withdraw institutions from the counterparty list when ratings change, either as advised by Arlingclose Limited (the Council's advisors) or from another reliable market source.
- 3.17 The minimum Fitch credit ratings for the Council's investment policy:
- Short Term: 'F1' the same criteria as last year
  - Long Term: 'A-' the same criteria as last year
- 3.18 Other market intelligence will also be used to determine institutions' credit worthiness, such as financial press, financial broker advice and treasury management meetings with other authorities, e.g. London Treasury Officers Forum. If this information shows a negative outcome, no further investments will be made with that body.
- 3.19 The strategy will permit the use of unrated building societies or challenger banks with assets in excess of £1.5bn for investment purposes.
- 3.20 The strategy proposes the continued use of core cash from £100m up to £150m to be held for longer term investment of over one year, if the interest rates are higher and appropriately reflect higher risk.
- 3.21 The cash balances, not immediately required to finance expenditure, are lent to the money market for the most appropriate periods as indicated by the cash flow model and current market and economic conditions;
- a) Liquidity is maintained by the use of overnight deposits, MMF and call accounts;
  - b) The minimum amount of short-term cash balances required to support monthly cash flow management is £75 million;
  - c) The upper limit for investments longer than one year is £150 million;
  - d) The maximum period for longer term lending for banks, financial institutions and local authorities has been increased to 5 years;
  - e) All investment with institutions and investment schemes is undertaken in accordance with the Council's creditworthiness criteria as set out at section 7 of annex A attached to this report;
  - f) More cautious investment criteria are maintained during times of market uncertainty;
  - g) All investment with institutions and investment schemes is limited to the types of investment set out under the Council's approved "Specified" and "Non-Specified" Investments detailed at section 7 of annex A, and that professional advice continues to be sought where appropriate;
  - h) All investment is managed within the Council's approved investment/asset class limits.



- 3.22 In light of the bail-in and ring fencing issues (please see below section 3.44 - 3.53 under other treasury management issues), the Corporate Director, Resources and her officers have been looking at investment funds as these are a step up from simple money market funds, where the fund manager takes a modest increase in credit and/or duration risk in order to deliver a modest increase in return. The advantages of investments funds are listed below:
- Potentially enhanced investment returns
  - Diversifies opportunity and risk
  - More appropriate to prevailing economic conditions
  - Access to experienced fund managers and their resources
  - Resource-efficient management
- 3.24 It is also worth noting that these funds operate on a Variable Net Asset Value (VNAV) basis, so there is no guarantee that the sale price will be equal to or above the purchase price, not all the funds have credit ratings, although the majority do.
- 3.25 Most of the funds offer distributing (i.e. income paying) share classes but some only offer accumulating.
- 3.26 Officers have been having meetings with the Council's treasury adviser to get our investments requirements right, as the volatility, investment returns and minimum investment periods differ from fund to fund.

### **Capital Programme and Prudential Borrowing**

- 3.27 The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<b>Capital expenditure £m</b>	<b>2015/16 Actual</b>	<b>2016/17 Revised Estimate</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>
General Fund	30.333	36.488	68.333	42.162	5.609
HRA	51.412	56.227	92.414	48.571	55.188
<b>Total</b>	<b>81.745</b>	<b>92.715</b>	<b>160.747</b>	<b>90.733</b>	<b>60.797</b>
<b>Financed by:</b>					
<i>Grant</i>	(31.591)	(22.107)	(21.148)	(20.537)	0.000
<i>Major Repairs Allowance</i>	(14.517)	(9.542)	(15.016)	(15.099)	(15.097)
<i>Schools Contribution</i>	0.000	(0.969)	0.000	0.000	0.000
<i>Capital Receipts</i>	(7.913)	(19.076)	(28.110)	(5.297)	(1.159)
<i>S106 (Developers Contributions)</i>	0.000	(11.828)	(23.179)	(13.519)	(2.109)
<i>Direct Revenue Financing</i>	(25.627)	(21.330)	(33.941)	(7.500)	(4.500)
<b>Total Financing Requirement</b>	<b>(81.744)</b>	<b>(92.715)</b>	<b>(160.747)</b>	<b>(90.733)</b>	<b>(60.797)</b>
<b>Prudential Borrowing</b>	<b>2.097</b>	<b>7.863</b>	<b>39.353</b>	<b>28.781</b>	<b>37.932</b>

- 3.28 As part of the development of the prudential indicators attached as appendix 1 of annex A, which form part of the treasury management strategy, the Council must consider the affordability of its capital programme. In the past the programme has been financed by the use of capital resources such as receipts from asset sales and grants. The affordability of the programme is therefore calculated by the lost revenue income from the possible investment of the resources.
- 3.29 As shown in table above, there is a need to borrow up to £47m in total for 2018 to March 2019, £39m for 2019/20 and £38m for 2020/21 for the financing of capital expenditure as included in the current capital programme and the current prudential indicators. If the Council is to borrow, the affordability of the capital programme has been included in assessing the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.
- 3.30 The current long term borrowing rate from the Public Works Loan Board is 2.93% for 25 years. Were the Council to temporarily borrow the necessary resources from its own cash balances rather than complete a further one year investment it would save the equivalent of 2.2% of the amount borrowed. The affordability of the capital programme has been calculated based upon the assumption that internal borrowing would occur initially.
- 3.31 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash from the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 3.32 Under the circumstances and given the risks within the economic forecast, a prudent approach will be adopted with the 2018/19 treasury operations. The Corporate Director, Resources and her officers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- 3.33 Should rates move quicker than the forecast predicts, the current and proposed strategies do allow the Corporate Director, Resources to take advantage of external borrowing. Any decisions will be reported to the appropriate decision making body at the next available opportunity.
- 3.34 The assumption is to borrow up to a maximum of £48m for 2018/19 and £29m for 2019/20, through the most economically advantageous method, as decided by the Corporate Director, Resources, from internal borrowing of core cash balances; PWLB loans; or other reputable sources of lending.
- 3.35 In summary the Council's borrowing strategy will give consideration to new borrowing in the following order of priority: -
- a) The most cost effective borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.

- b) Temporary borrowing from the money markets or other local authorities
- c) PWLB variable rate loans for up to 10 years
- d) Short dated borrowing from non PWLB below sources
- e) Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
- f) PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt

3.36 The Council will continue to borrow in respect of the following:

- a) Maturing debt (net of minimum revenue provision).
- b) Approved unsupported (prudential) capital expenditure.
- c) To finance cash flow in the short term.

#### **Investment Return Budget to 2020/21**

3.37 A cash flow projection up to March 2021 has been created reflecting the spending proposals in the Budget Strategy 2018/19 onwards. The cash flow projection and the interest rates forecast shows that anticipated investment income of £1.6m for 2017/18, based on average cash balance of £350m and average investment return of 0.45%. The anticipated investment income for 2018/19 is budgeted as £4m with average rate of 1.1% on cash balance of £350m, whereby £100m of core cash balances to be invested in pooled funds for over 3-5 years earning investment rate of 2% per annum. For 2019/20, £4.5m is the budgeted income, with average rate of 1.3% on average cash balance of £350m and for 2019/20; £4.5m is the budgeted income, with average rate of 1.5% on average cash balance of £300m. The Council may need to accept a higher level of risk in order to achieve these targets, whilst maintaining due regard for security of capital and liquidity.

Year-End	Estimated Average Cash Balance £m	Investment Income Forecast £m	Average Interest Rate
31 <sup>st</sup> March 2019	350.00	4.00	1.10%
31 <sup>st</sup> March 2020	350.00	4.50	1.30%
31 <sup>st</sup> March 2021	300.00	4.50	1.5%

3.38 With reference to the proposal to use internal borrowing to finance the capital programme, as set out in the Capital Programme and Prudential Borrowing in annex A, the investment income suggested by the cash flow projection may be provided in part from internal charges or through the surplus generated by commercialisation projects.

### **Minimum Revenue Provision 2018/19**

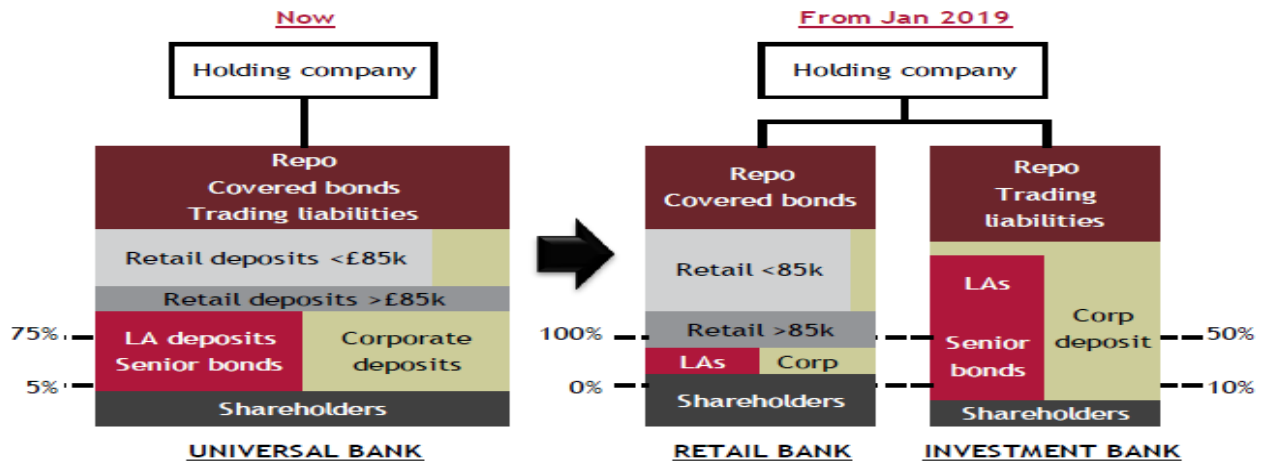
- 3.39 Where spend is financed through the creation of debt, the Council is required to pay off an element of the accumulated capital spend each year. The total debt is identified as the capital financing reserve and ensures that the Council includes external and internal borrowing along with other forms of financing considered to be equivalent to borrowing.
- 3.40 The payment is made through a revenue charge (the minimum revenue provision - MRP) made against the Council's expenditure, although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
- 3.41 It is recommended that because of budget constraints in the medium term the adoption of the existing statutory calculation which is based on 4% of the aggregate assumed borrowing for general fund capital investment - termed the Capital Financing requirement (CFR) as the basis of the Councils MRP relating to supported borrowing
- 3.42 The Council will use the asset life method for the calculation of the Minimum Revenue Provision on all future unsupported borrowing.
- 3.43 Based on the Council's latest estimate of its capital financing requirement, the budget for MRP for 2017/18 is £7.93m based on 2016/17 CFR of £281.703m and the budgeted MRP for 2018/19 is £7.92m based on estimated CFR for 2017/18 of £278.17m.

### **Other Treasury Management Issues**

- 3.44 Further to implementation of MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II (MiFID II), whereby the FCA has reclassified Local Authorities (LAs) as retail investors rather than the previous acquired professional status; this directive has been effective from 3 January 2018 and the Corporate Director, Resources has opted up as necessary with all our current counter parties, money market funds manager, advisers and brokers for the general treasury management functions.

### **Bail-in Issue**

- 3.45 The failure of the banking system in a series of banking led crises that have stalked financial markets since the onset of the credit crunch in 2008. The new approach was the bail-in whereby a levy on the deposits would be made to lower the amount of the external bail-out. Initially, the levy would cover all bank deposits but it was revised, to apply to those with bank deposits in excess of £85k. This level reflects the extent of the current deposit guarantee limit in the Eurozone. The bail-in is the de facto solution to future bank problems across Europe including the UK. Hence term deposits with banks are riskier than before.
- 3.46 For professional investors, such as local authorities, the implications are that we will be the early contributors to a bail-in well before other retail depositors.



3.47 This follows that longer term deposits are even riskier because we are taking a credit view over the full term of the illiquid investment. So for bank deposits the risk is higher and yet returns are lower. This makes bank deposits an unsustainable mainstay of local authority investment activity.

### UK Bank Ring-fencing

3.48 From January 2019 at the latest, the largest UK banks will be required to separate their retail banking services to individuals and small businesses from their investment banking activities. In practice this will only affect the big four banks (Barclays, Lloyds, HSBC and RBS), since other UK banks and building societies either only conduct retail banking activities or have less than £25 billion of Financial Services Compensation Scheme - covered deposits.

3.49 Barclays Bank, HSBC Bank and Royal Bank of Scotland intend to keep the existing legal entity as the non-ring-fenced "investment" bank, although RBS will be renamed NatWest Markets. Their ring-fenced "retail" banks will be called Barclays Bank UK, HSBC UK Bank and Royal Bank of Scotland respectively. The existing Lloyds Bank legal entity will become the retail bank, and a new investment will be created and named Lloyds Bank Capital Markets. NatWest Bank and Bank of Scotland will be ring-fenced "retail" banks.

3.50 If a UK bank experiences financial difficulties, "bail-in" arrangements will operate which will either reduce the value of deposits made or convert investments into shares. Based on the current understanding from the Council's treasury management advisors, the probability of a bail-in is smaller at a retail bank, but the loss incurred would likely be a larger percentage of the investment deposited. This is because retail banks will typically have more capital to protect against losses, but fewer wholesale deposits and senior unsecured bonds to share losses with.

3.51 All UK banks with more than £25bn retail deposits are required to split into two banks by end 2018:

- A ring-fenced "retail" bank, providing basic services to individuals and SMEs
- A non-ring-fenced "investment" bank conducting higher risk activities

The law permits both banks to accept deposits from local authorities, Arlingclose expect bail-ins to be rarer, but larger, at retail banks than investment banks.

### **Prudential Code**

- 3.52 The major change proposed is the introduction of a new report to full Council called the capital strategy, covering capital expenditure, investments, debt and other liabilities. It should be written at a relatively high level, suitable for all elected members to understand, and will include three prudential indicators – the authorised limit, the operational boundary and the capital expenditure total. Approval of the more technical detail, the remaining prudential indicators and the treasury management strategy can then be delegated to a committee where members with relevant skills or interests can take more time to properly approve the strategy and monitor the outcomes.
- 3.53 However, since government guidance still requires full Council to approve an investment strategy, MRP statement and (in Scotland) an annual report, CIPFA's plans to reduce reporting to full Council.

### **Treasury Management Code**

- 3.54 The main proposed change to the Code is to extend the definition of "investments" to include non-treasury investments held primarily for financial returns, such as investment property.
- 3.55 A new TMP 13 is introduced to note that risk management, governance and reporting procedures may be different for non-treasury investments. However, the objectives of security, liquidity and yield will apply to all investments.
- 3.56 Other proposed changes to the Treasury Management Code include:
- a) Approval of the treasury management strategy may be delegated to a committee providing that full Council approves the capital strategy (see above under Prudential Code), although the clauses to be formally adopted in standing orders currently still require full Council to approve the strategy.
  - b) The inclusion of financial guarantees as instruments requiring risk management
  - c) Changing the investments over 364 days indicator to 365 days
  - d) Replacing the indicator on fixed and variable interest rates with a requirement to state how interest rate risk is managed
  - e) Extending the maturity profile indicator to include variable rate

### **IFRS 9 – From 2018/19 Classification of Financial Assets**

- 3.57 Changes in fair value will impact revenue for:
- Structured loans and deposits where the cash flows are not solely payments of principal and interest (e.g. prepayment at par, credit-linked, equity-linked)
  - Pooled funds and shares, unless an irrevocable option is taken to present fair value changes in unusable reserves (This option comes with significant new disclosures and so is only suitable for those investments that will be held for the long-term)

### **Impairment of Financial Assets**

- 3.58 Expected 12 -month credit losses must be set aside and charged to revenue for most assets
- a) Deposits, loans, bonds, lease and trade receivables
  - b) As little as 0.02% for an A-rated deposit
  - c) Maybe 3.8% for an average risk company loan
- 3.59 If credit risk increases significantly, then lifetime losses must be set aside, maybe 15% on a higher risk 5 year loan.
- 3.60 Amounts set aside are credited back to revenue if there is no default.
- 3.61 Impairments not applicable if non-contractual for example, Low Volatility Net Asset Value (LVNAV) Money Market Funds (MMFs), pooled funds and shares

### **4. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 4.1 The comments of the Corporate Director Resources are incorporated in the report

### **5. LEGAL COMMENTS**

- 5.1 The Local Government Act 2003 ('the 2003 Act') provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.
- 5.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the 2003 Act. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.
- 5.3 It is a key principle of the Treasury Management Code that an authority should put in place "comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities". Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to adopt the strategies and policies proposed in the report.
- 5.4 The report proposes that the treasury management strategy will incorporate prudential indicators. The 2003 Regulations also requires the Council to have regard to the CIPFA publication "Prudential Code for Capital Finance in Local Authorities" ("the Prudential Code") when carrying out its duty under the Act to determine an affordable borrowing limit. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for

determination by the Council. If after having regard to the Prudential Code the Council wished not to follow it, there would need to be some good reason for such deviation.

- 5.5 The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority's borrowing, investments or capital expenditure, or for determining the authority's minimum revenue provision, is a matter that should not be the sole responsibility of the authority's executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Council.
- 5.6 The report sets out the recommendations of the Corporate Director Resources in relation to the Council's minimum revenue provision, treasury management strategy and its annual investment strategy. The Corporate Director Resources has responsibility for overseeing the proper administration of the Council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.
- 5.7 When considering its approach to the treasury management matters set out in the report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty).

