

AUDIT COMMITTEE

Thursday, 8 November 2018 at 6.30 p.m.

Committee Room One - Town Hall Mulberry Place

This meeting is open to the public to attend.

Members:

Chair: Councillor Val Whitehead

Vice-Chair: Councillor Muhammad Harun

Councillor Andrew Wood, Councillor Tarik Khan, Councillor James King, Councillor Puru Miah, Councillor Victoria Obaze and Councillor Bex White

Deputies:

Councillor Peter Golds, Councillor Ruhul Amin, Councillor Eve McQuillan and Councillor Zenith Rahman

[The quorum for this body is 3 Members]

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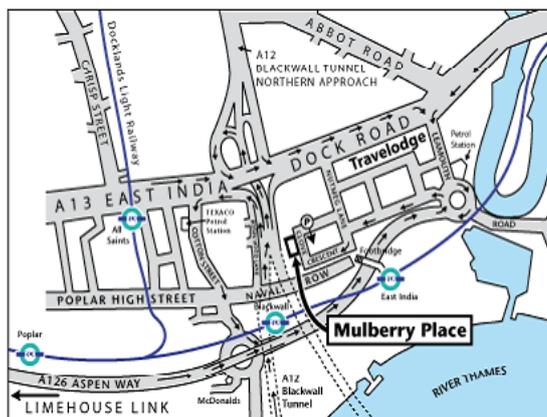
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APOLOGIES FOR ABSENCE

- | | | |
|-------------|--|----------------|
| 1. | DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST | 5 - 8 |
| | 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. | |
| 2. | MINUTES OF THE PREVIOUS MEETING(S) | 9 - 16 |
| | To confirm the minutes of the Audit Committee held on 25 th July 2018. | |
| 3. | DELOITTE INTRODUCTIONS & ITEMS FOR CONSIDERATION | |
| 4. | TOWER HAMLETS ITEMS FOR CONSIDERATION | |
| 4 .1 | Whistleblowing Policy and Processes - Update and Monitoring Information | 17 - 20 |
| 4 .2 | Risk Management Update 2018/19 Quarter 2 | 21 - 42 |
| 4 .3 | Internal Audit and Anti-Fraud Progress Report | 43 - 60 |
| 4 .4 | Annual Audit Letter 2017-18 | 61 - 74 |
| 4 .5 | Treasury Management Mid-Year Report for 2018/19 | 75 - 92 |
| 5. | ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT | |

Next Meeting of the Committee:

Thursday, 31 January 2019 at 6.30 p.m. to be held in the Committee Room One - Town Hall Mulberry Place

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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 for Governance and Monitoring Officer
Tel: 020 7364 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 6.30 P.M. ON WEDNESDAY, 25 JULY 2018

MP702 - TOWN HALL MULBERRY PLACE

Members Present:

Councillor Val Whitehead (Chair)
Councillor Muhammad Harun (Vice-Chair)
Councillor Tarik Khan
Councillor James King
Councillor Puru Miah
Councillor Victoria Obaze
Councillor Bex White

Apologies:

Councillor Andrew Wood

Others Present:

Andrew Sayers – KPMG
Antony Smith – KPMG
Shoolin Yagnik – KPMG

Officers Present:

Agnes Adrien – (Team Leader, Enforcement & Litigation, Legal Services)
Kevin Miles – (Chief Accountant, Resources)
Tony Qayum – (Anti-Fraud Manager, Risk Management, Resources)
Brian Snary – Financial Accountant - Resources
Anthony Sotande-Peters – (Interim Strategic Risk Advisor, Risk Management and Audit)
Steven Tinkler – (Interim Service Head, Risk Management Service)
Farhana Zia – Senior Committee Services Officer

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Councillor Val Whitehead declared she is a trustee and treasurer of Toyhouse library, which receives some grant funding from the council. However she does not have any pecuniary benefit from it.

Councillor Bex White declared she worked for a charity in Tower Hamlets which did not receive any council funding and her husband worked as a GP in Newham.

Councillor Muhammad Harun declared he was Chair of the Pensions Committee.

2. APPOINTMENT OF VICE-CHAIR

Councillor Val Whitehead nominated Councillor Mohammad Harun as vice-chair for the Audit Committee, which was seconded by Councillor Bex White.

Councillor Tarik Ahmed nominated Councillor Puru Miah for vice-chair which was seconded by Councillor Puru Miah.

The members voted on the nominations put forward and Councillor Mohammad Harun was elected as vice-chair of the Audit Committee by 4 votes in favour out of 6.

The Committee **RESOLVED** :

- Councillor Mohammad Harun as vice-chair of the Audit Committee.

3. MINUTES OF THE PREVIOUS MEETING(S)

The minutes from the 29th March 2018 meeting were agreed to be an accurate record of the meeting and were signed off by the Committee.

4. KPMG ITEMS FOR CONSIDERATION

Andrew Sayers of KPMG presented the external Audit Report in accordance with their responsibilities under the National Audit Office code of Audit Practice and the terms of the Public Sector Audit Appointments Ltd (PSAA) engagement.