## **6 ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 Capital investment will contribute to achievement of the corporate objectives, including all those relating to equalities and achieving One Tower Hamlets. Establishing the statutory policy statements required facilitates the capital investments and ensures that it is prudent.

## **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 The Treasury Management Strategy and Investment Strategy and the arrangements put in place to monitor them should ensure that the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements.
- 7.2 Assessment of value for money is achieved through:
- Monitoring against benchmarks
  - Operating within budget

## **8 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There are no sustainable actions for a greener environment implication.

## **9 RISK MANAGEMENT IMPLICATIONS**

- 9.1 There is inevitably a degree of risk inherent in all treasury activity.
- 9.2 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.



- 9.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council.
- 9.4 The Council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the Council has obtained independent advice from Capita Treasury Services who specialise in Council treasury issues.

## 10 **CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 There are no any crime and disorder reduction implications arising from this report.

### **ANNEX & APPENDICES**

#### **ANNEX**

[Annex A – Treasury Management Strategy Statement \(Working Document\) for 2018-19](#)

#### **APPENDICES**

- Appendix A – Counter Party Credit Rating List
- Appendix 1 – Prudential and Treasury Indicators
- Appendix 2 – Definition of Fitch Credit Ratings
- Appendix 3 – Treasury Management Policy Statement
- Appendix 4 – Treasury Management Scheme of Delegation
- Appendix 5 – Treasury Management Reporting Arrangement
- Appendix 6 – Glossary

#### **Local Government Act, 1972 Section 100D (As amended)**

#### **List of “Background Papers” used in the preparation of this report**

<b>Brief description of “background papers”</b>	<b>Name and telephone number of holder and address where open to inspection</b>
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*Bola Tobun, x4733, Mulberry Place*

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# Annex A

## **Working Document**

### **Treasury Management Strategy Statement**

### **Minimum Revenue Provision Policy Statement and**

### **Annual Investment Strategy**

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**London Borough of Tower Hamlets**  
**2018/19**

## 1. **BACKGROUND**

1.1 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 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 primarily before considering investment return.

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1.3 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."*

1.4 **REPORTING REQUIREMENTS** -The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

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III. **A treasury outturn report** – This provides details of annual actual prudential and treasury indicators and annual actual treasury operations compared to the annual estimates within the strategy.

1.5 **SCRUTINY** - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is being undertaken by the Auditee Committee and or Cabinet.

1.6 **Treasury management consultants** - The Council uses Arlingclose Ltd, as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and officers will ensure that undue reliance is not placed upon the external service providers.

1.7 **Training** - The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

1.8 **TREASURY MANAGEMENT STRATEGY FOR 2018/19**

The strategy for 2018/19 covers two main areas:

**Capital issues and considerations:**

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

**Treasury management issues and considerations:**

- economic & interest rate forecast;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy;
- service/policy investments.

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

## 2. MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

- 2.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP).
- 2.2 The Department of Communities and Local Government (DCLG) require Councils to establish a policy statement on the MRP and has published guidance on the four potential methodologies to be adopted.
- 2.3 The guidance distinguishes between supported borrowing which relates to assumed borrowing which is incorporated into the Government's Formula Grant calculation and consequently has an associated amount of government grant and unsupported borrowing. Unsupported borrowing is essentially prudential borrowing the financing costs of which have to be met by the Council locally.
- 2.4 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made pending finalisation of transitional arrangements following introduction of Self-Financing.
- 2.5 The DCLG guidance provides two options for the calculation of the MRP associated with each classes of borrowing.
- 2.6 The two options for the supported borrowing are variants of the existing statutory calculation which is based on 4% of the aggregate assumed borrowing for general fund capital investment - termed the Capital Financing requirement (CFR). The two options are:
  - **Option 1** (Regulatory Method): To continue the current statutory calculation based on the gross CFR less a dampening factor to mitigate the impact on revenue budgets of the transition from the previous system. This calculation is further adjusted to repay debt transferred to the Council when the Inner London Education Authority (ILEA) was abolished.
  - **Option 2** (Capital Financing Requirement Method): The statutory calculation without the dampener which will increase the annual charge to revenue budget.
- 2.7 The options purely relate to the timing of debt repayment rather than the gross amounts payable over the term of the loans. The higher MRP payable under option 2 will accelerate the repayment of debt.
- 2.8 It is recommended that because of budget constraints in the medium term the existing statutory calculation with the ILEA adjustment be adopted as the basis of the Councils MRP relating to supported borrowing.
- 2.9 The guidance provides two options for the MRP relating to unsupported borrowing. The options are:-
  - **Option 3** (Asset Life Method): To repay the borrowing over the estimated life of the asset with the provision calculated on either an equal instalment or annuity basis. This method has the advantage of simplicity and relating repayments to the period over which the asset is providing benefit.

- **Option 4** (Depreciation Method): A calculation based on depreciation. This is extremely complex and there are potential difficulties in changing estimated life and residual values.

- 2.10 It is recommended that option 3 is adopted for unsupported borrowing.
- 2.11 The Council is required under regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to determine for each financial year an amount of minimum revenue provision which it considers to be prudent.
- 2.12 **It is proposed that the Council makes Minimum Revenue Provision using Option 1 (Regulatory Method) for supported borrowing and Option 3 (Asset Life Method) for unsupported borrowing.**
- 2.13 Capital expenditure incurred during 2018/19 will not be subject to a MRP charge until 2019/20. Based on the Council's latest estimate of its Capital Financing Requirement, the budget for MRP has been set as follows:

	<b>31.03.2018 Estimated CFR £</b>	<b>2018/19 Estimated MRP £</b>
<i>Capital expenditure before 01.04.2008</i>	124,987,090	5,207,795
<i>Supported and unsupported capital expenditure after 31.03.2008</i>	17,119,745	684,969
<i>Finance leases and Private Finance Initiative</i>	52,089,567	1,784,851
<i>Loans to other bodies repaid in instalments</i>	Nil	Nil
<b>Total General Fund</b>	<b>194,196,402</b>	<b>7,469,303</b>
<i>Assets in the Housing Revenue Account</i>	68,782,301	Nil
<i>Supported and unsupported capital expenditure after 31.03.2008</i>	789,664	14,899
<i>Finance leases and Private Finance Initiative</i>	14,248,672	433,717
<b>Total Housing Revenue Account</b>	<b>83,820,637</b>	<b>448,616</b>
<b>Total</b>	<b>278,170,039</b>	<b>7,917,920</b>

#### **THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21**

- 3.1 Council's capital expenditure plans are the key driver of treasury management activity. The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.
- 3.2 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

- 3.3 **Estimates of Capital expenditure** - The table below summarises the Council's planned capital expenditure and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

<b>Capital expenditure £m</b>	<b>2016/17 Actual</b>	<b>2017/18 Revised</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>
General Fund	30.333	36.488	68.333	42.162	5.609
HRA	51.412	56.227	92.414	48.571	55.188
<b>Total</b>	<b>81.745</b>	<b>92.715</b>	<b>160.747</b>	<b>90.733</b>	<b>60.797</b>
<b>Financed by:</b>					
<i>Grant</i>	(31.591)	(22.107)	(21.148)	(20.537)	0.000
<i>Major Repairs Allowance</i>	(14.517)	(9.542)	(15.016)	(15.099)	(15.097)
<i>Schools Contribution</i>	0.000	(0.969)	0.000	0.000	0.000
<i>Capital Receipts</i>	(7.913)	(19.076)	(28.110)	(5.297)	(1.159)
<i>S106 (Developers Contributions)</i>	0.000	(11.828)	(23.179)	(13.519)	(2.109)
<i>Revenue Financing</i>	(25.627)	(21.330)	(33.941)	(7.500)	(4.500)
<b>Total Financing Requirement</b>	<b>(81.744)</b>	<b>(92.715)</b>	<b>(160.747)</b>	<b>(90.733)</b>	<b>(60.797)</b>
<b>Prudential Borrowing</b>	<b>2.097</b>	<b>7.863</b>	<b>39.353</b>	<b>28.781</b>	<b>37.932</b>

- 3.4 **Other long term liabilities** - The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

- 3.5 **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 Council is asked to approve the CFR projections below:**



£m	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
<b>Capital Financing Requirement</b>					
CFR – HRA	78.360	78.360	86.223	120.576	144.357
CFR – General Fund	203.342	199.657	219.342	200.936	201.623
<b>Total CFR</b>	<b>281.702</b>	<b>278.017</b>	<b>305.565</b>	<b>321.512</b>	<b>345.980</b>
<b>Movement in CFR</b>	<b>19.115</b>	<b>(3.685)</b>	<b>27.548</b>	<b>15.946</b>	<b>24.469</b>
<b>Movement in CFR represented by</b>					
Net in year financing need	2.096	7.863	39.353	28.781	37.932
Less: MRP/VRP & other Financing movements	(17.145)	(11.548)	(11.805)	(12.835)	(13.463)
<b>Movement in CFR</b>	<b>19.115</b>	<b>(3.685)</b>	<b>27.548</b>	<b>15.946</b>	<b>24.469</b>

- 3.5 The CFR is forecast to **rise by £68m** over the next three years as capital expenditure financed by debt outweighs resources put aside for debt repayment.
- 3.6 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.
- 3.7 The Council has set the following **affordability prudential indicators** as prescribed by the code and these are set out below and detailed in Appendix 1.
- 3.8 **Ratio of financing costs to net revenue stream** - This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund (GF)	1.06%	0.80%	0.73%	0.75%	0.71%
HRA	4.18%	4.94%	6.00%	8.51%	9.68%

- 3.8 **Incremental impact of capital investment decisions** - This indicator identifies affordability by showing the impact of capital investment decisions on Council Tax and housing rent levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme summarised earlier in this report. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	2016/17 Actual	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
<b>GF – Council tax increase in annual band D</b>	19.079	30.220	34.984	38.361	40.292
<b>HRA increase in weekly housing rent levels</b>	5.837	1.343	1.843	3.778	0.000



#### 4. ECONOMIC & INTEREST RATE FORECAST

4.1 The borrowing and investment strategy is in part determined by the economic environment within which it operates. The treasury advisor to the Council is Arlingclose Ltd and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Arlingclose's overall view on interest rates for the next three years.

	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
<b>Official Bank Rate</b>														
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
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>
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
<b>3-month LIBID rate</b>														
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
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>
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
<b>1-yr LIBID rate</b>														
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
<b>Arlingclose Central Case</b>	<b>0.70</b>	<b>0.70</b>	<b>0.70</b>	<b>0.70</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.77</b>
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
<b>5-yr gilt yield</b>														
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
<b>Arlingclose Central Case</b>	<b>0.75</b>	<b>0.75</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.85</b>	<b>0.90</b>	<b>0.90</b>	<b>0.95</b>	<b>0.95</b>	<b>1.00</b>	<b>1.05</b>	<b>1.10</b>	<b>0.89</b>
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
<b>10-yr gilt yield</b>														
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
<b>Arlingclose Central Case</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.30</b>	<b>1.30</b>	<b>1.35</b>	<b>1.40</b>	<b>1.45</b>	<b>1.50</b>	<b>1.55</b>	<b>1.55</b>	<b>1.36</b>
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
<b>20-yr gilt yield</b>														
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
<b>Arlingclose Central Case</b>	<b>1.85</b>	<b>1.85</b>	<b>1.85</b>	<b>1.85</b>	<b>1.85</b>	<b>1.90</b>	<b>1.90</b>	<b>1.95</b>	<b>1.95</b>	<b>2.00</b>	<b>2.05</b>	<b>2.05</b>	<b>2.05</b>	<b>1.93</b>
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
<b>50-yr gilt yield</b>														
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
<b>Arlingclose Central Case</b>	<b>1.70</b>	<b>1.70</b>	<b>1.70</b>	<b>1.70</b>	<b>1.70</b>	<b>1.75</b>	<b>1.80</b>	<b>1.85</b>	<b>1.90</b>	<b>1.95</b>	<b>1.95</b>	<b>1.95</b>	<b>1.95</b>	<b>1.82</b>
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

#### Underlying assumptions:

- 4.2 In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- 4.3 Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- 4.4 The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.
- 4.5 Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- 4.6 Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.
- 4.7 The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- 4.8 Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- 4.9 Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

**Forecast:**

- 4.10 The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- 4.11 The Arlingclose central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.
- 4.12 The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

**5. TREASURY MANAGEMENT CONSIDERATIONS AND DEVELOPMENT**

- 5.1 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Council anticipates its cash balances in 2018/19 to average around £350m, if we persist with the policy of internal borrowing to fund the Council's underlying need to borrow.
- 5.2 The Pension Fund surplus cash will continue to be invested in accordance with the Council's Treasury Management Strategy agreed by Full Council, under the delegated authority of the Corporate Director, Resources to manage within agreed parameters.

- 5.3 The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.
- 5.4 **Core funds and expected investment balances** – The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales, etc.).

Detailed below are estimates of the year end balances of investments.

Year End Resources	2016/17 Actual	2017/18 Projected Outturn	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Expected Investments	£381.4m	£450m	£350m	£350m	£300m

- 5.5 **Current portfolio position** - The Council's treasury portfolio position at 31 March 2017, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	31 <sup>st</sup> March 2017 Actual	31 <sup>st</sup> March 2018 Projected Outturn	31 <sup>st</sup> March 2019 Estimate	31 <sup>st</sup> March 2020 Estimate	31 <sup>st</sup> March 2021 Estimate
HRA CFR	84.269	199.657	219.342	200.936	201.623
General Fund CFR	197.434	78.360	86.223	120.576	144.357
<b>Total CFR</b>	<b>281.703</b>	<b>278.017</b>	<b>305.565</b>	<b>321.512</b>	<b>345.980</b>
Less: Other debt liabilities *	(36.304)	(34.957)	(33.415)	(31.484)	(29.348)
<b>Borrowing CFR</b>	<b>245.399</b>	<b>243.06</b>	<b>272.15</b>	<b>290.03</b>	<b>316.63</b>
Less: External Borrowing	(85.936)	(84.296)	(83.293)	(82.289)	(81.534)
<b>Internal Borrowing</b>	<b>159.463</b>	<b>158.764</b>	<b>188.857</b>	<b>207.741</b>	<b>235.096</b>
Less: Usable reserves	(478.489)	(473.489)	(450.489)	(430.489)	(405.489)
Less: Working capital	(42.338)	(135.275)	(88.368)	(127.252)	(129.607)
<b>Investments/(New Borrowing)</b>	<b>361.364</b>	<b>450.000</b>	<b>350.000</b>	<b>350.000</b>	<b>300.00</b>

- 5.6 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

5.7 The Corporate Director of Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

5.8 **Treasury Indicators: limits to borrowing activity for 2018-19 to 2020-21** Treasury indicators are about setting parameters within which officers can take treasury management decisions. The Council has set the following treasury indicators as prescribed by the Code and these are set out below and also detailed in Appendix 1:

- **Authorised Limit for External Debt** – The upper limit on the level of gross external debt permitted. It must not be breached without Full Council approval.

**The Council is asked to approve the following authorised limit:**

Authorised limit £m	2017/18 Projected Outturn	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing & OLTL	303.017	330.565	346.512	370.980
Headroom	20.000	20.000	20.000	20.000
<b>Total</b>	<b>323.017</b>	<b>350.565</b>	<b>366.512</b>	<b>390.980</b>

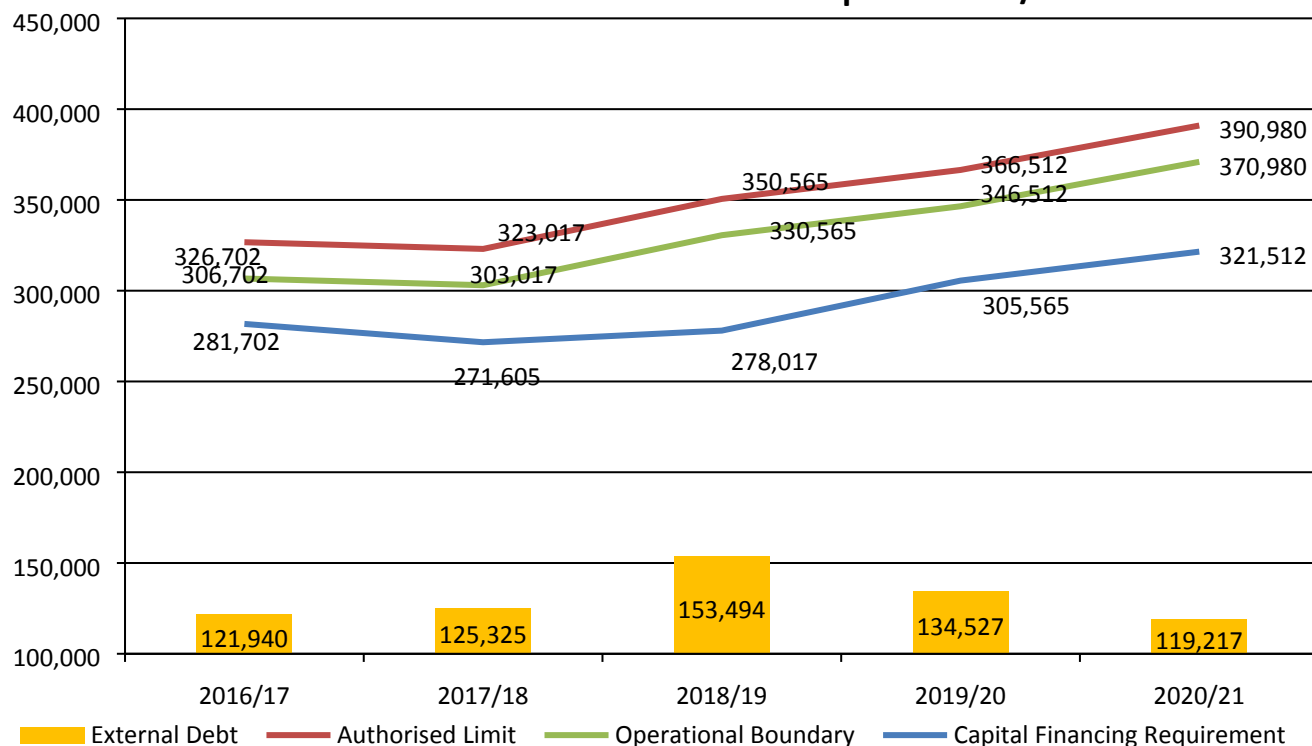
- **Operational Boundary for External Debt** – Most likely and prudent view on the level of gross external debt requirement. Debt includes external borrowings and other long term liabilities.

Operational Boundary £m	2017/18 Projected Outturn	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	268.060	297.150	315.027	341.632
Other long term liabilities	34.957	33.415	31.484	29.348
<b>Total</b>	<b>303.017</b>	<b>330.565</b>	<b>346.512</b>	<b>370.980</b>

- **HRA Debt Limit** – The HRA Self Financing regime came into effect on 1 April 2012. The new regime imposes a maximum HRA CFR on the Council. For this Council this has been set at £184m following repayment of HRA debt totalling £236.2m by the Government as part of debt settlement that preceded the implementation of the HRA Self Financing regime. In 2014, as part of the Local Growth Fund LBTH was awarded £8.225m of additional HRA borrowing capacity, so in effect the HRA debt cap is currently £192m.

HRA Debt Limit £m	2017/18 Projected Outturn	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
HRA debt cap	192.000	192.000	192.000	192.000
HRA CFR	78.360	86.223	120.576	144.357
<b>HRA Headroom</b>	<b>113.640</b>	<b>105.777</b>	<b>71.424</b>	<b>47.643</b>

**LB Tower Hamlets Prudential Indicator Graph for 2018/19**



**Investment returns expectations**

- 5.9 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).
- 5.10 Policy Rate is forecast to remain flat at 0.50%. Bank Rate forecasts for financial year ends (March) are:
  - 2018/19 0.50%
  - 2019/20 0.50%
  - 2020/21 0.50%
- 5.11 There are downside risks to these forecasts (i.e. further reduction in Bank Rate) if economic growth weakens. However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.
- 5.12 Stated below are the estimated average rates of investment earnings for investments placed for this year and available for each financial year for the next three years:
  - 2017/18 0.55%
  - 2018/19 1.15%
  - 2019/20 1.30%
  - 2020/21 1.50%
- 5.13 **Investment treasury indicator and limit** - total principal funds invested for greater than 1 year. 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.

- 5.14 **Investments Longer than a Year:** The Code of Practice requires the Council to give consideration to longer-term investment and set an upper limit for principal sums to be invested for longer than one year. The Council currently has £100m limit for investments invested for longer than one year.
- 5.15 Therefore taking all of the abovementioned into consideration, in order for the Council to have flexibility in investing in high quality and better returns pooled funds, to meet the Council’s risk/reward requirements. The Council’s treasury adviser focuses on pooled funds that offer consistency of income return and also preferred clients to invest across a range rather than concentrating on one or two as each fund has different risks, given the diversification, however the primary risk is market risk as some funds have volatile capital values. It is therefore recommended that the Council increase and set an upper limit for principal sums to be invested for longer than one year at £150.

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

<b>Maximum principal sums invested &gt; 1 year</b>				
<b>£m</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Principal sums invested > 1 year	£100m	£150m	£150m	£150m

- 5.16 For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits (overnight to 100 days), such as its Santander 95 days call account in order to benefit from the compounding of interest.
- 5.17 **Provision for Credit-related Losses** - If any of the Council’s investments appear at risk of loss due to default, provision would need to be made from revenue for the appropriate amount. The Council has no exposure to any banking failure.



## 6. **BORROWING STRATEGY**

- 6.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.
- 6.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Corporate Director, Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
  - if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.
- 6.3 Any decisions will be reported to the Cabinet and the full Council at the next available opportunity.
- 6.4 The Council's borrowing strategy will give consideration to new borrowing in the following order of priority: -
- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.
  - Temporary borrowing from the money markets or other local authorities
  - PWLB variable rate loans for up to 10 years
  - Short dated borrowing from non PWLB below sources
  - Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB and market debt in the debt portfolio.
  - PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt
- 6.5 The Council will continue to borrow in respect of the following:
- Maturing debt (net of minimum revenue provision).

- Approved unsupported (prudential) capital expenditure.
- To finance cash flow in the short term.

6.6 The type, period, rate and timing of new borrowing will be determined by the Corporate Director Resources under delegated powers, taking into account the following factors:

- Expected movements in interest rates as outlined above.
- Current maturity profile.
- The impact on the medium term financial strategy.
- Prudential indicators and limits.

6.7 **Treasury management limits on borrowing activity** - There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- **Upper limits on variable interest rate exposure** - This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- **Upper limits on fixed interest rate exposure** - This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- **Maturity structure of borrowing** - These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

**The Council is asked to approve the following treasury indicators and limits:**

	2018/19	2019/20	2020/21
<b>Interest rate exposures</b>			
	<b>Upper %</b>	<b>Upper %</b>	<b>Upper %</b>
<b>Limits on fixed interest rates based on net debt</b>	100	100	100
<b>Limits on variable interest rates based on net debt</b>	75	75	75
<b>Limits on fixed interest rates:</b>			
• <i>Debt only</i>	100	100	100
• <i>Investments only</i>	100	100	100
<b>Limits on variable interest rates</b>			
• <i>Debt only</i>	90	90	90
• <i>Investments only</i>	50	50	50
<b>Maturity structure of fixed interest rate borrowing 2018/19</b>			
	<b>Lower</b>	<b>Upper</b>	
Under 12 months	0%	10%	
12 months to 2 years	0%	30%	
2 years to 5 years	0%	40%	
5 years to 10 years	0%	80%	
10 years and above	0%	100%	

<b>Maturity structure of variable interest rate borrowing 2018/19</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

- 6.8 **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.
- 6.9 Borrowing in advance will be made within the constraints that:
- It will be limited to no more than 75% of the expected increase in borrowing need (CFR) over the three year planning period; and
  - Would not look to borrow more than 18 months in advance of need.
- 6.10 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual outturn reporting mechanism.
- 6.11 **Debt rescheduling** - As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
- 6.12 The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
  - helping to fulfil the treasury strategy;
  - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 6.13 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.
- 6.14 All rescheduling will be reported to the Cabinet and Council, at the earliest meeting following its implementation.

## 7. **ANNUAL INVESTMENT STRATEGY**

- 7.1 **Investment policy** - The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.
- 7.2 In order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.
- 7.3 Ratings will not be the sole determinant of the quality of an institution as it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. The Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- 7.4 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 7.5 Investment instruments identified for use in the financial year are listed in section 7.15 and 7.16-7.21, under the 'specified' and 'non-specified' investments categories.
- 7.6 **In summary** – considering the factors set out in Paragraphs 4-7, the recommended Investment Strategy is that:
- I. The cash balances, not immediately required to finance expenditure, are lent to the money market for the most appropriate periods as indicated by the cash flow model and current market and economic conditions;
  - II. Liquidity is maintained by the use of overnight deposits, MMF and call accounts;
  - III. The minimum amount of short-term cash balances required to support monthly cash flow management is £75 million;
  - IV. The upper limit for investments longer than one year is £150 million;
  - V. The maximum period for longer term lending is 5 years;
  - VI. All investment with institutions and investment schemes is undertaken in accordance with the Council's creditworthiness criteria as set out at section 7;
  - VII. More cautious investment criteria are maintained during times of market uncertainty;
  - VIII. All investment with institutions and investment schemes is limited to the types of investment set out under the Council's approved "Specified" and "Non-Specified" Investments detailed at section 7, and that professional advice continues to be sought where appropriate;
  - IX. All investment is managed within the Council's approved investment/asset class limits.

### **Creditworthiness Policy**

- 7.7 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
  - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 7.8 The Corporate Director, Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
- 7.9 The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria, the other does not, as consequence this institution will fall outside the Council's lending criteria.
- 7.10 Credit rating information is supplied by Arlingclose Ltd, the Council treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. This does not apply to the unrated building societies or banks whereby they are selected based on enhanced credit analysis.
- 7.11 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:
- 1) Banks with good credit quality – the Council will only use banks which:
    - i. are UK banks; and/or
    - ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AAAAnd have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated):
    - i. Short Term – 'F1'
    - ii. Long Term – 'A-'

(N.B. Viability, Financial Strength and Support ratings have been removed and will not be considered in choosing counterparties.)

- 2) Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Bank above.
- 3) The Council’s own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- 4) Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- 5) Unrated/Challengers Banks – The Council in conjunction with the advisers’ parameters and methodology will use unrated banks with assets in excess of £1.5bn. When investing with such institution, the Council or and its adviser will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.
  - I. The “RAG” framework will be used for Building societies as well as Banks, for the Council to evaluate and compare security and liquidity of investment opportunities.
  - II. The “RAG” (Red, Amber or Green) indicator framework is generally used to identify the strength of a company’s financial numbers.
  - III. For example, all the financials there will be pre-set categories which will classify institutions outcomes as Red, Amber or Green. These pre-set categories are industry dependent; e.g. a retail company is expected to generate higher cash flow than a bank.
- 6) Building societies - The Council will use all building societies in the UK which:
  - iii. Meet the ratings for banks outlined above;
  - iv. Have assets in excess of £1.5bn; or meet both criteria.
- 7) Money Market Funds (MMF) – AAA
- 8) Enhanced Money Market Funds (EMMFs) – AAA
- 9) Certificates of Deposits (CDs)
- 10) Floating Rate Notes (FRN), Corporate Bonds and Loans
- 11) Reverse Repurchase (Repo)
- 12) Pooled Funds (Property, Bond, Equity, Income, Growth & Diversified Funds)
- 13) Covered Bonds
- 14) Commercial Papers
- 15) Asset Backed Securities
- 15) Registered Social Landlord
- 16) UK Government (including gilts, treasury bills and the Debt management Account Deposit Facility, (DMADF))



- 17) Local authorities, parish councils, Police and Fire Authorities
- 18) Supranational institutions

7.12 **The Council is asked to approve the minimum credit rating required for an institution to be included in the Council’s counterparty list as follows:**

Agency	Long-Term	Short-Term
Fitch	A-	F1
Moody’s	A3	P-1
Standard & Poor’s	A-	A-1
Sovereign Rating	AAA	
Money Market Fund	AAA	

7.13 **Country and Product considerations** - Due care will be taken to consider the country, group and sector exposure of the Council’s investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks above. In addition:

- No more than a maximum amount of £75m or 25% of the investments portfolio will be placed with any non-UK country with AAA sovereign rating at any time;
- limits in place above will apply to a group of institutions within a non UK country;
- Product limits will be monitored regularly for appropriateness.

7.14 **Use of additional information other than credit ratings** – Additional requirements under the Code requires the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information are for example Credit Default Swaps, negative rating watches/outlooks, these will be applied to compare the relative security of differing investment counterparties.

**Time and monetary limits applying to investments**

7.15 **Specified Investments:** It is recommended that the Council should make Specified investment as detailed below, all such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum ‘high credit’ quality criteria where applicable. The Council will continue its policy of lending surplus cash to counterparties that have high credit ratings, defining ‘high credit rating’ as being F1 Fitch short-term and A- long-term credit rating or equivalent Moody’s or Standard and Poor’s rating.

Specified Investments	Fitch Long term Rating (or equivalent)	Money Limit	Time Limit
Term Deposits (Banks - higher quality)	Short-term F1+, Long-term AA	£30m	1 year
Term Deposits (Banks – medium (high) quality)	Short-term F1, Long-term A+	£25m	1 year
Term Deposits (Banks – medium (low) quality)	Short-term F1, Long-term A	£20m	1 year
Term Deposits (Banks - lower quality)	Short-term F1, Long-term A-	£10m	6 months
Banks - part nationalised (per group)	N/A	£70m	1 year
Council's banker (not meeting lending criteria)	XXX	£25m	1 day
DMADF	N/A	unlimited	6 months
Local authorities, Police & Fire Authorities and Parish Councils,	N/A	£25m	1 year
Treasury Bills	Long Term AAA	No Limit	1 year
UK Government Gilts	N/A	No Limit	1 year
Corporate Bonds & Loans, FRN and Asset Backed Securities	As Term Deposits above	As Term Deposits above	As Term Deposits above
Non-UK Government Bonds	Sovereign AAA Long Term AAA	£25m	1 year
Certificates of Deposits, Commercial paper & Repo	As Term Deposits above	As Term Deposits above	As Term Deposits above
<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)</b>			
	Fund rating	Money Limit (per fund)	Time Limit
Money market funds (Sterling)	AAA	£25m	liquid
Enhanced Cash Funds	AAAV1	£20m	liquid
Cash Funds	AAA	£20m	liquid
Pooled Funds (Bonds, Equity, Property, Diversified, Growth & Income Funds etc.)	AAA	£10m	liquid



**Non-Specified Investments:**

- 7.16 All investments that do not qualify as specified investments are termed non-specified investments. The table below details the total percentage of the Annual Principal Sums that can be Invested for more than 1 year and can be held in each category of investment, for example 100% of the Principal Sums limit can be held with the UK Government at any one time.
- 7.17 **Unrated banks, building societies and other institutions** are classed as non-specified investments irrespective of the investment period. When investing with this institution, the Council will carry out an enhanced credit analysis in understanding the institution, its financials and credit capabilities.

**Minimum Criteria for considering Unrated Institutions with money and time limits:**

	<b>Institution Assets Value</b>	<b>Money Limit</b>	<b>Time Limit</b>
Unrated UK Building Societies & Challenger Banks with assets in excess of:	£1.5bn £2.5bn	£3m £5m	6 months 12 months

- 7.21 It is considered that the maximum nominal value of overall investments that the Council should hold for more than one year and less than 5 years is £150m. (Investments with maturity over one year) **The prudential indicator figure of £150m is therefore recommended.**

**The credit criteria for non-specified investments are detailed in the table below:**

<b>Non-Specified Investments</b>	<b>Fitch Long term Rating (or Equivalent)</b>	<b>Time Limit</b>	<b>Monetary Limit</b>
Term deposits – Banks and Building Societies	Short-term F1, Long-term A-	5 years	As Term Deposits in table 7.15 above
Structured Deposits: Fixed term deposits with variable rate and variable maturities	Short-term F1, Long-term A-	5 years	As Term Deposits in table 7.15 above
Registered Social Landlord	Short-term F1, Long-term A-	5 years	As Term Deposits in table 7.15 above
Part Nationalised or Wholly Owned UK Banks	N/A	5 years	£25m
Local authorities, parish councils, Police and Fire Authorities	N/A	5 years	£25m

Certificates of Deposits, Commercial Paper and Asset Backed securities	Short-term F1, Long-term A-	5 years	As Term Deposits in table 7.15 above
Corporate Bonds & Loans, FRNs and Covered Bonds	Short-term F1, Long-term A-	5 years	As Term Deposits in table 7.15 above
Pooled Funds	AAA	5 years	£10m
UK Government Gilts	N/A	5 years	100% of Investment Portfolio

**The Council is asked to approved the above criteria for specified and all non-specified investments.**

7.22 Country limits - The Council has determined that it will only use approved counterparties from non UK countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). A counterparty list will be compiled based on this sovereign rating of AAA and in accordance with the Council’s minimum credit rating criteria policy for institutions and qualified institutions will be added to this list, and unqualified institutions will be removed from the list, by officers as deemed appropriate. Please see Appendix 3 for qualified countries and their institutions as of 03/01/2017.