Mr Sayers stated the report provided opinion in two areas (1) the financial statements audit and (2) value for money conclusion. He informed members the deadline for submission was the 31st July and therefore it was important to ensure this was met.

He said no adjustments were made during the audit and no new recommendations were forthcoming. He referred members to page 12 of the supplemental agenda and the significant risks identified. Mr Sayers provided comment on each category of the audit and concluded the authority had met the requirements.

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

- Page 14 – refers to Grant payments. What impact will the change from mainstream grant funding to commissioning will have on making payments?
- To get on track there is still work to do. What action is required to ensure the Council achieves this?
- Page 14- refers to 'unlawful' payments. Which of the three figures are considered as unlawful?
- Page 19 - £11.4m – Is this money held in reserve?

Members of the Audit Committee **NOTED** the presentation and thanked the KPMG Officers for attending the meeting.

5. TOWER HAMLETS ITEMS FOR CONSIDERATION

5.1 Terms of Reference, Quorum, Membership and Dates of Meetings

Farhana Zia, Senior Committee Officer presented the Terms of reference, Quorum, Membership and dates of meeting report.

She informed members the report confirmed the decision made at the Annual General Meeting of the Council held on the 23rd May 2018, which approved the proportionality and the establishment of Committees, Sub-Committees and Panels of the Council. She said the report was for noting by members and sought confirmation for the start time of the Audit Committee as 6:30 p.m.

Members of the Committee **NOTED** the contents of the report and agreed to meet at 6:30 p.m. for the remaining meetings in the municipal calendar.

5.2 Annual Risk Management Report and Q1 Risk Management Update

Steven Tinkler, Interim Head of Internal Audit and Risk Management introduced this report stating the purpose of the report was to inform members of the ways in which risks are identified and managed. The report provided a summary of the risk activities over the first quarter 2018/19 and appended at Appendix 1, the Corporate Risk Register.

Mr Tinkler said considerable work had been undertaken to make Risk Management a 'core element' of activities undertaken within the Council services provided and awareness sessions has been conducted in order to engage with as many staff as possible. He referred members to the table at 5.2 – page 32 and said the current corporate risk register contained a total of 12 risks, with five rated red, five rated amber and two as yellow.

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

- In reference to page 32, was the risk CSDSC0014 added following the Ofsted findings?
- Risk ASD0015 – Have any cases been identified which have resulted in 'Death or serious harm'?
- Risk CSDR0011 refers to Christ Church Primary School. Why is this risk still on the register and why is it taking so long to resolve?
- It would be helpful to have a comparison of the Corporate Risk register to previous years, so to establish which risk are alive and how long it takes to resolve them. Is Tower Hamlets facing a risky time?

- What is the process of identifying new risks?

The Audit Committee **NOTED**:

1. The corporate risks and recommended changes and updates as necessary;
2. The content of the Annual Risk Management report 2017/18 and agreed actions at section 9 of the report; and
3. Requested risk owner(s) with risks requiring further scrutiny provide a detailed update on the treatment and mitigation of the risk including impact on the corporate objectives at its October meeting.

5.3 Annual Report of the Head of Internal Audit

Steven Tinkler, Interim Head of Internal Audit and Risk Management presented the Annual Report of the Head of Internal Audit. Mr Tinkler stated this report took a retrospective look at the achievements of internal audit, the audits undertaken and the assurances achieved.

He said the report was a requirement of the Public Sector Internal Audit Standards (PSIAS), which gave Members an opinion on the audits undertaken plus the Annual Governance Statement which forms part of the statement of accounts required under the Accounts and Audits Regulations 2015.

In particular Mr Tinkler referred members to the detailed report at page 77 and made reference to page 82, table 1, which showed the percentage of recommendations that had been agreed and implemented. He also referred Members to pages 84/85, table 4, which listed the schools' audited over 2017/18. Mr Tinkler said on average a total of 20 -25 schools are sampled as part of a rolling calendar. Page 85 – table 5, showed the assurance opinions in relation to Tower Hamlets Homes.

Mr Tinkler also stated in relation to point 5.3.1 – page 87 that work was actively on-going in relation to the recommendations identified by the Kent County Council peer review.

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

- In reference to Table 4, Schools Audit why do some schools have 'draft' assurances?
- Have the responses to the draft assurances been followed up?
- In relation to Langdon Park – what are the reasons for a 'substantial' assurance?
- Page 82 – Leaving Care Services achieved a 'nil' assurance. Can you explain why this is?
- *Steven Tinkler referred Members to page 11 of the previous minutes and said this detailed the action taken, however there would be a*

further audit once the formal review by independent consultants had been completed.

- With regard to the schools, are only schools audited? Do you audit school nurseries and day nurseries?
- Do the audit reports show if services/schools are providing value for money?
- Page 83, table 2 refers to 'Creditors' – what does this mean and is it linked to the issues of purchase cards?
- Page 83, table 3 refers to cyber security – what steps have been taken to strengthen ICT security.
- Page 85, Tower Hamlets Homes shows limited assurance with regards to the management of housing disrepairs. What are the reasons for this?
- Page 86, point 4.6.1 refers to the increasing high risk of fraud across the public sector? Do you have Tower Hamlet specific examples?
- Page 87, point 4.6.3 – How is the work of the Counter-Fraud Team publicised?
- There is a perception that we do not publicise anti-fraud. What role can the committee Members play in countering this perception?

Members of the Audit Committee:

1. Considered the content and opinion of the Head of Internal Audit as outlined within the annual report and which included a summary of the audits undertaken, which have not previously been reported.

5.4 Annual Governance Statement

Steven Tinkler, Interim Head of Internal Audit and Risk Management presented the Annual Governance Statement and stated this was a requirement as part of the Annual Accounts and in accordance with the principles of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework.

Mr Tinkler informed members that the Council was required to undertake a review of its corporate governance processes, systems and the assurances on the governance framework to support the creation of an annual governance statement.

The draft Annual Governance Statement was appended at appendix 1 and the updated Code of Corporate Governance was appended in the supplementary agenda.

Members of the Committee made the following comments and asked questions in relation to the report.

- In reference to decision making chart – page 98 main agenda, the explanation box states “As a general rule, Executive Decisions are

most decisions of the Council and are taken by the Mayor/Cabinet or Officers” –should it not say ‘Mayor in Cabinet’

Members of the Audit Committee **AGREED** to:

1. Approve the draft 2017/18 Annual Governance Statement and Action Plan attached to appendix 1 of the report.

5.5 Annual Financial Report 2017-18

Kevin Miles, Chief Accountant presented the Annual Financial Report 2017/18. He said the report comprised of a narrative report by the Corporate Director – Resources, the audited Statement of Accounts and the Annual Governance Statement.

He informed Members they had already heard from the external Auditors, KMPG who reported back on their findings.

Mr Miles said the accounts were published on the Council website on the 31st May 2018 and have been open to public inspection until mid-August. He referred members to the Account’s and the pie charts on pages 3 and 4. He provided members with a summary of the accounts and referred them to the following pages:

Page 6 – the Accounting Statement

Page 7 – Movement in reserves statement

Page 9 – the balance sheet

Page 10 – the cash-flow statement

Page 51 – Members Allowances

Page 52 – Corporate Remuneration Scheme; and

Page 53 – the external audit costs

Members of the Committee asked no questions in relation to this report, as most to their questions were answered as part of the Audit training on the Annual Accounts on the 10th July 2018.

The Committee **AGREED** to:

1. Approve the Annual Financial Report including the Statement of Accounts for the financial year ending 31st March 2018, having regard for the auditor’s Annual Governance Report and the letter of representation.

5.6 Treasury Management Outturn Report for 2017/18

Kevin Miles, Chief Accountant introduced the Treasury Management Outturn Report for 2017/18. He informed members the Treasury Management Strategy Statement and the Treasury Prudential Indicators for 2017/18 were approved by the Council on the 22nd February 2017 as required by the Local Government Act 2003.

Mr Miles said this report was the last in the annual Treasury Management cycle and reported on the investments made on behalf of the Council. He said considers the Council's treasury management investments which are separate to the ones considered by Pensions Committee. These investments are reported to the Audit Committee for them to comment upon the investments, ensuring management arrangement is transparent and in the interest of the Council.

Mr Miles stated interest rates had been a low level and a limited amount of interest had been earned on returns. However the hope was to secure more income from the investments made. He said the Council was looking to increase the long-term investments and was in dialogue with Fund Managers as detailed at 3.9 of the report. Many investment opportunities such as property, bonds and shares are relatively expensive at present, but they give scope to earn higher returns so the Council was working with its external advisors to use external fund managers to access these investments.

Members of the Committee made the following comments and asked questions in relation to the report.

- In relation to Page 153, Table 3 – Bank LOBO – Is the Council part of the legal action being taken by other local authorities?
- What are the risks for the Council, in terms of Treasury Management?
- Has the risk of Brexit been factored in future projections and investments?
- Table 3, page 153 – the Public Works Loan Board – the interest rate is high. Why is this?
- Is our risk appetite governed by statute?
- Point 8 – page 160 states there are no sustainable actions for a greener environment. However is the council investing in greener products and how long is it likely to take to ensure we make socially responsible investments?

Members of the Committee **AGREED** to:

1. Note the contents of the treasury management activities and performance against targets for the year ending 31st March 2018;
2. Note the Council's investments as set out in Appendix 1. The balance outstanding as at 31st March 2018 was £464.82m which includes £24m, pension fund cash awaiting investment and
3. Note the new investment funds as set out in section 3.9 of the report.

6. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no other urgent business discussed.

The meeting ended at 8.20 p.m.

Chair, Councillor Val Whitehead
Audit Committee

Non-Executive Report of the: Audit Committee 8 th November 2018	
Report of: Asmat Hussain - Corporate Director, Governance	Classification: Unrestricted
Whistleblowing Policy and Processes – Update and Monitoring Information	

Originating Officer(s)	Mark Norman – Legal Adviser & Deputy Monitoring Officer
Wards affected	(All Wards);

Executive Summary

This report updates the Committee on the operation and implementation of the revised whistleblowing arrangements introduced by the Council in November 2017.