## APPENDICES

*Appendix Z – Counter Party Credit Rating List*

*Appendix 1 – Prudential and Treasury Indicators*

*Appendix 2 – Definition of Credit Ratings*

*Appendix 3 – Treasury Management Policy Statement*

*Appendix 4 – Treasury Management Scheme of Delegation*

*Appendix 5 – Treasury Management Reporting Arrangement*

*Appendix 6 - Glossary*

## Local Government Act, 1972 Section 100D (As amended)

### List of “Background Papers” used in the preparation of this report

**Brief description of “background papers”**

**Name and telephone number of holder and address where open to inspection.**

*Bola Tobun, x4733, Mulberry Place*

**PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS FOR 2018/19**

Prudential Indicators	2016/17	2017/18	2017/18	2018/19	2019/20	2020/21
Extract from Estimate and rent setting reports	Actual	Original Estimate	Revised Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
<b>Capital Expenditure</b>						
General Fund	30.333	103.151	36.488	68.333	42.162	5.609
HRA	51.412	113.120	56.227	92.414	48.571	55.188
<b>TOTAL</b>	<b>81.745</b>	<b>216.271</b>	<b>92.715</b>	<b>160.747</b>	<b>90.733</b>	<b>60.797</b>
<b>Ratio of Financing Costs to Net Revenue Stream</b>						
General Fund	1.06%	0.88%	0.80%	0.73%	0.75%	0.71%
HRA	4.18%	6.10%	4.94%	6.00%	8.51%	9.68%
	£m	£m	£m	£m	£m	£m
<b>Gross Debt and Capital Financing Requirement</b>						
Gross Debt	121.940	119.317	125.325	153.494	134.527	119.217
Capital Financing Requirement	281.702	271.605	278.017	305.565	321.512	345.980
Over/(Under) Borrowing	(159.762)	(152.288)	(152.692)	(152.071)	(186.985)	(226.763)
<b>In Year Capital Financing Requirement</b>						
General Fund	0.000	1.855	0.000	5.000	5.000	3.500
HRA	0.000	21.804	0.000	7.863	34.353	23.781
<b>TOTAL</b>	<b>0.000</b>	<b>23.659</b>	<b>0.000</b>	<b>12.863</b>	<b>39.353</b>	<b>27.281</b>
<b>Capital Financing Requirement as at 31 March</b>						
General Fund	203.342	171.441	199.657	219.342	200.936	201.623
HRA	78.360	100.164	78.360	86.223	120.576	144.357
<b>TOTAL</b>	<b>281.702</b>	<b>271.605</b>	<b>278.017</b>	<b>305.565</b>	<b>321.512</b>	<b>345.980</b>
<b>Incremental Impact of Financing Costs (£)</b>						
Increase in Council Tax (band D) per annum	19.079	30.220	30.220	34.984	38.361	40.292
Increase in average housing rent per week	5.837	2.858	1.343	1.843	3.778	0.000

Treasury Management Indicators	2016/17	2017/18	2017/18	2018/19	2019/20	2020/21
	Actual	Original Estimate	Revised Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
<b>Authorised Limit For External Debt -</b>						
Borrowing & Other long term liabilities	306.702	296.605	303.017	330.565	346.512	370.980
Headroom	20.000	20.000	20.000	20.000	20.000	20.000
<b>TOTAL</b>	<b>326.702</b>	<b>316.605</b>	<b>323.017</b>	<b>350.565</b>	<b>366.512</b>	<b>390.980</b>
<b>Operational Boundary For External Debt -</b>						
Borrowing	270.398	261.648	268.060	297.150	315.027	341.632
Other long term liabilities	36.304	34.957	34.957	33.415	31.484	29.348
<b>TOTAL</b>	<b>306.702</b>	<b>296.605</b>	<b>303.017</b>	<b>330.565</b>	<b>346.512</b>	<b>370.980</b>
<b>Gross Borrowing</b>	<b>121.940</b>	<b>119.317</b>	<b>125.325</b>	<b>153.494</b>	<b>134.527</b>	<b>119.217</b>
<b>HRA Debt Limit*</b>	<b>192.000</b>	<b>192.000</b>	<b>192.000</b>	<b>192.000</b>	<b>192.000</b>	<b>192.000</b>
<b>Upper Limit For Fixed Interest Rate Exposure</b>						
Net principal re fixed rate borrowing / investments	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Upper Limit For Variable Rate Exposure</b>						
Net interest payable on variable rate borrowing / investments	<b>50%</b>	<b>50%</b>	<b>50%</b>	<b>50%</b>	<b>50%</b>	<b>50%</b>
<b>Upper limit for total principal sums invested for over 364 days (per maturity date)</b>	<b>£100m</b>	<b>£100m</b>	<b>£100m</b>	<b>£100m</b>	<b>£100m</b>	<b>£100m</b>

Maturity structure of new fixed rate borrowing during 2018/19	Upper Limit	Lower Limit
under 12 months	10%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

## Appendix 2 Support Ratings

### Definition of Fitch Credit Ratings

Rating	Current Definition (December 2014)
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

### Short-term Ratings

Rating	Current Definition (December 2014)
F1	<b>Highest short-term credit quality.</b> Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	<b>Good short-term credit quality.</b> A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	<b>Fair short-term credit quality.</b> The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

## Long -term Ratings

Rating	Current Definition (December 2014)
<b>AAA</b>	<b>Highest credit quality</b> - 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
<b>AA</b>	<b>Very high credit quality</b> - 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
<b>A</b>	<b>High credit quality</b> - 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
<b>BBB</b>	<b>Good credit quality</b> - 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions is more likely to impair this capacity. This is the lowest investment-grade category.
<b>BB</b>	<b>Speculative</b> - 'BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.
<b>B</b>	<b>Highly speculative</b> - 'B' ratings indicate that material default risk is present, but limited margin of safety remains. Financial commitments are currently being met however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
<b>CCC</b>	<b>Substantial credit risk</b> – 'CCC' Default is a real possibility.
<b>CC</b>	<b>Very high levels of credit risk</b> – 'CC' Default of some kind appears probable
<b>C</b>	<b>Exceptionally high levels of credit risk</b> Default is imminent or inevitable, or the issuer is in standstill. Conditions that are indicative of a 'C' category rating for an issuer include: a. the issuer has entered into a grace or cure period following non-payment of a material financial obligation; b. the issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation; or c. Fitch Ratings otherwise believes a condition of 'RD' or 'D' to be imminent or inevitable, including through the formal announcement of a distressed debt exchange. (RD – stands for restricted default and D – default).

Note:

The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' Long-Term IDR category, or to Long-Term IDR categories below 'B'.

## Treasury Management Policy Statement

The London Borough of Tower Hamlets defines the policies and objectives of its treasury management activities as follows: -

1. This organisation defines its treasury management activities as:  
“The management of the authority’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.”

### Policy on use of an External Treasury Advisor

The Council shall employ an external treasury advisor to provide treasury management advice and cash management support services. However, the Council shall control the credit criteria and the associated counter-party list for investments.

The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.



## Treasury Management Scheme of Delegation

### 1. Full Council / Cabinet

- receiving and reviewing reports on treasury management policies, practices and activities
- receiving the mid-year and annual (outturn) reports
- approval of annual strategy.

### 2. Cabinet /Section 151 Officer

- approval of/amendments to the organisation's adopted clauses and treasury management policy statement
- budget consideration and approval
- approval of the division of responsibilities
- approving the selection of external service providers and agreeing terms of appointment.

### 3. Audit Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing regular monitoring reports and acting on recommendations



## Appendix 5

### Treasury Management Reporting Arrangement

Area of Responsibility	Council/Committee/ Officer	Frequency
Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Full Council	Annually before the start of the financial year to which policies relate
Mid-Year Treasury Management Report	Full Council	Semi-Annually in the financial year to which policies relate
Updates or revisions to the Treasury Management Strategy Statement/ Annual Investment Strategy/ Minimum Revenue Provision Policy	Audit Committee or Full Council	As necessary
Annual Treasury Outturn Report	Audit Committee and Full Council	Annually by 30 September after the year end to which the report relates
Treasury Management Practices	Corporate Director, Resources	N/A
Scrutiny of Treasury Management Strategy Statement	Overview and Scrutiny Committee (if called in) / Audit Committee	Annually before the start of the financial year to which the report relates
Scrutiny of Treasury Management Performance	Audit Committee	Quarterly

## Appendix 6 - GLOSSARY

Asset Life	How long an asset, e.g. a Council building is likely to last.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is a time deposit, a financial product. CDs are similar to savings accounts in that they are insured and thus virtually risk free; they are "money in the bank." They are different from savings accounts in that the CD has a specific, fixed term (often monthly, three months, six months, or one to five years) and, usually, a fixed interest rate. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.
Commercial paper	Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations (for example, payroll), and is backed only by an issuing bank or corporation's promise to pay the face amount on the maturity date specified on the note. Since it is not backed by collateral, only firms with excellent credit ratings from a recognized credit rating agency will be able to sell their commercial paper at a reasonable price. Commercial paper is usually sold at a discount from face value, and carries higher interest repayment rates than bonds
Counterparties	Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMF.
Corporate bonds	A corporate bond is a bond issued by a corporation. It is a bond that a corporation issues to raise money effectively in order to expand its business. The term is usually applied to longer-term debt instruments, generally with a maturity date falling at least a year after their issue date.
Covered bonds	A covered bond is a corporate bond with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent. These assets act as additional credit cover; they do not have any bearing on the contractual cash flow to the investor, as is the case with Securitized assets.

Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs. Also used is RPIX, which is a variation of RPI, one that removes mortgage interest payments.
Credit Default Swap (CDS)	A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.
Credit watch	Variety of special programs offered by credit rating agencies and financial institutions to monitor organisation/individual's (e.g. bank) credit report for any credit related changes. A credit watch allows the organisation/individuals to act on any red flags before they can have a detrimental effect on credit score/history.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office (DMO)	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Depreciation Method	The spread of the cost of an asset over its useful life.
Gilt	Gilt-edged securities are bonds issued by certain national governments. The term is of British origin, and originally referred to the debt securities issued by the Bank of England, which had a gilt (or gilded) edge. Hence, they are known as gilt-edged securities, or gilts for short. Today the term is used in the United Kingdom as well as some Commonwealth nations, such as South Africa and India. However, when reference is made to "gilts", what is generally meant is "UK gilts," unless otherwise specified.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
The International Monetary Fund (IMF)	is an intergovernmental organisation which states its aims as to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.
Impaired investment	An investment that has had a reduction in value to reflect

	changes that could impact significantly on the benefits expected from it.
LIBID	The London Interbank Bid Rate – it is the interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Market Loans	Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.
Money Market Fund (MMF)	A ‘pool’ of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England, whose main role is to regulate interest rates.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
Premium	Cost of early repayment of loan to PWLB to compensate for any losses that they may incur
Prudential Indicators	Set of rules providing local authorities borrowing for funding capital projects under a professional code of practice developed by CIPFA and providing measures of affordability and prudence reflecting the Council’s Capital Expenditure, Debt and Treasury Management.
PWLB	Public Works Loan Board, a statutory body whose function is to lend money to Local Authorities (LAs) and other prescribed bodies. The PWLB normally are the cheapest source of long term borrowing for LAs.
Specified Investments	Investments that meet the Council’s high credit quality criteria and repayable within 12 months.
Supranational bonds	Supranational bonds are issued by institutions that represent a number of countries, not just one. Thus, organisations that issue such bonds tend to be the World Bank or the European Investment Bank. The issuance of these bonds are for the purpose of promoting economic development
Treasury bills (or T-bills)	Treasury bills (or T-bills) mature in one year or less. Like zero-coupon bonds, they do not pay interest prior to maturity; instead they are sold at a discount of the par value to create a positive yield to maturity. Many regard Treasury bills as the least risky investment available.
Unrated institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Council.



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Counterparty	Country of Domicile	FITCH RATINGS					MOODY'S RATINGS				STANDARD & POOR'S RATINGS				
		Short-term	Long-term	Viability	Support	Outlook	Short-term	Long-term	Baseline Credit Assess	Outlook	Short-term	Long-term	Outlook		
<b>UNITED KINGDOM: BANKS</b>															
BANK OF SCOTLAND PLC	GB	F1	A+	a	5	STABLE	P-1	Aa3	a3	STABLE	A-1	A	POS		
LLOYDS BANK PLC	GB	F1	A+	a	5	STABLE	P-1	Aa3	a3	STABLE	A-1	A	POS		
BARCLAYS BANK PLC	GB	F1	A*+	a	5		P-1	A1	baa2	NEG	A-1	A	STABLE		
CLOSE BROTHERS LTD	GB	F1	A	a	5	STABLE	P-1	Aa3	a2	STABLE					
CLYDESDALE BANK	GB	F2	BBB+	bbb+	5	STABLE	WR	Baa1	baa2	POS	A-2	BBB+	STABLE		
CO-OPERATIVE BANK PLC	GB	B	B-	b-	5	STABLE	NP	Caa2	caa2	POS					
GOLDMAN SACHS INT'L BANK	GB	F1	A			STABLE	P-1	A1	baa3	STABLE	A-1	A+	STABLE		
HSBC BANK PLC	GB	F1+	AA-	a+	1	STABLE	P-1	Aa3	baa1	NEG	A-1+	AA-	STABLE		
NATIONAL WESTMINSTER BANK	GB	F2	BBB+*+	bbb+	5		-	A3	baa3	POS	A-2	BBB+	POS		
ROYAL BANK OF SCOTLAND PLC/T	GB	F2	BBB+	bbb+	5	STABLE	P-2	A3	baa3	NEG	A-2	BBB+	STABLE		
ULSTER BANK LIMITED	GB	F2	BBB+*+	WD	2*+		P-1	A3	baa3	POS	A-2	BBB+	POS		
ABBEY NATIONAL TREASURY SERV	GB	F1	A*+				P-1			STABLE					
SANTANDER UK PLC	GB	F1	A*+	a	2		P-1	Aa3	a3	STABLE	A-1	A	STABLE		
STANDARD CHARTERED BANK	GB	F1	A+	a	5	STABLE	P-1	A1	baa1	STABLE	A-1	A	STABLE		
FSB BANK PLC/UNITED KINGDOM	GB							Baa2	baa2	STABLE					
<b>UK: BUILDING SOCIETIES</b>															
COVENTRY BUILDING SOCIETY	GB	F1	A	a	5	STABLE	P-1	A2	a3	STABLE					
DARLINGTON BUILDING SOCIETY	GB														
FURNESS BUILDING SOCIETY	GB														
HINCKLEY & RUGBY BUILDING SOCIETY	GB														
LEEDS BUILDING SOCIETY	GB	F1	A-	a-	5	STABLE	P-2	A3	baa1	STABLE					
LEEK UNITED BUILDING SOCIETY	GB														
LOUGHBOROUGH BUILDING SOCIETY	GB														
MANSFIELD BUILDING SOCIETY	GB														
MARKET HARBOROUGH BUILDING SOCIETY	GB														
MARSDEN BUILDING SOCIETY	GB														
MELTON MOWBRAY BUILDING SOCIETY	GB														
NATIONAL COUNTIES BUILDING SOCIETY	GB														
NATIONWIDE BUILDING SOCIETY	GB	F1	A+	a	5	STABLE	P-1	Aa3	a3	STABLE	A-1	A	STABLE		
NEWBURY BUILDING SOCIETY	GB														
SCOTTISH BUILDING SOCIETY	GB														
STAFFORD RAILWAY BUILDING SOCIETY	GB														
TIPTON & COSELEY BUILDING SOCIETY	GB														
YORKSHIRE BUILDING SOCIETY	GB	F1	A-	a-	5	STABLE	P-2	A3	baa1	STABLE	NR	NR			
<b>UK: LOCAL AUTHORITIES</b>															

Counterparty	Country of Domicile	FITCH RATINGS					MOODY'S RATINGS				STANDARD & POOR'S RATINGS		
		Short-term	Long-term	Viability	Support	Outlook	Short-term	Long-term	Baseline Credit Assess	Outlook	Short-term	Long-term	Outlook
ABERDEEN CITY COUNCIL	GB							Aa3		STABLE			
CORNWALL COUNCIL	GB							Aa2		STABLE			
GREATER LONDON AUTHORITY	GB										A-1+	AA	NEG
GUILDFORD BOROUGH COUNCIL	GB							Aa2		STABLE			
KENSINGTON & CHELSEA ROYAL BOROUGH	GB										WD	WD	WD
LANCASHIRE COUNTY COUNCIL	GB							Aa3		NEG			
TRANSPORT FOR LONDON	GB	F1+	AA-			NEG	P-1	Aa3		STABLE	A-1+	AA	NEG
BOROUGH OF WANDSWORTH	GB	F1+	AA			NEG							
WARRINGTON BOROUGH COUNCIL	GB							A1		NEG			
<b>UK: OTHER INSTITUTIONS</b>													
LCR FINANCE PLC	EN		AA					Aa2		STABLE		AA	
NETWORK RAIL INFRASTRUCTURE	GB	F1+	AA			NEG	P-1	Aa2		STABLE			
UK GOVERNMENT	GB	F1+	AA			NEG		Aa2		STABLE	A-1+u	AAu	NEG
WELLCOME TRUST FINANCE PLC	GB							Aaa		STABLE		AAA	STABLE
<b>COMMONWEALTH OF AUSTRALIA</b>	<b>AU</b>	<b>F1+</b>	<b>AAA</b>			<b>STABLE</b>		<b>Aaa</b>		<b>STABLE</b>	<b>A-1+u</b>	<b>AAAu</b>	<b>NEG</b>
AUST AND NZ BANKING GROUP	AU	F1+	AA-	aa-	1	STABLE	P-1	Aa3	a2	STABLE	A-1+	AA-	NEG
COMMONWEALTH BANK OF AUSTRAL	AU	F1+	AA-	aa-	1	STABLE	P-1	Aa3	a2	STABLE	A-1+	AA-	NEG
NATIONAL AUSTRALIA BANK LTD	AU	F1+	AA-	aa-	1	STABLE	P-1	Aa3	a2	STABLE	A-1+	AA-	NEG
NEW SOUTH WALES TREASURY COR	AU						P-1	Aaa		STABLE	A-1+	AAA	NEG
WESTPAC BANKING CORP	AU	F1+	AA-	aa-	1	STABLE	P-1	Aa3	a2	STABLE	A-1+	AA-	NEG
<b>GOVERNMENT OF CANADA</b>	<b>CA</b>	<b>F1+</b>	<b>AAA</b>			<b>STABLE</b>		<b>Aaa</b>		<b>STABLE</b>	<b>A-1+</b>	<b>AAA</b>	<b>STABLE</b>
BANK OF MONTREAL	CA	F1+	AA-	aa-	2	STABLE	P-1	A1	a3	NEG	A-1	A+	STABLE
BANK OF NOVA SCOTIA	CA	F1+	AA-	aa-	2	STABLE	P-1	A1	a3	NEG	A-1	A+	STABLE
CAN IMPERIAL BK OF COMMERCE	CA	F1+	AA-	aa-	2	NEG	P-1	A1	a3	NEG	A-1	A+	STABLE
EXPORT DEVELOPMENT CANADA	CA						P-1	Aaa		STABLE	A-1+	AAA	STABLE
ROYAL BANK OF CANADA	CA	F1+	AA	aa	2	STABLE	P-1	A1	a3	NEG	A-1+	AA-	NEG
TORONTO-DOMINION BANK	CA	F1+	AA-	aa-	2	STABLE	P-1	Aa2	a1	NEG	A-1+	AA-	STABLE
<b>KINGDOM OF DENMARK</b>	<b>DE</b>	<b>F1+</b>	<b>AAA</b>			<b>STABLE</b>	<b>P-1</b>	<b>Aaa</b>		<b>STABLE</b>	<b>A-1+</b>	<b>AAA</b>	<b>STABLE</b>
DANSKE BANK A/S	DE	F1	A	a	5	STABLE	P-1	A1	a3	STABLE	A-1	A	STABLE
KOMMUNEKREDIT	DE						P-1	Aaa		STABLE	A-1+	AAA	STABLE
<b>REPUBLIC OF FINLAND</b>	<b>FI</b>	<b>F1+</b>	<b>AA+</b>			<b>STABLE</b>	<b>P-1</b>	<b>Aa1</b>		<b>STABLE</b>	<b>A-1+</b>	<b>AA+</b>	<b>STABLE</b>
MUNICIPALITY FINANCE PLC	FI						P-1	Aa1	a1	STABLE	A-1+	AA+	STABLE
OP CORPORATE BANK PLC	FI	WD	WD			WD	P-1	Aa3	baa2	STABLE	A-1+	AA-	STABLE
<b>FEDERAL REPUBLIC OF GERMANY</b>	<b>GE</b>	<b>F1+</b>	<b>AAA</b>			<b>STABLE</b>		<b>Aaa</b>		<b>STABLE</b>	<b>A-1+u</b>	<b>AAAu</b>	<b>STABLE</b>