Recommendations:

The Audit Committee is recommended to:

1. Note the content of this report.

1. REASONS FOR THE DECISIONS

- 1.1 The Committee agreed at its meeting on 16 November 2017 to take on responsibility for oversight of the Council’s whistleblowing arrangements.

2. ALTERNATIVE OPTIONS

- 2.1 Not applicable.

3. DETAILS OF REPORT

Update:

- 3.1 In June 2016 the Council published an updated Whistleblowing Policy as part of its improvements to its organisational culture and it was agreed with the Commissioners that the Council would arrange for an independent audit of the new procedures to take place. Subsequently Grant Thornton were commissioned to undertake the review.

- 3.2 The current Whistleblowing Policy and Procedure were adopted following the outcome of the Grant Thornton review and consideration by the Audit Committee on 16 November last year. In addition to the Policy and Procedure, supporting guidance is also available for Managers and Investigators, in line with the recommendations from the Grant Thornton review and the Code of Practice for employers in respect of Whistleblowing produced by the Department for Business Innovation and Skills ('BIS').
- 3.3 The Council's Intranet page on whistleblowing has been updated and staff briefing sessions on whistleblowing have been arranged during September and October 2018, with further sessions to be arranged. An updated e-learning module has been developed using video coverage and voice overs from the Chief Executive, the Corporate Director Governance, the Head of Audit & Risk and the Divisional Director Human Resources. All staff will be required to complete the e-learning module and it will also be available for Councillors.

Monitoring Information:

- 3.4 The Corporate Director Governance in her capacity as the Council's Monitoring Officer has overall responsibility for the Council's whistleblowing arrangements. All concerns raised under the Whistleblowing Policy are logged and reviewed by a Deputy Monitoring Officer.
- 3.5 In the period 1 June to 12 October 2018, 79 whistleblow concerns were raised predominantly using the online form. The majority of the matters raised were either service complaints or corporate complaints. There were no matters referred for investigation under the whistleblowing arrangements but 5 of the 79 matters received, which were outside the scope of the Whistleblowing Policy, have nonetheless been referred to the Head of Audit & Risk for consideration and possible investigation.
- 3.6 In addition, prior to 1 June 2018, 6 investigations were already being carried out under the whistleblowing arrangements. Of these 6 matters, 4 have been investigated and closed and 2 remain subject to ongoing investigations. Of the 4 closed matters, in 2 cases the concerns raised were not substantiated and in the other 2 cases the concerns raised were partially upheld and recommendations for improvements referred to the appropriate Corporate Director.

4. EQUALITIES IMPLICATIONS

- 4.1 Ensuring a culture exists where individuals feel empowered to raise concerns assists the Council in promoting equality of opportunity.

5. OTHER STATUTORY IMPLICATIONS

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.

5.2 The Council's whistleblowing arrangements are designed to reduce risk and improve transparency, economy and effectiveness.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no additional financial implications from this report.

7. LEGAL COMMENTS

7.1 The statutory basis for whistleblowing is contained 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'.

7.2 The law does not require employers to have a whistleblowing policy in place but it is accepted good practice for the Council, as an employer, to create an open, transparent and safe working environment where workers feel able to speak up. The existence of a whistleblowing policy shows an employer's commitment to listen to the concerns of workers. Further the 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.

7.3 The current whistleblowing arrangements confirm the employee's statutory rights and aim to create an organisational culture where employees feel safe to raise a concern in the knowledge that they will not be victimised in doing so.

Linked Reports, Appendices and Background Documents

Linked Report: NONE

Appendices: NONE

**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

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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>8th November 2018</p>	
<p>Report of: Zena Cooke – Corporate Director Resources</p>	<p>Classification: Unrestricted</p>
<p>Risk Management Update 2018/19 Quarter 2</p>	

Originating Officer(s)	Steve Tinkler
Wards affected	All wards

Executive Summary

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

- a) Details of how we identify and manage risks:-
- b) Summary of the Q2 2018/19 Corporate Risk Register and update since last reported in July 2018:-
- c) A half year update on the risk management activity in the Council.

The report enables the Audit Committee fulfil part of its functions as set out in the Committee’s terms of reference item no.8 – to review the Risk Management arrangements of the authority.

Recommendations:

The Audit Committee is recommended to:

1. Note the corporate risks and recommend changes and updates as necessary;
2. Request risk owner(s) with risks 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.
3. Ensure that an effective risk management framework is in place within the Council and leading the council to be a risk mature, dynamic risk organisation.

1. REASONS FOR THE DECISIONS

Risk Management reports are brought annually and quarterly to provide the Committee with an oversight of the authority's processes to facilitate the identification and management of its significant business risks.

2. ALTERNATIVE OPTIONS

2.1 None.

3. DETAILS OF THE REPORT

What is Risk management	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".
How we manage risks	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.
Risk management framework	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.
Aims	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; Implement and maintain a fluid process for the

	<p>everyday management of risks relevant to our objective's, outcomes, services and assets;</p> <p>Improve the Council's risk management culture and transparent ownership of risks and issues; and</p> <p>Continue to meet the requirements of our external auditor and compliance providers.</p>
How are risk assessed	Assessment is made in terms of how likely a risk is to occur and what the consequences would be if they did.
Risk Classification	<p>Red (Severe) indicates that the risk is very significant and requires immediate and comprehensive management attention;</p> <p>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;</p> <p>Yellow (Material) indicates that the consequences of the risk are of concern although treating the risk will be through contingency planning;</p> <p>Green (Low) indicates the likelihood and impact of the risk relatively unimportant.</p>
How we Manage Key risks	The Council's risk management process is implemented across Directorates, Business Units and Projects. On a quarterly basis each Directorate reviews and updates the risks captured on their risk registers and add any new or emerging risks.
Process	<p>Each risk has been reviewed (and where appropriate risk descriptions revised) by the responsible risk owner. New risks and key changes to current risks are discussed and challenged at Directorate and Corporate Leadership Team meetings. Annually each Directorate is encouraged to undertake a full risk review in line with service and financial planning processes.</p> <p>Corporate risks are included within relevant Directorate and Divisional business plans and are also reported to Audit Committee. This reporting format ensures that the Council's risk management framework remains embedded and that reporting remains "live" across the organisation. Further information on risk reporting can be found in the Council's risk management strategy.</p>

Risk Champions group activities	The risk champions group at their monthly meetings examine and challenge risks on Corporate and Divisional risk registers. New and emerging risk is also considered. Current activities also include risk management training, risk management performance indicators and a review of impact and classification on risk matrix schedule.
Brexit considerations	The Audit and Risk team have been proactive in engaging all sections of the Council to give adequate consideration to the threats and opportunities faced by the Council from the decision to leave the European Union. We have conducted a number of risk workshops with various directorates and divisions within the council in which the impact of Brexit to business objectives have been considered and documented. We also held a risk talk in March 2018 on the impact of Brexit on the Council and local economy with an analysis of the impact on jobs and on migration as well as the strategy to secure the best possible mutual market access for financial services post Brexit. Further consideration was given to the impact of European Union laws on council services such as food regulations and procurement. The current position is to wait for further outcomes from the negotiations between central government and the European Union. The Council has launched a Brexit Commission to look at the likely impact of the UK's departure from the European Union. As part of the work, the Council is also looking at ways to engage with residents of Tower Hamlets who are citizens of European Union.
New and emerging risks	One of the many definitions of emerging risks, are risks that are known to some degree but are not likely to materialise or have an impact for several years. The impact and likelihood of emerging risks are typically very difficult to quantify as they can have far reaching impacts on industry and society overall.
CLT and DD IRM training	The Council is currently working with the Institute of Risk Management (IRM) to deliver training to the corporate leadership team (CLT) and divisional directors (DD's) in transforming the way in which the Council manages risk, using it as a positive enabler of performance and building external stakeholder trust in the Council's ability to manage risk and opportunity.
Half year update on the risk management position	At the 1 st October 2018 there are 439 identified active risks on the Council's risk register. They are 854 mitigating actions to treat the identified risks. By defining its risk appetite, an organisation can arrive at an appropriate balance between uncontrolled innovation and excessive caution. The Council's risk appetite methodology was developed last year. The risk appetite

matrix in table below displays our six risk appetite categories and includes a summary of the corporate risks within and outside of appetite for each category.

Risk Appetite Matrix (based on actual not Target risk scores)

Risk Category	Avoid Risk Score 1-4	Minimal Risk Score 5-9	Cautious Risk Score 10-12	Open Risk Score 15-16	Seek Risk Score 20-25
Finance					2 3 1
Compliance / Regulatory		12		7 8	
Contracts & Partnerships					
Safety & Safeguarding			10 11	6 5 4	
Reputation			9		
Innovation					

Risk Appetite Level	Risk Appetite Description
Avoid	Avoidance of risk and uncertainty is a key objective. Exceptional circumstances are required for any acceptance of risk.
Minimal	Preference for the ultra-safe options that have a low degree of risk and only have a potential for limited benefit.
Cautious	Preference for the safe options that have a moderate degree of risk and may only have limited potential benefits.
Open	Willing to consider all options and choose the one that is most likely to result in successful delivery. Risk will be minimised while also providing an acceptable level of business benefit.
Seek	Eager to realise benefits and to choose options to achieve this despite the higher risk.

4. DETAILS OF REPORT CONTINUED

4.1 The Audit Committee requires the Head of Audit and Risk Management to provide a regular report on the effectiveness of the process deployed to identify, assess, prioritise and mitigate the key risks which could affect the overall achievement of service objectives.

5. Corporate risk register - Revised and updated corporate risk register

The current risk register contains a total of 10 risks, with four rated as red, four as amber and two as yellow. No new risks have been added to the Corporate risk registers in this quarter.