890 170



Counterparty	Country of Domicile	FITCH RATINGS					MOODY'S RATINGS				STANDARD & POOR'S RATINGS		
		Short-term	Long-term	Viability	Support	Outlook	Short-term	Long-term	Baseline Credit Assess	Outlook	Short-term	Long-term	Outlook
FMS WERTMANAGEMENT	GE	WD	WD		WD		P-1	Aaa		STABLE	A-1+	AAA	STABLE
KREDITANSTALT FUER WIEFERAUF	GE	F1+	AAA		1	STABLE	P-1			STABLE	A-1+	AAA	STABLE
LANDESBANK HESSEN-THURINGEN	GE	F1+	A+		WD	STABLE	P-1	A1	baa2	NEG	A-1	A	STABLE
LANDESKRED BADEN-WUERTT FOER	GE	F1+	AAA		1	STABLE	P-1	Aaa		STABLE	A-1+	AAA	STABLE
LANDWIRTSCHAFTLICHE RENTENBA	GE	F1+	AAA		1	STABLE	P-1	Aaa		STABLE	A-1+	AAA	STABLE
LAND SACHSEN-ANHALT	GE	F1+	AAA			STABLE	P-1	Aa1		STABLE	A-1+	AA+	STABLE
KINGDOM OF THE NETHERLANDS	NE	F1+	AAA			STABLE	P-1	Aaa		STABLE	A-1+u	AAAu	STABLE
BANK NEDERLANDSE GEMEENTEN	NE	F1+	AA+		1	STABLE	P-1	Aaa	a1	STABLE	A-1+	AAA	STABLE
COOPERATIEVE RABOBANK UA	NE	F1+	AA-	a+	WD	STABLE	P-1	Aa2	a2	NEG	A-1	A+	POS
ING BANK NV	NE	F1	A+	a+	5	STABLE	P-1	Aa3	baa1	STABLE	A-1	A+	STABLE
NEDERLANDSE WATERSCHAPSBANK	NE						P-1		a1	STABLE	A-1+	AAA	STABLE
KINGDOM OF NORWAY	NO	F1+	AAA			STABLE		Aaa		STABLE	A-1+	AAA	STABLE
KOMMUNALBANKEN AS	NO						P-1	Aaa	a1	STABLE	A-1+	AAA	STABLE
REPUBLIC OF SINGAPORE	SI	F1+	AAA			STABLE		Aaa		STABLE	A-1+u	AAAu	STABLE
DBS BANK LTD	SI	F1+	AA-	aa-	1	STABLE	P-1	Aa1	a1	STABLE	A-1+	AA-	STABLE
OVERSEA-CHINESE BANKING CORP	SI	F1+	AA-	aa-	1	STABLE	P-1	Aa1	a1	STABLE	A-1+	AA-	STABLE
TEMASEK FINANCIAL I LTD	SI							Aaa		STABLE		AAA	
UNITED OVERSEAS BANK LTD	SI	F1+	AA-	aa-	1	STABLE	P-1	Aa1	a1	STABLE	A-1+	AA-	STABLE
KINGDOM OF SWEDEN	SW	F1+	AAA			STABLE	P-1	Aaa		STABLE	A-1+u	AAAu	STABLE
NORDEA BANK AB	SW	F1+	AA-	aa-	5	STABLE	P-1	Aa3	a3	STABLE	A-1+	AA-	STABLE
SWEDBANK HYPOTEK AB	SW	WD	WD		WD		(P)P-1	(P)Aa3	a3	STABLE	A-1+	AA-	STABLE
SVENSK EXPORTKREDIT AB	SW						P-1	Aa1	a1	STABLE	A-1+	AA+	STABLE
SVENSKA HANDELSBANKEN-A SHS	SW	F1+	AA	aa	5	STABLE	P-1	Aa2	a2	STABLE	A-1+	AA-	STABLE
SWISS CONFEDERATION	SZ	F1+	AAA			STABLE		Aaa		STABLE	A-1+u	AAAu	STABLE
CREDIT SUISSE AG	SZ	F1	A	a-	5	STABLE	P-1	A1	baa2	STABLE	A-1	A	STABLE
SUPRANATIONAL													
COUNCIL OF EUROPE DEVELOPMNT	FR	F1+	AA+			STABLE	P-1	Aa1		STABLE	A-1+	AA+	POS
EUROPEAN BANK FOR RECONSTRUC	GB	F1+	AAA			STABLE	P-1	Aaa		STABLE	A-1+	AAA	STABLE
EUROPEAN COAL & STEEL COMMUN	BE							Aaa		STABLE		AAA	STABLE
EUROPEAN INVESTMENT BANK	LX	F1+	AAA			STABLE	P-1	Aaa		STABLE	A-1+	AAA	STABLE
INTER-AMERICAN DEV BANK	US	F1+	AAA			STABLE	(P)P-1	Aaa		STABLE	A-1+	AAA	STABLE
INTERNATIONAL BANK FOR RECON	US	F1+	AAA			STABLE	(P)P-1	Aaa		STABLE	A-1+	AAA	STABLE
INTERNATIONAL FINANCE CORP	US						(P)P-1	(P)Aaa		STABLE	A-1+	AAA	STABLE
NORDIC INVESTMENT BANK	FI						P-1	Aaa		STABLE	A-1+	AAA	STABLE

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<p>Non-Executive Report of the:</p> <p><b>Audit Committee</b></p> <p>23 January 2018</p>	 <p><b>TOWER HAMLETS</b></p>
<p><b>Report of:</b> Zena Cooke, Corporate Director, Resources</p>	<p><b>Classification:</b> Unrestricted</p>
<p><b>Draft Accounting Policies 2017-18 and 2018-19</b></p>	

<b>Originating Officer(s)</b>	Brian Snary- Financial Accountant
<b>Wards affected</b>	(All Wards);

## Summary

This report presents the accounting policies that will be implemented during the financial year 2017-18 and reflected in the published Statement of Accounts for that period.

Appendix A includes the draft accounting policies for 2017-18, it also summarises the main content of the policies and highlights recent changes. Any further changes to accounting regulations may require the policies to be changed during 2017-18. Significant changes to the policies tabled, as part of the draft financial statements for 2016-17 have been highlighted.

These Accounting Policies will also be adopted for 2018-19 and the specific detail and wording will be included as the information becomes available.

## Recommendations:

The Audit Committee is recommended to:

1. Approve the accounting policies and are invited to comment

## **1. REASONS FOR THE DECISIONS**

- 1.1 It is recommended by external audit and in line with best practice that the proposed Accounting Policies being used to prepare the financial statements are approved by the Audit Committee.

## **2. ALTERNATIVE OPTIONS**

- 2.1 The Committee may choose to approve all, some or none of the Accounting Policies.

## **3. DETAILS OF REPORT**

### **3.0**

### **3.1 Background**

- 3.1.1 The Council's Accounting Policies are the specific principles, bases, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts. These policies are disclosed as note 1 to the annual accounts.
- 3.1.2 The finance team review the policies each year to ensure that they are in line with the accounting standards as well as being appropriate and relevant to the council. This also helps to remove unnecessary detail which in turn will aid readers to better understanding the Statement of Accounts.
- 3.1.3 It is generally accepted best practice to circulate the draft accounting policies to the Audit Committee for approval prior to the preparation of the draft accounting statements.

### **3.2 Framework**

- 3.2.1 The requirement to include Accounting Policies is taken from the Cipfa Code of Practice for Local Authority Accounting 2017-18 (the Code), and states that *'Authorities shall select accounting policies, and account for changes in accounting policies, changes in accounting estimates and errors in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors'*
- 3.2.2 IAS 8 also requires entities to disclose the expected impact of new standards that have been issued but not yet adopted. Future editions of the Code may therefore prescribe retrospective disclosure requirements relating to changes to accounting policies.
- 3.2.3 The proposed accounting policies are largely unchanged, bar minor cosmetic changes, from the one used in the 2016-17 accounts. Whilst the council was expecting to have to include a policy for the 'Highways Network Asset' in 2017-18, the CIPFA/LASAAC Code Board decided in March 2017 not to proceed with its implementation.

- 3.2.4 The full schedule of draft Accounting Policies can be found in Appendix '1'
- 3.2.5 The Accounting Policies will be also be adopted for 2018-19 subject to any amendments arising from the ongoing consultation process.

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1 The Chief Finance Officer has been consulted in the preparation of this report and has no additional comments to make.

#### **5. LEGAL COMMENTS**

- 5.1 As stated in paragraph 3.2.1 of this report, the requirement to include Accounting Policies is taken from the Cipfa Code of Practice for Local Authority Accounting 2017/18.
- 5.2 The Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This is referred to as the Council's best value duty. Applying Accounting Policies to the production and presentation of the annual Statement of Accounts contributes towards demonstrating that the Council is meeting this duty.
- 5.3 When making decisions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not (the public sector equality duty). There are no direct equality implications arising from this report.

#### **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 There are no 'One Tower Hamlets' considerations contained in this report.

#### **7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 There are no 'Best Value' implications contained in this report

#### **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There are no actions contained in this report impacting on the 'Greener Environment' agenda.

**9. RISK MANAGEMENT IMPLICATIONS**

9.1 This report details the accounting policies by which the final accounts will be prepared and presented, this is in line with current best practice, and endorsed by external audit. Failure to adhere to these policies could result in the authority not meeting its legal requirement to produce compliant financial statements.

**10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

10.1 There are no 'Crime and Disorder' implications contained within this report.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- None

**Appendices**

- Draft Accounting Policies 2017-18.

**Local Government Act, 1972 Section 100D (As amended)**

**List of "Background Papers" used in the preparation of this report**

- NONE.

**Officer contact details for documents:**

- Brian Snary, Financial Accountant ext. 5323

## 1. Accounting Policies

### 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017-18 financial year and its position at the year-end of 31st March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require the document to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 and the *Service Reporting Code of Practice (SeRCOP) 2017-18*, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 21(2) of the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of long-term assets and financial instruments.

This is to ensure that the Statement of Accounts gives a true and fair view of the financial position of the Council for the year ending 31st March 2018 and to ensure it is compliant with relevant statutory accounting requirements issued by the International Accounting Standards Board (IASB). Expenditure and income are reported in accordance with a total cost basis of accounting. Gross total cost includes all expenditure attributable to the service/activity, including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and depreciation. No categories of income are considered to be abatements of expenditure, and movements to and from reserves are excluded from total cost.

The accounting concepts of 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements' have been considered in the application of accounting policies. In this regard the:

- Materiality concept means that information is included where the information is of such significance as to justify its inclusion.
- Accruals concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received.
- Going concern concept assumes that the Council will continue in operational existence for the foreseeable future
- Primacy of Legislation - local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

### 2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. This includes the accounting for fees, charges and rents due from

customers; these are accounted for as income at the date the Council provides the relevant goods or services.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet if material.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Exceptionally, income in respect of adults in residential care under the National Assistance Act 1948 is accounted for on a cash basis, although the amount involved is not material to the presentation of the accounts.
- The Council operates a de minimis of £10,000 below which items of income and expenditure are not required to be accrued.

### **3. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice. Cash equivalents are investments that mature no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand within the short-term and form an integral part of the Council's cash management.

### **4. Exceptional Items**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

### **5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise or not material) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.



## **6. Accounting Standards not yet adopted**

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the code.

There are no new standards in the 2018-19 code which are likely to have a material effect on upon the accounts.

## **7. Charges to Revenue for Long-term Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the cost of holding long-term assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation losses (general fall in prices across the board) and impairment losses (fall in price specific to an asset) on tangible non-current assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

The Council is not required to raise Council Tax to fund depreciation, revaluation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. The Minimum Revenue Provision (MRP) relating to non-housing assets has been calculated for 2016-17 in accordance with Option 1 (the Regulatory Method) set out in the statutory guidance on MRP.

## **8. Employee Benefits**

### **a. Benefits Payable during Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. If material, an accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **b. Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate

service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy and a reliable estimate can be made of the cost.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

**c. Post-Employment Benefits**

Employees of the Council are members of three separate pension schemes:

- The Local Government Pension Scheme, administered by the Council
- The Local Government Pension Scheme, administered by the London Pensions Fund Authority
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

All the schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year. The DfE set the teacher's pension contribution rate.

**The Local Government Pension Scheme**

The Local Government scheme is a defined benefits scheme.

The Council's wholly owned subsidiary, Tower Hamlets Homes Limited (THH), is a Local Government Pension Scheme Employer in accordance with the Local Government Pension Scheme (Amendment) Regulations 2002. The Council has indemnified THH in respect of all liabilities that have arisen or may arise from its pension obligations.

The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and estimates of projected earnings for current employees.

Council liabilities are discounted to their value at current prices, using a discount rate derived from corporate bond yields (as measured by the yield on iBoxxSterling Corporates Index, AA over 15 years) as at 31st March 2018.

Assets attributable to the Council are included in the Balance Sheet at their fair value. Quoted or unitised securities are valued at current bid price; unquoted securities on the basis of professional estimate; and property at market value.

The change in the net pension liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked.
- past service cost – the increase in liabilities arising from current year decisions the effect of which relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- expected rate of return (on assets) – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.
- gains and losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, credited or debited to the Surplus or Deficit on the Provision of Services as part of Non Distributed Costs within the Comprehensive Income and Expenditure Statement.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve.
- contributions paid to the pension funds – cash paid as employer’s contributions to the pension funds.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension funds and any amounts payable to the funds but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees as calculated under IAS19.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## **9. Events after the Balance Sheet date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- a. those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such material events

- b. those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect, or a statement that an estimate cannot be reliably made.

Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue.

## **10. Financial Instruments**

### **a. Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premia and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **b. Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

## **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited / debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **11. Foreign Currency Translation**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

## **12. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (revenue grants) or Capital Grants Receipts in Advance account (capital grants). When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. Unapplied revenue grants without repayment conditions are shown as earmarked reserves.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment

Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **13. Heritage assets**

The Code of Practice on Local Authority Accounting in the United Kingdom requires material heritage assets held by the Council to be disclosed.

The Council does not actively acquire or dispose of heritage assets as part of its normal day-to-day business. Where the Council holds heritage assets, these have usually been donated. Where the Council does acquire or dispose of a heritage asset, treatment of each asset will be considered on a case by case basis.

The value of heritage assets currently held in the Balance Sheet as part of long-term assets is £XX million at 31 March 2018. This valuation is based on valuations for art and museum collections where the asset has a material value. The council holds information on the value of an item of material value within the art collection (one painting), two public sculptures and civic regalia (value held for insurance purposes).

Valuations are made by what is considered to be the most appropriate/relevant method in terms of the specific heritage asset without being overly onerous. For example this may include reference to sale proceeds of similar items by same artist to demonstrate values are clearly under materiality values. There is no requirement for valuations to be carried out or certified by external valuers nor is there any prescribed minimum period between valuations. The Council has four heritage assets that have material values, these values are reviewed periodically, however the real value would only be established upon sale as valuations on assets of this nature are subjective.