Risk Reference	Risk Description	Risk Appetite Category	Mitigation & comments
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.	High Risk (Score 25) Risk Appetite Threshold: 9	The Council has responded to the adverse Ofsted inspection with a programme of improvements and

	<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>Risk Response: Treat Movement/Change in Risk Score: →</p> <p>Date of last movement: 25-Apr- 17</p> <p>Review date: 15/01/19</p>	<p>developments that are overseen by the Improvement Board.</p> <p>The improvements that have been evidenced through the monitoring visits demonstrate that the oversight of safeguarding practice is strengthened and monitored on a regular basis. This level of monitoring (which is checked by Ofsted via the Monitoring visits) has a clear focus on the safety of young people.</p> <p>Trend: Severe risk since April 2017.</p>
CSDSC0014	<p>Failure to ensure findings and recommendations are implemented.</p> <p>The inspection process produced evidence to show that in the judgement areas of help and protection, in leadership and management and governance and in relation to the LSCB the restorative action that has been taken has been neither sufficiently effective nor timely.</p> <p>The Ofsted inspectors highlighted the need for some urgent and rapid improvement across children's social care.</p>	<p>High Risk (Score 25)</p> <p>Risk Appetite Threshold: 9</p> <p>Risk Response: Treat Movement/Change in Risk Score: →</p> <p>Date of last movement: 3-Apr- 17</p> <p>Review date: 15/01/19</p>	<p>The Council has responded to these adverse inspection judgements by the creation of a multi-agency Improvement Board who meet quarterly, and with a number of sub-groups reporting into the board. This Improvement Board oversees all aspects of service improvement and practice development. The Council has made steady progress with its improvement journey, with the</p>

			<p>four monitoring visits from Ofsted being positive, and the majority of comments confirming that practice is stronger and the Council has a clear and accurate understanding of what it needs to continue to do in order to get to “good” at the point of the re-inspection which is expected in the autumn of 2019.</p> <p>Trend: Severe risk since April 2017.</p>
CSDSC0004	<p>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.</p>	<p>High Risk (Score 16)</p> <p>Risk Appetite Threshold: 9</p> <p>Risk Response: Treat</p> <p>Movement/Change in Risk Score: ↗</p> <p>Date of last movement: 17-Apr-18</p> <p>Review date: 17/10/18</p>	<p>Better co-ordination of intelligence through the appointment of a data analyst</p> <p>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 victim’s work. Further development of Restorative Justice work.</p> <p>A number of strategic groups exist that are</p>

			<p>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. This plan has now been superseded by the decision to create an exploitation team across agencies. The analyst capacity will be located in that team.</p> <p>Trend: Severe risk since April 2018.</p>
CSDSC0005	<p>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.</p>	<p>High Risk (Score 16)</p> <p>Risk Appetite Threshold: 16</p> <p>Risk Response: Treat Movement/Change in Risk Score: →</p> <p>Date of last movement: 15-Jun-18</p> <p>Review date: 30/11/18</p>	<p>Following the spot check in May, we now have put in place remedial actions so that there issues highlighted are no longer concerns. The service has now gone through all historical claims which are not eligible as a result of the spot check and these have now been withdrawn. An action plan has now been agreed with the ministry and they have now released 50% of attachment fees worth £311K. There has been a</p>

			<p>start in the alignment of the local SSF programme to the Early Help Hub in order to enable a dynamic interface between the data driven programme and direct delivery. This position continues to pose a significant financial risk for the council, but also offers an opportunity for integration.</p> <p>Trend: Severe risk since Jun 2018.</p>
ASD0015	<p>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>	<p>Amber Risk (Score 15)</p> <p>Risk Appetite Threshold: 9</p> <p>Risk Response: Treat Movement/Change in Risk Score: →</p> <p>Date of last movement: 11-Aug-17</p> <p>Review date: 29/04/19</p>	<p>4 year (2015 – 2019) adults board strategy.</p> <p>The actions within the SAB strategy aim to mitigate the risks associated with safeguarding.</p> <p>Trend: Amber risk since August 2018.</p>
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</p>	<p>Amber Risk (Score 15)</p> <p>Risk Appetite Threshold: 9</p> <p>Risk Response: Treat Movement/Change</p>	<p>Council housing – unsafe cladding now fully removed from Maltings and Brewster Houses; both blocks are subject to further risk assessment related to</p>

	<p>or scheduled remedial actions to improve fire safety.</p>	<p>in Risk Score: →</p> <p>Date of last movement: 27-Aug-17</p> <p>Review date: 8/12/18</p>	<p>structural issues (concrete panel system); full remediation being drawn up for consideration urgently.</p> <p>Registered Providers of Social Housing – 12 blocks with unsafe ACM, 3 remediated to date, others in various stages of procurement following allocation of MHCLG grant funding via the GLA. 1 non- ACM block identified for permanent rehousing given fire safety concerns related to the internal structure.</p> <p>Private Sector Housing – All blocks with unsafe ACM cladding now identified (57 in total); EHO's monitoring remediation plans for reporting to MHCLG. where no remediation plan in place (currently 9 blocks), EHO's carrying out hazard rating survey under Housing Act powers, to be followed up potentially by</p>
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			<p>enforcement action (improvement notice and/or works in default). MHCLG continue to press owners and developers to cover remediation costs rather than charge leaseholders. Ongoing risk of homelessness if costs are passed on and leaseholders default or forfeit their homes.</p> <p>Trend: Amber risk since August 2017.</p>
RCPCD0022	<p>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).</p>	<p>Amber Risk (Score 15)</p> <p>Risk Appetite Threshold: 16</p> <p>Risk Response: Treat</p> <p>Movement/Change in Risk Score: ▼</p> <p>Date of last movement: 18-Dec-17</p> <p>Review date: 01/12/18</p>	<p>Negotiations are still progressing with the landlord's agents through the consultants appointed by the Council. It is envisaged that agreed heads of terms will be in place by the end of November or early December which will then trigger the report to cabinet for authorisation to proceed early in 2019. The length of the lease extension is being matched to the delivery timescale for the new Town Hall project with a proposed rolling break option in the Council's favour</p>

			<p>from mid 2022 with the service of 6 months' notice. The Council has until the end of June 2019 to negotiate and implement a new lease / lease extension before any formal process under the Landlord and Tenant Act is required.</p> <p>Trend: Amber risk since December 2017.</p>
ASD0017	<p>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.</p>	<p>Material Risk (Score 9)</p> <p>Risk Appetite Threshold: 9</p> <p>Risk Response: Treat</p> <p>Movement/Change in Risk Score: ↘</p> <p>Date of last movement: 16-Aug-18</p> <p>Review date: 16/11/18</p>	<p>Procurement of an IT system to manage Business Continuity plan update Sessions on MEP/BC plans for members and senior managers.</p> <p>Business Continuity test on key LBTH sites.</p> <p>Two additional staff have been identified and trained to perform the on-call rota for Civil Protection. Additionally the CPU Manager has resumed his role on the rota. This has increased the pool of those available and improved resilience.</p> <p>Trend: Material</p>

			risk since August 2018.
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).	<p>Significant Risk (Score 10)</p> <p>Risk Appetite Threshold: 9</p> <p>Risk Response: Tolerate</p> <p>Movement/Change in Risk Score: →</p> <p>Date of last movement: 15-Jun-18</p> <p>Review date: 29/12/19</p>	<p>The court has ruled a 25 year deferral on the restoration order. New management arrangements involving a range of stakeholders are being negotiated with the Church for Christchurch Gardens</p> <p>Trend: Amber risk since August 2014.</p>
RSB0019	Maintaining and strengthen financial viability/balance across MTFS period to 2020.	<p>Material Risk (Score 8)</p> <p>Risk Appetite Threshold: 16</p> <p>Risk Response: Treat</p> <p>Movement/Change in Risk Score: ↘</p> <p>Date of last movement: 24-Feb-17</p> <p>Review date: 02/01/19</p>	<p>Monthly monitoring and management reporting of Council's financial position.</p> <p>Programme Manager for Council Savings Plan in place.</p> <p>Annual External Audit health check on financial processes including budgets and reporting.</p> <p>Trend: Material risk since Feb 2017.</p>

The table below is a breakdown of the number of corporate risks by directorate for quarter 2, 2018/19.

Directorate	Grand Total	8	9	12	15	16	20	25
		Material	Material	Significant	Significant	Severe	Severe	Severe
HAC	2	0	1	1	0	0	0	0
CSD	5	0	0	1	0	2	0	2
PD	2	0	0	0	2	0	0	0
GD	0	0	0	0	0	0	0	0
Resources	1	1	0	0	0	0	0	0
Total	10	1	1	2	2	2	0	2

Table 1. 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:

- **Priority 1: People are aspirational, independent and have equal access to opportunities.**

Outcome: People access a range of education, training, and employment opportunities.

Outcome: Children and young people are protected so they get the best start in life and can realise their potential.

Outcome: People access joined-up services when they need them and feel healthier and more independent.

Outcome: Inequality is reduced and people feel that they fairly share the benefits from growth.

- **Priority 2: A borough that our residents are proud of and love to live in.**

Outcome: People live in a borough that is clean and green.

Outcome: People live in good quality affordable homes and well – designed neighbourhoods.

Outcome: People feel safer in their neighbourhoods and anti-social behaviour is tackled.

Outcome: People feel they are part of a cohesive and vibrant community.

- **Priority 3: A dynamic outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough.**

Outcome: People say we are open and transparent putting residents at the heart of everything we do.

Outcome: People say we work together across boundaries in a strong and effective partnership to achieve the best outcomes for our residents.

Outcome: People say we continuously seek innovation and strive for excellence to embed a culture of sustainable improvement.

Number of Risks associated with corporate Priorities	
People are aspirational, independent and have equal access to opportunities.	2
A borough that our residents are proud of and love to live in.	1
A dynamic outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough.	7
Total	10

6. EQUALITIES IMPLICATIONS

- 6.1 The primary objective of Equality Impact Assessments (EIAs) is to determine the differential impact of a proposed policy, service or business activity and obtain a profile of how it affects different community groups.
- 6.2 Identifying risks and measures that might be employed to mitigate adverse impact is a crucial part of the EIA process.
- 6.3 In order to facilitate mainstreaming of the monitoring and control of identified EIA risks as best practice, departments should include the identified risks and controls measures in the Corporate Risk Register.
- 6.4 Risk owners should be aware of equality implications when delivering the control measures.