Where the Council has information on the cost or value of a heritage asset the Council includes that value in its balance sheet. Where this information is not available and the historical cost information cannot be obtained the asset is excluded from the balance sheet.

Heritage assets (other than operational heritage assets) shall normally be included in the balance sheet at their current value where material. The Council has a materiality threshold of £50,000 for considering heritage assets for valuation. Where it is not practical to obtain a valuation at a reasonable cost heritage assets are valued at cost where known. Most heritage assets owned by the council have an historical interest to the Borough, but would not have material market value.

Operational heritage assets (i.e. those that in addition to being held for their heritage characteristics are also used for other activities or provide other services) are accounted for as operational assets and valued in the same way as other assets of that type.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a material heritage asset or doubts arise to its authenticity the value of the asset would be reviewed.

### **14. Interests in Companies and Other Entities**

The Council has an interest in Tower Hamlets Homes which is a wholly owned subsidiary of the Council but is not considered material and does not require group accounts to be prepared (a summary of this interest can be found in note 44). The Council, as part of the Government's Building Schools for the Future (BSF) initiative, also has a ten percent shareholding in the delivery company Tower Hamlets Local Education Partnership Ltd. but has determined that the interest is outside the group accounts requirement. In the Council's

own single-entity accounts, interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

## **15. Inventories and Long Term Contracts**

Inventories (stocks) are included in the Balance Sheet at the lower of cost and net realisable value. Where material, the council would select a valuation process appropriate for the asset.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

## **16. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

### **The Council as a Lessee**

The Council has reviewed its leases in detail and has determined that, except for PFI agreements, there are a small number of finance leases with immaterial asset values, so the agreement costs are charged to revenue. For finance leases (including the PFI assets), the accounting policy is as follows;

#### **a. Finance Leases**

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible property, plant or equipment asset – the liability is written down as the rent becomes payable), and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the council at the end of the lease period).

#### **b. Operating Leases**

Leases that do not meet the definition of finance leases as described above are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account within the Comprehensive Income and Expenditure Statement on an equalised basis over the term of the lease, to reflect the economic benefits consumed over the life of the lease, irrespective of fluctuations in annual payments.

### **The Council as a Lessor**

The council has some operating leases as a lessor; the accounting policy is as follows:

## **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **17. Overheads and Support Services**

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2017-18 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received.

### **18. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. The de minimus level above which expenditure on tangible property, plant and equipment assets is classified as capital is £50,000 except where the expenditure is financed by grants or contributions; or where lesser amounts on the same asset accumulate above that level.

#### **Measurement**

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its current value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost.
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH).



- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).  
Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value – this is commonly used as a basis for valuing vehicles, plant and equipment.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- **dwelling**s - equivalent to the Major Repairs Allowance payable by the Government which has been used as an appropriate proxy for depreciation
- **other buildings** – straight-line allocation over the useful life of the property as estimated by the valuer

- **vehicles, plant, furniture and equipment** – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. For equipment, over five years
- **infrastructure** – straight-line allocation over 40 years

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately if they have a materially different remaining life from the underlying asset.

Any assets with a depreciable value below £1 million are not considered material for containing separate components. Separate components will be considered in an asset with a value greater than £1 million if the component has a value of greater than 25% of the asset and the remaining life of the asset is materially different from the underlying asset.

### **Disposals and Non-Current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to long-term assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of long-term assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## 19. Private Finance Initiative (PFI) and Similar Contracts

PFI contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment long-term assets needed to provide services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The Council is party to two PFI contracts in respect of schools which terminate in 2027 and 2029.

The original recognition of these long-term assets at current value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- lifecycle replacement costs – recognised as long-term assets on the Balance Sheet if capital in nature

**MRP policy for PFI schemes** - a minimum revenue provision is charged based on a share of the charge paid within the above contracts - this represents repayment of the contract liability for the long-term assets within the contract.

There is also a third PFI contract for the Barkantine Heat and Power scheme. This concession agreement is a user pay arrangement where the end user pays the operator for the combined heat and power (CHP) services rendered. The Council receives a profit share but pays no unitary charge for the service. As the Council does not pay for this scheme, there is no MRP chargeable. The assets of the CHP scheme are included on the council's balance sheet with a deferred income balance, both of which are written down over the term of the contract.

## 20. Provisions, Contingent Liabilities and Contingent Assets

### a. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, if the Council were to be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, based on the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service account.

Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant revenue account if it is virtually certain that reimbursement will be received if the Council settles the obligation.

#### **b. Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in note 30 to the accounts.

#### **c. Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **21. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement of Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the relevant service revenue account in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for long-term assets, financial instruments, retirement and employment benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

The Council treats transfers from the insurance reserve as above the line income to services rather than below the line transfers between reserves. This is a deviation from the Accounting Code of Practice but does not have a material effect on the financial statements.

## **22. Revenue Expenditure Funded from Capital under Statute (REFCUS)**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of long-term assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement of Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of Council Tax.

## **23. Fair value measurement**

The authority measures some of its non-financial assets such as surplus assets and asset held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

## **24. Value added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **25. Collection Fund**

The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax, Business Rate Supplements (BRS) and Non-Domestic Rates (NDR). This account receives income on behalf of the Council, Central Government and its other preceptor the Greater London Authority (GLA).

Collection Fund income for the year is the Council's accrued income for the year and not the amount required to be transferred from the Collection Fund under regulation. The difference between the amount included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included within the Movement of Reserves Statement.

The cash collected by the Council from Council Tax, BRS & NDR debtors belongs proportionately to the billing authority, Central Government and the preceptors. This results in a debtor / creditor position between the Council, Central Government and preceptors for the difference between the cash collected from Council Tax, BRS & NDR debtors and the precept paid over during the year. The Balance Sheet includes the Council's share of Council Tax & NNDR arrears and impairment for bad debts, Council Tax & NDR over payments and prepayments and the debtor / creditor from the preceptors.

The Council's share of net cash collected from Council Tax & NDR debtors in the year is included within the Cash Flow Statement. The difference between the major preceptors' share of net cash collected and amounts paid to the precepting authorities is included in the net cash-flows for financing activities.

The amount included in the Council's Balance Sheet is the amount of cash collected from NNDR taxpayers (less the amount retained in respect of a cost of collection allowance) that has not yet been paid to the Central Government & GLA or has been overpaid to the Central Government & GLA on the Balance Sheet date.

There are a number of NDR appeals outstanding that date back to 2005. These are to be heard by the Government's external Valuation Office. A provision has been raised based on an estimate of the income from a lower valuation

## **26. Carbon Reduction Commitment Scheme**

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in its second phase which commenced on 1 April 2014 and will run until March 2019, after which point the government has announced its abolition. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is recognised and reported in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

## **27. Community Infrastructure Levy**

The Authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the Authority) with appropriate planning consent. The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area. CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions


set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges may be used to fund revenue expenditure.

## **28. Schools**

The Code of Practice on Local Authority Accounting in the United Kingdom confirms that the balance of control for local authority maintained schools (i.e. those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority financial statements (and not the Group Accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the authority as if they were the transactions, cash flows and balances of the authority.

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<p style="text-align: center;"><i>Non-Executive Report of the:</i></p> <p><b>Audit Committee</b></p> <p><i>23<sup>rd</sup> January 2018</i></p>	 <b>TOWER HAMLETS</b>
<p><b>Report of:</b> <i>Zena Cooke - Corporate Director - Resources</i></p>	<p><b>Classification:</b> <i>Unrestricted</i></p>
<p><b>Revised Audit Plan 2017/18</b></p>	

<b>Originating Officer(s)</b>	<i>Minesh Jani and Bharat Mehta</i>
<b>Wards affected</b>	<i>All wards</i>

## 1. SUMMARY

- 1.1. This report provides an update of audit activity planned for this financial year and reflects changes made to the original internal audit plan as a result of changing priorities of the authority within the resources available to perform audit work.

## 2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to note the changes proposed and to endorse the revised 2017/18 internal audit plan attached at Appendix 2.

## 3. BACKGROUND

- 3.1 The original internal audit plan was prepared at the start of the current financial year and was presented to CLT and the Audit Committee for endorsement in March 2017. The internal audit plan was formulated using the governance model whereby four key areas were assessed for all operations of the Council and prioritised.

- 3.2 In line with the internal audit strategy, the plan has been refreshed and some changes made to the original annual audit plan. The reasons for this are as follows:

- Requests from officers to perform audits that were not originally planned;
- Requests from officers to increase the scope of audits which has resulted in higher allocation of audit days;

- Requests from Chief Officers to defer audits due to service restructuring, other external inspections and changes made to existing systems and the need to allow a period of bedding in;
- Make use of days provided in the original plan that had not been allocated to specific audits.
- To avoid duplication of work with either the external auditor or other assurance provider; and
- Additional commitment to unplanned work.

#### **4. Updated Internal Audit Plan for 2017/18**

4.1 Appendix 1 summarises audits that have been added to or deferred from the original internal audit plan. Audits listed in Appendix 1 will be accessed and prioritised for consideration to be carried forward to 2018/19. The summary below shows how the plan has changed from that approved in March 2017.

Number of days originally planned	1,475
Add: Additional audits added to the plan (Please refer to Appendix 1)	120
Less: Audits to be considered as part of 2017/18 Audit Plan (Please refer to Appendix 1)	215
Less: Use of previously unallocated days to specific audits	75
Less: Use of reactive fraud allocation	55
Number of days per the Revised plan	1,250

#### **5. Comments of the Chief Finance Officers**

5.1 The revised audit plan will be delivered through existing resources and there are no financial implications as a consequence of the changes detailed within this report.

## **6. Legal Comments**

- 6.1. 6.1 The Council has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness by virtue of section 3 of the Local Government Act 1999. This is known as its Best Value Duty.
- 6.2. Under sections 15(5) and 15(6) of the Local Government Act 1999 the Secretary of State for Communities and Local Government issued legally enforceable directions in order to ensure that the Council complies with its obligations under part 1 of the Local Government Act 1999. Action 1 to be taken by the Council in respect of the Directions (as stated in Annex A to the Directions) the Council is to agree a plan with the Commissioners to ensure the compliance by the Council with the remainder of the directions. In preparing the Audit Plan, due consideration has been given to the Directions and Best Value Plan presented to the Commissioners.
- 6.3. Under Regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates effective exercise of the Council's functions and includes arrangements for the management of risk. The Council is also required by Regulation 5 to maintain an effective system of internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance. One of the functions of the Audit Committee under the Council's Constitution is to review internal audit findings. The consideration by the Audit Committee of this report is consistent with the Council's obligations and is within the Committee's functions.

## **7. One Tower Hamlets**

- 7.1. There are no specific one Tower Hamlets considerations.
- 7.2. There are no specific Anti-Poverty issues arising from this report

## **8. Best Value Implications**

- 8.1. The revised plan includes areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

## **9. Risk Management Implications**

- 9.1. In compiling the original and the revised audit plans, the Council's Corporate and Directorate level risks have been considered. These risks have been programmed for review within the scope of individual audits listed in the plan.

## **10. Sustainable Action for a Greener Environment (SAGE)**

10.1. There are no specific SAGE implications.

**11. Crime and Disorder Reduction Implications**

11.1. By having a sound planning system for a systematic and independent review of the Council's internal controls, governance and risk management, the Council can safeguard against the risk of fraud and abuse of financial resources and

**A Summary of Changes to the Internal Audit Plan – 2017/18**

**Appendix 1**

	Directorate	No. of days	No. of days
<b>Original 2017/18 Audit Plan</b>			<b>1,475</b>
<b>Audits Added to the Original Plan</b>			
Corporate Purchase Cards	Corp	20	
ICT Client Monitoring	Res	15	
Troubled Families Grant Certification	CS	15	
Ben Jonson School - Investigation	CS	10	
Tendering for Ice Cream Pitches	CS	15	
Clear up team recommendations and follow up	Gov	20	
Pro active fraud work on Electoral Roll	Gov	20	
Members interest and Hospitality	Gov	5	
<b>Sub Total</b>			<b>120</b>
<b>Less</b>			
<b>Audits amended and to be considered for 2018/19</b>			
Lettings	Place	20	
Governance of alternative Housing model	Place	10	
Procurement and payment of Legal Advise	Gov	15	
TH Education Partnership	CS	10	
Repairs and Maintenance of Admin Buildings	Place	15	
Handy Persons Service	Place	15	
Social Service Practice Framework	HAC	15	
Academy Conversion Protocols	CS	10	
Prevent Strategy	CS	15	
Monitoring of Leisure Centre Contract	CS	15	
Electronic Home Care Monitoring System	HAC	20	
Dec of Interest	Res	15	
Control and Monitoring of Agency Staff	Res	20	
Management and control of markets	Place	20	
<b>Sub Total</b>			<b>215</b>
Use of Management Request contingency		75	
Use of Reactive Fraud provision		55	
<b>Sub Total</b>			
<b>Total Revised Plan</b>			<b>1,250</b>



# London Borough of Tower Hamlets

Risk, Internal Audit and Control – Revised Audit Plan 2017/18



# Contents

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Context	2
Key Strategic Risks	3
The Role of Internal Audit	5
2017/18 Revised Internal Audit Plan	6
Governance Based Audit Assessment Methodology	Appendix 2
The Internal Audit Charter	Appendix 3
The Internal Audit Strategy	Appendix 4
The Internal Audit Process	Appendix 5
The Monitoring Process	Appendix 6
Summary	Appendix 7
Risk Management Framework	Appendix 8

# Context

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Risk taking is vital to the success of any business; it is inherent in everything we do. All too often, however, risks are regarded only as hazards despite the fact they can present significant opportunities for organisations to innovate and gain short and long-term competitive advantages. Risk and opportunity are, in essence, a duality – like two sides of the same coin.

The Good Governance Standard for Public Services identifies that ‘Good governance means “taking informed, transparent decisions and managing risk”. This implies creating a framework of enterprise-wide risk management that is embedded in the ‘business as usual’ operations and viewed as an integral component of how the organisation is governed.

Risk management is not about avoiding or eliminating risk. It is about understanding what risks are and the potential impact upon the organisation should the risks materialise and also about controlling risks when they arise.

Embedding good, enterprise-wide risk management systems will facilitate the achievement of our strategic objectives.

Internal Audit and their evaluation of controls provide an important part of the tool kit that the Corporate Management Team and the Audit Committee have in evaluating the risks being faced by the organisation, and the controls that are in place to mitigate these risks.



# Key Risks

The Audit Plan is based on three principal sources of information – Risk Registers (Strategic Risks and Directorate based service risks), our own risk analysis and management request. In formulating the Audit Plan, the key corporate risks and Directorate based risks have been considered. There are 13 corporate risks currently facing the Council which are being monitored by the CLT and the Audit Committee and are summarised below. These risks have been referenced within the Audit Plan, where applicable.

Risk Ref..	Risk
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.
ASD0017	Risk that should a major incident take place affecting Council services, there may be a failure to implement an effective response. The risk is increased if there was to be more than one incident at the same time.
CSA0002	Community Unrest.
CSD0016	Death or serious harm to a child that was or should have been in receipt of services, either from the council or a partner agency.
LPGLS0001	Non-compliance with corporate governance procedures.

No.	Risk
RSB0019	Maintaining and strengthening financial viability/balance in 2016/17 to 2017/18.
DRPCD0022	Failure to have in place a lease extension for Mulberry Place (or alternative temporary office location) one year prior to the end of the current lease (June 2019).
REV0007	Impact on local income from appeals on the new local rating effective from 1/4/17.
CSDSC0004	Incidents of serious violence where young people known to or in the care of the Local Authority are harmed or perpetrate harm in a community setting.
CSDR0011	The Council may be challenged in Court for making a formal decision under the 1967 Act, to retain for educational purposes the newly constructed school at Christchurch Primary School.
CSDSC0005	Loss of resources as a result of a failure to reach target Payment by Results claims, resulting in loss of capacity to deliver the Troubled Families programme. Reputational risk of being the only Local Authority in England to be withdrawn from the programme.
ICT-CT0010	That Agilisys are unable to perform as a strategic supplier with significant and consistent failures to meet SLAs.

# The Role of Internal Audit

The role of Internal Audit is to provide an independent ‘assurance’ to the organisation that its systems of internal control are sound and adequate, and are being complied with by staff and management.

Internal Audit is a review function, which independently reviews and reports upon the organisation’s internal control, governance and risk management arrangements. It critically evaluates the entire internal control framework and where necessary, makes recommendations for improvement and the introduction of best practice.

**The public sector internal audit standards defines internal audit as:**

***“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”***

The findings emerging from internal audit reviews provide a basis for an Annual Audit Opinion in the Statement of Internal Control within the Annual Governance Statement.

# London Borough of Tower Hamlets 2017/18 Internal Audit Plan

	<b>Audit Days</b>	<b>Pages</b>
Corporate systems and Council-wide reviews	140	7-8
Corporate Director - Governance	15	9
Corporate Director - Health, Adults and Community	50	10
Corporate Director - Children's Services	275	11-12
Corporate Director - Place	145	13-14
Corporate Director - Resources	240	15-17
Tower Hamlets Homes	130	18-19
Information technology audits	100	20
Follow up, management and reactive fraud provision	155	20
<b>Total Provision</b>	<b>1,250</b>	-

## Internal Audit Plan 2017/18

### Corporate and Council-Wide Reviews

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Health and Safety at Work	To provide assurance that the Council's Health and Safety at Work policy and procedures are sound and are being complied with.	15	Audit Needs Analysis Corporate risk ASD0017	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Attendance Management, including Annual Leave	To review the Council's arrangements for managing, controlling and monitoring of staff attendance and annual leave.	20	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Performance Management - Data Quality	To provide assurance that the Council's performance management scheme is sound and secure to achieve its key priorities and business objectives.	15	Audit Needs Analysis Corporate LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Control, Monitoring and Reporting of Executive Decisions Under Management Scheme of Delegation	This audit will examine the Council's procedures for reviewing and monitoring compliance with its Management Scheme of Delegation to ensure that Executive decisions taken by officers are within the scope of their delegated limits.	15	Audit Needs Analysis  Corporate Risk LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Programme and Project Management	This audit will review the Council's Corporate arrangements for ensuring that there are sound procedures and tools for managing and monitoring major change and savings programmes and projects.	15	Audit Needs Analysis  Corporate Risk RSB0019	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Corporate Purchase Cards	This audit will review management and control of purchase cards across the Council to provide assurance that the cards are used in accordance with Council policy and procedures.	20	Management Request Corporate Risk LPGSE0001	<i>A transformed council, making best use of resources and with an outward facing culture</i>
Clear up project follow up	The Clear up team raised a number of recommendations in their report to the Council for the audit and anti-fraud service to follow up	20	-	<i>A transformed council, making best use of resources and with an outward facing culture</i>
Proactive Fraud on Electoral Roll	Following the report of the Clean-up Team, a specific recommendation arose in respect of carrying out pro-active fraud work around the addition to the electoral register.	20	-	<i>A transformed council, making best use of resources and with an outward facing culture</i>
<b>Total</b>		<b>140</b>		

**Corporate Director - Governance**

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b><i>Link with Council's Strategic Plan Themes</i></b>
Members' Interests and Hospitality and Gifts	The objective of this audit will be review the systems for reporting, recording and monitoring members interests and hospitality and gifts.	10	Audit Needs Analysis  Corporate Risk LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Member-Officer Protocol	To advise on the development of the protocol to ensure that proper safeguards are built in the interface between members and officers of the Council.	5	Audit Needs Analysis  Corporate Risk LPGLS0001	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>15</b>		

**Corporate Director- Health, Adults and Community**

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Contract Monitoring of Commissioned Services	This audit will examine systems and procedures for monitoring a sample of commissioned services to ensure that providers effectively deliver the services to vulnerable service users and that payments are made in line with the rates set out in the contract.	20	Audit Needs Analysis  Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Costing of Care Plans	This audit will provide assurance that Care Plans for service users are developed to meet their service needs and that the plans are costed in accordance with established procedures to provide quality services to vulnerable adults.	15	Audit Needs Analysis  Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
FWi – Payment Control	This audit will select a sample of payments made to a range of service providers, orders for which have been raised on FW-I system, to test that payments are being made only for the services ordered, received and at the agreed rates.	15	Management Request and Audit Needs  Corporate Risk ASD0015	<i>Creating opportunity by supporting aspiration and tackling poverty. A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>50</b>		



## Corporate Director - Children's Services

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Leaving Care Service	This audit will review the management and control of Leaving Care services. The exact scope will be discussed and agreed with the Service Head, Children's Social Care.	15	Management Request  Risk Register CSD0016	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Youth Service	This will be a comprehensive review of the present Youth Service Provision to provide assurance that the management and control around youth service is sound and secure to achieve the priorities and objectives of the Council.	20	Management Request  Risk Register CSA0002	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Contract Audit	We will select a sample of building works in progress and test the effectiveness of contract management and monitoring to ensure that building works are delivered on time and to the agreed budget.	10	Audit Needs Analysis Corporate Risk	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Schools Probity Audit	The school visits will cover areas of Leadership and Governance; Budget Management; Procurement; Income and Expenditure controls; Payroll and Personnel; Asset Management; and other key areas of schools' business.	160	Annual Programme of Audit	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
School Governance and training/clerking service	This audit will review school governance and clerking services to provide assurance that the Local Authority's priorities and objectives in relation to school governance are achieved.	15	Audit Needs Analysis and Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Tendering for Ice Cream Pitches	This was a review of the soundness of the tendering procedures for Ice Cream pitches at Victoria Park	15	Management request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Quality of Care audits	This audit will provide assurance that the quality assurance and review systems over child protection cases are sound and secure.	15	Audit Needs Analysis and Management Request Risk CSD0016	<i>Creating opportunity by supporting aspiration and tackling poverty.</i>
Troubled Families Grant Certification	This work involves monthly review, testing and certification of the Troubled Families Grants	15	Management Request Corporate Risk CSDSC0005	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Ben Jonson School Investigation	This work involved investigation and preparation for court attendance to support the CPS in their prosecution.	10		
<b>Total</b>		<b>275</b>		

**Corporate Director - Place**

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Fixed Penalty Notices	This audit will review the systems for control and monitoring of Fixed Penalty Notices including officers' delegated to charge, collect and monitor income from FPNs across the Directorate.	15	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Licensing of Private Landlords	To review the effectiveness of the arrangements for licensing of private landlords to ensure that licenses are issued in accordance with council procedures and that income is collected and banked intact.	15	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Contract Procurement and Monitoring	This audit will review the systems and controls in place for procuring and monitoring contracts to ensure that Council procedures are complied with and that payments to contractors and income received from providers of concessionary services are in accordance with agreed rates and contract conditions.	25	Audit Needs Analysis  Management Request	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Waste Collection Contract Monitoring	To review systems and controls for effective monitoring of the waste contract ensuring that Council objectives and priorities are achieved.	20	Management request and Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Inspections of Play Grounds	To assess the effectiveness of controls in place for regular inspection of Parks and to carry out the remedial works required.	15	Management Request  Corporate Risk CSD0016	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Purchase of Properties outside borough for Homeless	This audit will review the controls put in place for purchasing and operating properties for Homeless outside the Borough.	15	Audit Needs Analysis and Management Request.	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Homelessness assessment	This audit will provide assurance that systems and controls for carrying out homelessness assessment are sound and secure.	15	Audit Needs Analysis And Management Request	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
New Town Hall Building Project	To provide assurance that there are sound and secure project management arrangements in place to manage and monitor various contractual agreements for commissioning and building of the new town hall.	15	Audit Needs Analysis  Corporate Risk DRCPD0022	<i>Creating and maintaining a vibrant, successful place. A transformed council, making best use of resources and with an outward facing culture.</i>
Governance around Alternative Housing Delivery Options	This will be a review of governance arrangements put in place for the delivery models for providing additional housing.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>145</b>		

## Corporate Director - Resources

	<b>Broad Scope</b>	<b>Audit days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Monitoring of MSG Grant Programme	We will test the system for monitoring the delivery of the 2015-18 MSG grant programme to provide assurance that monitoring visits are effectively carried out and the probity around grant usage is monitored for delivery of projects and for value for money.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Request for Quotation (RFQ) System	This audit will review the controls around the newly implemented RFQ system to ensure that officers comply with the set procedures for procuring works, goods and services under £25,000.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
IR35 - Off-payroll Engagement of Individuals	The IR35 legislation specifically challenges those people who supply their services to Council via their own company, but are not recognised by HMRC, as 'self-employed' and therefore should be taxed s PAYE. This audit will examine controls for identifying individuals who may fall in this category.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Income Maximisation project	This review will provide audit advise and input into the income maximisation project to provide assurance that the project is delivering its key objectives and outputs.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>

	<b>Broad Scope</b>	<b>Audit days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Procurement Compliance	To carry out compliance testing to provide assurance that the Council's Procurement Procedures are fit for purpose and that compliance with procedures are controlled and monitored to achieve the objectives of the Council.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Treasury Management	Annual Review of key financial system	10	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
HR/payroll	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
General Ledger	Annual Review of key financial system	10	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Creditors	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Debtors	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
NNDR	Annual Review of key financial system	10	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>

	<b>Broad Scope</b>	<b>Audit days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Pensions	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Housing and Council Tax Benefit	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Housing Rents	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Council Tax	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Revenue and Capital Budgetary Control	Annual Review of key financial system	15	Part of Managed Audit approach	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
ICT Contract Monitoring	This audit reviewed the arrangements in place for an effective client monitoring of the ICT contract with Agilisys.	15	Audit Needs Analysis Corporate Risk ICT-CT0010	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>240</b>		



## Tower Hamlets Homes

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
New Starters and Leavers	The objective of this audit is to review systems and procedures for controlling new starters and leavers to provide assurance that the controls around new starters and leavers are sound and secure.	15	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Staff Expense Claims	This audit will provide assurance that systems and controls for processing, approving and paying staff expenses are sound and secure.	10	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Temporary Accommodation to Homeless	This review will provide assurance that management and administration processes of the transferred function are sound and secure.	15	Management Request	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
IR35 - Off-payroll Engagement of Individuals	The IR35 legislation specifically challenges those people who supply their services to Council via their own company, but are not recognised by HMRC, as 'self-employed' and therefore should be taxed s PAYE. This audit will examine controls for identifying individuals who may fall in this category	10	Management Request and Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management of Housing Disrepairs	This audit will review systems and controls for managing and controlling housing disrepairs.	10	Audit Needs Analysis and Management Request	<i>Creating and maintaining a vibrant, successful place.</i>



<b>Tower Hamlets Homes</b>	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b>Link with Council's Strategic Plan Themes</b>
Post Inspections of Major Works	This audit will review systems and controls for planning, identifying, undertaking and reporting the results of the post inspections of works undertaken as part of the Major Works programme.	10	Audit Needs Analysis	<i>Creating and maintaining a vibrant, successful place.</i>
Financial Systems	This audit will review the robustness of key financial systems such as income and expenditure systems, cash flow forecasting, Treasury Management, VAT and reconciliation processes, as part of the annual assurance on the soundness of financial control across THH.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Final Accounts Audit	To carry out final account audits referred to Internal Audit for certification	10	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Follow Up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	15	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Contract Audits	We will review the effectiveness of systems and controls for procuring, managing and monitoring building contracts to ensure effective cost control and programme control.	20	Audit Needs Analysis	<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Total</b>		<b>130</b>		

	<b>Broad Scope</b>	<b>Audit Days</b>	<b>Audit Source</b>	<b><i>Link with Council's Strategic Plan Themes</i></b>
<b>Information Technology</b>		<b>100</b>		
<b>Other</b>				
Follow up Audits	We will undertake follow up audits to ensure that the agreed internal audit recommendations have been implemented and that the control environment has improved.	100		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
Management Time	Provision for management time to direct, control and monitor the work of the team.	50		<i>A transformed council, making best use of resources and with an outward facing culture.</i>
<b>Grand Plan Total</b>		<b>1475</b>		

Assessment Categories

The Risk Assessment model takes account four assessment categories to produce a risk index for each auditable area. The auditable area is scored in each category using assessment criteria to gauge the degree of risk or materiality associated with the particular area. The table below summarises the proposed four assessment categories and what each is intended to measure.

Assessment Category		Measure
A	Corporate Importance – Objectives/Priorities	Corporate materiality
B	Corporate Sensitivity – Impact	Reputational materiality
C	Inherent Risk	Inherent vulnerability
D	Control Risk	Control effectiveness

The full definition for each category and the scoring criteria are described below.

Assessment Process

Assessment was based on professional judgement after careful consideration of the key risks to the authority with the Executive Directors and other key officers, a review of current and previous audit plans and strategic issues facing the authority. The following steps were followed in performing the risk assessment:

Step	Action
1	Select the System and Corporate Controls to be risk assessed, to ensure a clear and unambiguous understanding of the area under review. This is normally called the Auditable Area
2	Select the most appropriate assessment criterion and therefore the score in each assessment category
3	Record the scores.
4	Compute the risk index by reference to the following section

Calculation of the Audit Risk Index

Internal Audit risk is the product of risk and materiality. In valuing materiality it is appropriate to add the constituent assessments of Corporate Importance and Corporate Sensitivity to generate a Materiality Factor on a scale of 100.

Total Risk is the product of inherent and control risk. For the purposes of simplicity in this model Inherent Risk is assessed on a scale of 5-10 and Control Risk on a scale of 2-10. The minimum Risk Factor is produced by multiplying these components is therefore 10% (2 x 5).

The Audit Risk Index for each auditable area is, therefore, the Materiality Factor multiplied by the Risk Factor.

### Results of the Audit Risk Assessment

The structured list of auditable areas with illustrative assessment scores is recorded and the summarised scores used to give the Risk Factor and Materiality Factor and the resultant Audit Risk Index.

The list of auditable areas is then ranked by reference to the Audit Risk Index and grouped as high, medium or low priority. The top third are considered to be high priority, the next medium priority, and the bottom third low priority.

## Internal Audit Risk Assessment Matrices

A CORPORATE IMPORTANCE This aspect considers the effect on an organisation of any inability to achieve management defined service objectives should the system or process fail. This aspect also takes into account the financial exposure or materiality of the area. The consequential impact, either directly or indirectly, on other systems and processes is also relevant to the assessment. Overall it is a measure of the extent to which the organisation depends on the correct running of the system to achieve its strategic objectives.					
Score	Risk to Department, Corporate and/or Service Objectives		Operational Risk Exposure		Financial Risk Exposure
10	Negligible impact on achievement of service objectives. This would still be achieved with minimum extra cost or inconvenience.	or	Minor inconvenience	or	Under 2% of total operating income or net assets.
20	Service objectives only partially achievable without compensating action being taken or reallocation of resources.	or	Difficult to recover	or	Between 2% and 10% of operating income or net assets.
30	Unable to achieve service objectives without substantial additional costs or time delays or adverse effect on achievement of national targets / performance indicators.	or	Permanent loss of data	or	Between 10% and 30% of operating income or net assets.
40	Unable to achieve service objectives resulting in significant visible impact on service provision such as closure of facilities.	or	Unable to restore system	or	Between 30% and 50% of operating income or net assets.
50	Unable to achieve service objectives, resulting in inability to fulfil corporate obligations.	or	Organisation unable to function	or	Over 50% of total operating income or net assets

## Internal Audit Risk Assessment Matrices

B Corporate Sensitivity This aspect takes into account the sensitivity / confidentiality of the information processed, or service delivered by the system, or decisions influenced by the output. It also assesses any legal and regulatory compliance requirements. The measure should also reflect any management concerns and sensitivities.

Score	Risk to Public Image		Risk of Adverse Publicity		Risk to Accountability		Risk of non-legal Compliance
10	Negligible consequences					or	No regulatory requirements
20	Some public embarrassment but no damage to reputation or standing in the community	or	Information would be of interest to local press			or	Minimal regulatory requirements and limited sensitivity to non-compliance
30	Some public embarrassment leading to limited damage	or	Information would be of interest to local MPs			or	Modest legal and regulatory requirements
40	Loss of credibility and public confidence in the service concerned	or	Incident of interest to National Press	O r	Incident potentially leading to the dismissal or resignation of the responsible functional manager	or	Extensive legal and regulatory requirements with sanctions for non-compliance
50	Highly damaging with immediate impact on public confidence	or	Incident of interest to the Audit Commission, government agencies	O r	Incident potentially leading to the resignation or dismissal of a Chief Officer	or	Possible court enforcement order for non-compliance

## Internal Audit Risk Assessment Matrices

C Inherent Risk This aspect considers the inherent risk of the system, service, process or related assets to error, loss, irregularity, inefficiency, illegality or failure. The particular service sector, nature of operations and the pace of change will also affect the level of inherent risk. Similarly the relative complexity of the system will influence the inherent risk or error. The inherent vulnerability of a system, service or process cannot be altered, only mitigated by the quality of controls considered in section D.

Score	Inherent Risk – Vulnerability		Risk of Error due to System Complexity		Risk resulting from Pace of Change		Risk to Asset Security
5	Low vulnerability		Simple system with low risk of error	or	No changes planned	or	Undesirable low value assets not at risk of fraud or loss
6	Medium or low inherent risk	or		or	Limited changes planned with reasonable timescale		
7	Medium vulnerability	or	Moderately complex system with medium risk of error	or	Moderate level of change over medium term		
8	Medium to high inherent risk	or		or	Significant level of change with restricted timescale		
10	Highly vulnerable	or	Complex system with high risk of error	or	Extensive changes planned with short timescale	or	Highly desirable assets exposed to high risk of fraud or loss

## Internal Audit Risk Assessment Matrices

D Control Risk This aspect assesses the level of control risk based upon the results of past audits of the control environment under review. This aspect also takes into account of the operating history and condition of systems and processes and knowledge of management controls to minimise exposure to risk. CRSA and extensive Control Risk Workshops under the leadership of the Council's Risk Manager could support evaluation.

Score	History of Risk Management Success		Management Risk and Control Environment		Condition of Risk Management Controls
2	No history of control weakness	or	There is effective risk management in place and adequate controls operated by risk-aware management	or	Effective controls and robust attitude to the management of all material risks. Embedded risk management culture
4	No history of significant weakness	or	Good management risk and control environment	or	Stable system with history of reliability and controls. Risk management issued considered regularly.
6	No high risk issues outstanding from the previous audit/investigation/best value/external review	or	No knowledge of management risk and control environment	or	Risk management and system controls not validated.
8	Some significant problems were identified and are known to be outstanding from the previous audit/review	or	Some significant concerns have been expressed by management (through Controls Risk Workshops)	or	Technical health of system of risk management and controls in doubt.
10	Major weaknesses in risk management and controls were identified and are known to be outstanding	or	Major concerns have been expressed by management (through Controls Risk workshops)	or	Obsolete system with history of problems and ineffective control. Little or no work undertaken on risk management.



# Internal Audit Mission and Charter

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The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation.

The Mission of LBTH Internal Audit Service is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

The Internal Audit Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.

The Charter will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.

## Purpose

Internal Audit is defined by the Institute of Internal Auditors' International Professional Practices Framework as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Internal audit provides independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Chief Financial Officer to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems. Further information around the purpose of Audit is set out in the Council's Financial Regulations (D3) and Financial Procedures (CR4).

**Authority**

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

**Responsibility**

The Council's Head of Internal Audit (The Head of Audit and Risk Management) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit Committee, on the adequacy and the effectiveness of the internal control system for the whole Council. In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes
- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- To investigate allegations of fraud, bribery and corruption

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit will undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Tower Hamlets Homes. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

## Reporting

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Corporate Management Team (CMT) and the Audit Committee (AC). Both documents must then be presented to these bodies annually.
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of CMT. It is then presented to CMT and AC annually for noting and endorsement.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the AC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to CMT and AC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC.
- Results from internal audit's Quality Assurance and Improvement Programme will be reported to both CMT and the AC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to CMT and the AC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

**Independence**

The Head of Internal Audit (the Head of Audit and Risk Management) has free and unfettered access to the following:

- Chief Financial Officer (Corporate Director, Resources)
- Head of Paid Service
- Chair of the Audit Committee (AC)
- Monitoring Officer
- Any other member of the Corporate Management Team

The independence of the Head of Internal Audit is further safeguarded by ensuring that his annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the AC contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the Governance Service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the AC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

**Due Professional Care**

The Internal Audit function is bound by the following standards:

- Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Head of Audit and Risk Management and the Audit Manager are required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

# The Internal Audit Strategy

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**This Strategy sets out how the Council's Internal Audit service will be delivered in accordance with the Internal Audit Charter.**

**The Strategy will be reviewed annually and presented to the Audit Committee and to Corporate Management Team for final approval.**

## **Internal Audit Objectives**

Internal Audit will provide independent and objective assurance to the organisation, its Members, the Corporate Management Team (CMT) and in particular to the Corporate Director, Resources to support him in discharging his responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

It is the Council's intention to provide a best practice, cost efficient internal audit service.

## **Internal Audit's Remit**

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit (the Head of Audit and Risk Management), Internal Audit will:

- Provide management and members with an independent, objective assurance and consulting activity designed to add value

and improve the Council's operations.

- Assist the Audit Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service; and
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit must ensure that it is not responsible for the agreed design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

### **Service Delivery**

The Service will be delivered by the Council's internal audit team and the audit partner (currently BDO Binder Hamlyn) under the direction of the Council's Head of Internal Audit and Risk Management and supported by the Audit Manager.

To ensure that the benefits of the Internal Audit service are maximised and shared as best practice, Tower Hamlets will participate in the London Audit & Anti-Fraud Partnership to work with other local authorities on a shared service basis. This includes appropriate: resource provision, joint working, audit management & strategy and a range of value added services.

### **Internal Audit Planning**

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with the Council's Management Team (CMT) and management
- The Council's Risk Register
- Outputs from other assurance providers
- Requirements as agreed in the joint working protocol with External Audit

The Head of Internal Audit and Risk Management or his deputy will attend all Departmental Management Team meetings as part of the annual planning process to ensure that management views and suggestions are taken into account when producing the audit plan.

The Internal Audit Plan 2017/18 is composed of the following:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Departments' own risk processes and will increasingly include work in areas where the Council services are delivered with other organisations.

Internal Audit planning is already significantly based on the Council's risk register. Internal audit will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process.

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.

- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.

- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.

- **Contract Audit:** Audits of the Council's procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.

- **Fraud and Ad Hoc Work:** A contingency of audit days are set aside to cover any fraud and irregularity investigations arising during the year and additional work due to changes or issues arising in-year.

- **Knowledge and Insight:** The Head of Audit and Risk Management, in conjunction with the Internal Audit and the Corporate Fraud teams, will use the knowledge and insight gained of the organisation and carry out reviews in specific areas.



### **Follow-up**

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to management and to the Audit Committee on a quarterly basis.

Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

### **Reporting**

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental and corporate management on a quarterly basis. Summary reports are also provided to the Audit Committee four times per year. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

# The Internal Audit Process

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## **The Pre-Audit Stage**

Based on the audit timetable, which has previously been agreed, Internal Audit Team will give two weeks notice to the appropriate Corporate Director and Service Head (the Audit Owner) of an impending audit review and issue an Audit Brief. The Audit Brief will also detail how the audit relates to the agreed audit plan. The Audit Owner has an opportunity to comment on the Audit Brief and raise any areas of concern.

The Audit Owner will ensure that Internal Audit is provided with a written agreement or otherwise to the Audit Brief within two weeks following the receipt of the draft by the Audit Owner.

## **During the Audit**

At this stage Internal Audit will keep the Auditee informed of key findings found during the course of the audit. Where an officer has not been able to provide information requested, Internal Audit will refer matters to the Audit Owner.

The Auditee will ensure that the auditor is provided with all the resources and facilities, including information requested, to facilitate the smooth progress of the audit, including responding to any auditor enquiries promptly.

## **Post Audit Stage**

Upon conclusion of the audit field work Internal Audit will present a Draft Audit Report to be discussed at the audit exit meeting with the Audit Owner. At the audit exit meeting, the findings will be discussed, along with any recommendations for improvement.

Following the audit exit meeting, LB Tower Hamlets Internal Audit will issue a formal Draft of the Audit Report which includes a Management Action Plan of Recommendations to the Audit Owner within three weeks following the completion of the audit exit meeting.

The Audit Owner has three weeks to respond to the Draft Audit Report by completing the Management Action Plan of Recommendations, including listing responsible officers and proposed completion dates. Upon receipt of the agreed Action Plan, a Final Report will be issued to all parties concerned.

The Audit Owner will then enter the agreed management actions and target dates into the Audit Tracker System, and monitor the progress in implementing the recommendations.

The LB Tower Hamlets Internal Audit will present a Summary of Findings from recently issued Final Audit Reports to the Audit Committee. The Audit Owner will have the opportunity to add a response to the Summary of Findings before this report is presented to the Audit Committee.

# The Monitoring Process

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**Follow-up audits** will be conducted six months after the issue of the Final Report, and a follow up audit report will be issued showing the progress on implementing the agreed recommendations.

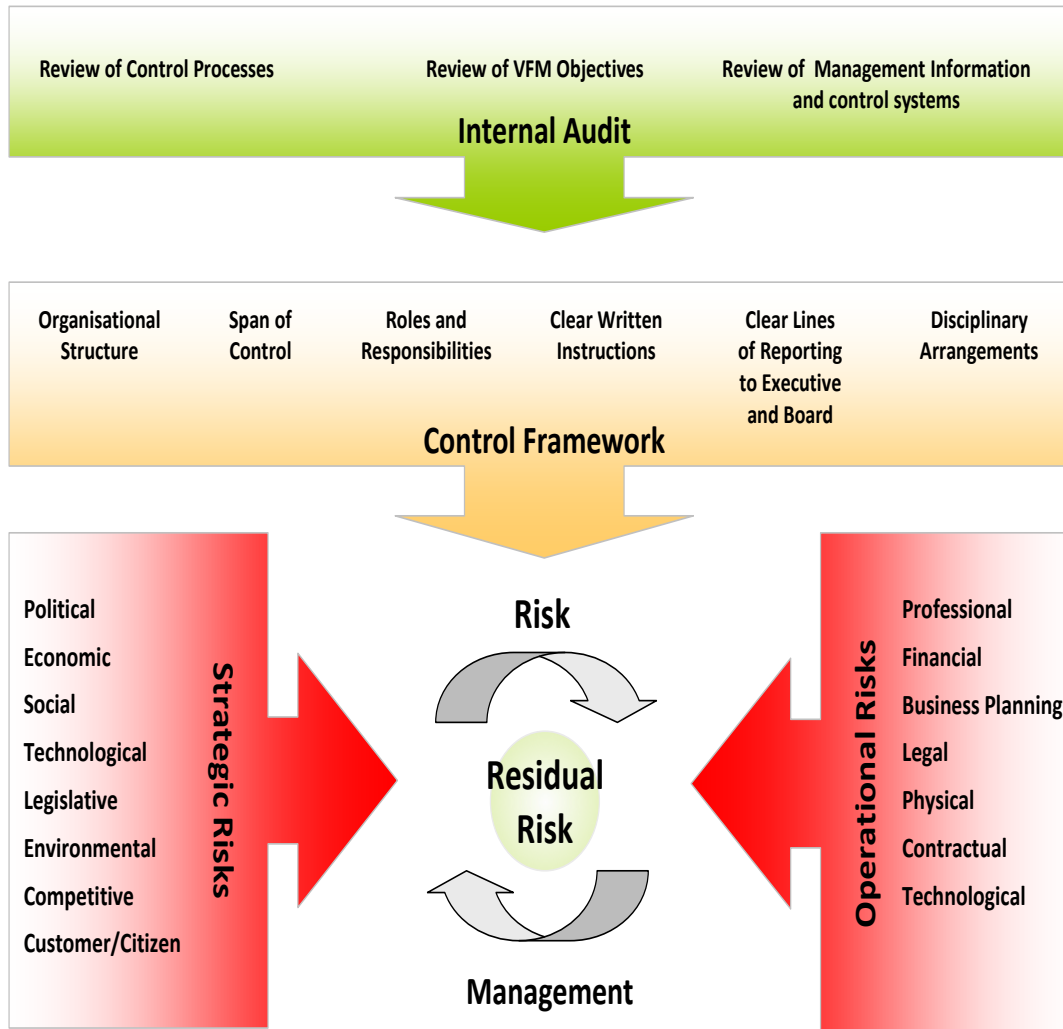
Internal Audit recommendations are classified as follows:

Category 1 – High Priority - 100% of recommendations to be implemented within six months

Category 2 – Medium Priority – 95% of recommendations to be implemented within six months

# Summary

## Appendix 6



**Internal Audit:** Will provide assurance that risk management processes and internal controls are operating effectively, ensure major business risks are being managed effectively, and that governance arrangements are operating effectively.

**Control Framework:** A matrix of control mechanisms will be developed to ensure that every member of staff is aware of their responsibility in managing risk, and a reporting framework will ensure that the Senior Management Team and the Board have a clear view of the effectiveness of the controls in place.

**Risk Management:** The Risk Register will be reviewed on a periodic basis to reassess the residual level of risk for the strategic risks identified in the first year of operation; new risks added as they become evident.

## Definitions

**Risk** “Any issue which could impact on an organisation’s ability to meet its objectives”

**Risk Management** Risk management is a planned and systematic approach to the identification, analysis and control of risks that challenge and threaten the achievement of the objectives of the organisation. Risk management makes it possible to determine whether the risks pose a large enough threat and the innovations a big enough opportunity, to implement mitigation techniques.

**Objective** Is to implement an effective risk management framework that ensures that risks are identified and managed to an acceptable level and that opportunities are fully exploited, whilst minimising, financial loss, service disruption, bad publicity, reputation loss, claims for compensation and threats to the public and staff.

**Our Policy:** We believe that by managing risks effectively, we at LB of Tower Hamlets will be in a stronger position to deliver our strategic and operational objectives. By taking advantage of opportunities and managing them well, we will be in a better position to improve services and give our stakeholders better value for money.



## **Objectives of Risk Management:**

- Ensure that systems are in place to identify, track and report upon existing and emerging risks that could damage the interest of our business and our stakeholders.
- Ensure that risk management is embedded throughout the organisation, creating an environment where all staff assumes responsibility for managing risk.

## **These Objectives will be Achieved by:**

- Establishing clear roles, responsibilities and reporting lines within the organisation for risk management;
- Providing opportunities for shared learning on risk management across the organisation;
- Developing and maintaining systems for identifying and evaluating all significant risks;
- Developing and maintaining a framework for allocating resources to identified priority risk areas;
- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training;
- Incorporating risk management considerations into Best Value and service reviews and business planning;
- Put in place review and monitoring arrangements to assess the effectiveness of our mechanisms and arrangements.

**To Emphasise the Organisation’s Working Commitment to Risk Management, the Risk Management Mission Statement is as Follows:**

“London Borough of Tower Hamlets recognises that it has a responsibility to manage opportunities and risks in a structured manner in order that LB Tower Hamlets will better achieve its corporate objectives and enhance the value of services it provides to the Community”.

The Audit Committee, Corporate Management Team (CMT) and the Directorate Management Team (DMT) will have overall responsibility for risk management and will be consulted and kept informed as to the progress of the implementation of the strategy on at least an annual basis.



## Roles and Responsibilities

<p><b>Audit Committee</b></p>	<p>The Committee's primary role is to review and conclude upon the adequacy and effectiveness of the Council's overall internal control system. In performing this role the Committee's work predominantly focuses upon the framework of risks, controls and related assurances that underpin the delivery of the Council's objectives.</p>
<p><b>Corporate Management Team</b></p>	<p>One of the roles of the CMT is to work on a cross-directorate basis to ensure that the Council has an effective risk management arrangement in place to achieve its objectives and to consider quarterly reports on the key strategic risks faced by the Council and how these risks are being managed and mitigated.</p>
<p><b>Corporate Director of Resources</b></p>	<p>As S.151 officer, the Corporate Director of Resources is responsible for the proper administration of the financial affairs of the Council. The requirement to have an Internal Audit function derives from S.151 of the Local Government Act 1972. As such the Corporate Director of Resources supports the Council and its departments in ensuring that the arrangements made for financial management, risk management and internal control systems are sound and secure.</p>
<p><b>Corporate Directors</b></p>	<p>The Corporate Directors have the operational responsibility for ensuring that there are sound procedures in place at Directorate level for effective financial management, risk management and internal control systems.</p>

## **Risk Management Action Plans**

One of the key risk management objectives is the effective management of the organisation's risks, both strategic and operational. This has been achieved by the sessions to identify and profile the organisation's significant strategic risks.

Once this task has been compiled, SMT and the Audit Committee will be asked to comment on these risks and the risk assessment process. In relation to the operational risks, each Director has facilitated and co-ordinated a similar risk assessment exercise in order that the significant operational risks have been accurately identified profiled and managed. The aim of such a process is that it will eventually form part of each Division's annual business planning process.

Coming out of this process, will be risk management action plans relating to the most serious significant risks, i.e. those where the existing levels of internal control are seen as inadequate. The above assessments (both strategic and operational) will be a yearly process with tracking and monitoring of risks on an annual basis.

The Director of Resources will receive copies of each Division's operational risk management action plans in order that any cross-departmental risks can be picked up and managed accordingly. The Director of Resources will also monitor the risk improvement strategy to ensure that progress is made against the key significant risks.

Similarly, the same risk assessment programme can be adopted when services are going through the Best Value programme. A risk management pack can be included in the Best Value documentation. It is generally accepted that each Directorate must be seen to be managing its risks in order to demonstrate Best Value.

## Classification of Risk

Strategic Risks		Operational Risks	
<p><b>Political</b></p> <p>Wrong strategic priorities Not meeting Government agendas Too slow to innovate/modernise Decisions based on incomplete information Unfulfilled promises to Council Failure to recruit a suitable CEO</p>	<p><b>Economic</b></p> <p>General economic problems Regional economic problems Treasury risk Missed business or service opportunities</p>	<p><b>Professional</b></p> <p>Failure to recruit/retain staff Lack of training Over-reliance on key officers Inefficient management processes Inability to implement change Lack of employee motivation Bad management of partners</p>	<p><b>Financial and business planning</b></p> <p>Failure of major project(s) Failure to prioritise, allocate appropriate budgets and monitor Failure to implement effective partnering contracts for property and estate services</p>
<p><b>Social</b></p> <p>Failing to meet the needs of disadvantaged Impact of demographic changes Employment challenges Lack of development of staff Failures in partnership working</p>	<p><b>Technological</b></p> <p>Obsolescence of technology Security policies Breach of confidentiality Failure in communications</p>	<p><b>Legal</b></p> <p>Not meeting statutory duties Breach of confidentiality/DPA Failure to comply with European Directives on procurement of works, supplies, and services Failure to implement new legislation</p>	<p><b>Physical</b></p> <p>Attacks on personnel Loss of tangible assets Non compliance with health &amp; safety law Loss of physical assets Local and national emergencies</p>
<p><b>Legislative</b></p> <p>Judicial review Human Rights Act breaches Intervention by regulatory bodies Inadequate response to new legislation Poor response to Audit Commission</p>	<p><b>Environmental</b></p> <p>Impact of sustainability policies Noise, contamination and pollution</p>	<p><b>Contractual</b></p> <p>Over-reliance on key suppliers/contractors Failure of outsource provider Quality issues Non-compliance with procurement policies</p>	<p><b>Technological</b></p> <p>Failure of big technology project IT system crashes affect services Breaches of security of network and data Bad management of intranets and websites</p>

<b>Competitive</b> Failure to show best value Failure of bids for government funds	<b>Customer/Citizen</b> Lack of appropriate consultation Bad public and media relations		
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