7. OTHER STATUTORY IMPLICATIONS

- 7.1 An ineffective audit committee could result in inadequate governance, risk and control arrangements remaining unchallenged, resulting in increased risks of fraud, waste or error and the potential for adverse criticism from the external auditor or other agencies. Full management of the Council's top risks (corporate risks) will allow for effective decisions to be made across the Council's business.
- 7.2 Risk management plays a key role in the civil contingencies bill. The Council has a responsibility to ensure it manages its risk effectively to reduce the risk of incidents affecting the safety of the community.
- 7.3 Environmental issues are at the forefront of decision making, this means that risk owners should only be agreeing to control measures that are environmentally friendly.

8. COMMENTS OF THE CHIEF FINANCE OFFICER

- 8.1 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.

9. COMMENTS OF LEGAL SERVICES

- 9.1 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.
- 9.2 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.

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports
NONE

Appendices

Appendix 1 - Corporate Risk register

Appendix 2 - Corporate Risk Dashboard

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

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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	Richard Baldwin
CSDSC0014 <i>Corporate Level</i>	<p>Failure to ensure findings and recommendations are implemented.</p> <p>The inspection process produced evidence to show that in the judgement areas of help and protection, in leadership and management and governance and in relation to the LSCB the restorative action that has been taken has been neither sufficiently effective nor timely.</p> <p>The Ofsted inspectors highlighted the need for some urgent and rapid improvement across children's social care.</p>	25	16	Richard Baldwin
CSDSC0004 <i>Corporate Level</i>	<p>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</p>	16	12	Jo Turner
CSDSC0005 <i>Corporate Level</i>	<p>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.</p> <p>Reputational risk of being the only Local Authority in England to be withdrawn from the programme.</p>	16	9	Mohammed Jolil
ASD0015 <i>Corporate Level</i>	<p>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>	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>	15	5	Mark Baigent
DRPCD002 <i>Corporate Level</i>	<p>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).</p>	15	10	Richard Chilcott
CSDR0011 <i>Corporate Level</i>	<p>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.)</p>	12	8	Christine McInnes
ASD0017 <i>Corporate Level</i>	<p>Risk that should a major incident take place affecting Council services, there may be a failure to implement an effective response.</p> <p>The risk is increased if there was to be more than one incident at the same time.</p>	9	4	Denise Radley

Basic Risk Report



Risk Ref	Risk Event	Current Risk Rating	Controlled Risk Rating	Risk Owner
RSB0019 <i>Corporate Level</i>	Maintaining and strengthen financial viability/balance across MTFS period to 2020.	8	8	Neville Murton

Probability Impact Heatmap

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

Risk Profile Summary

	No. of Risks	% of Total
	4	40.00%
	4	40.00%
	2	20.00%
	0	0.00%
Total	10	

Risk Profile Quarterly Movements

2018

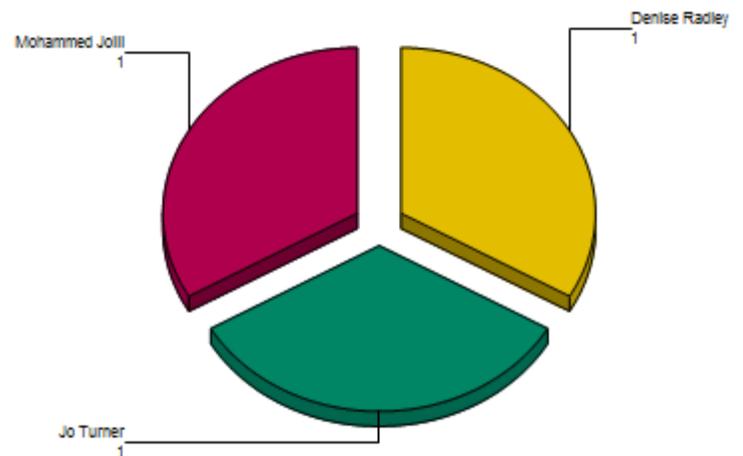
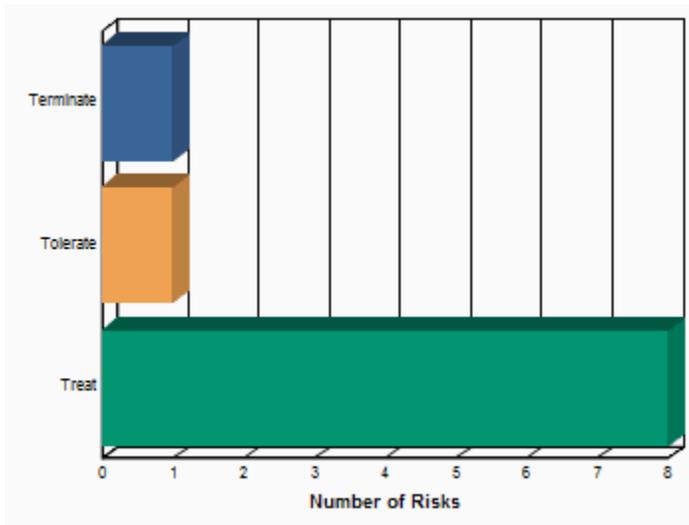
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	0	2	0	0
	10	8	9	10
	0	0	1	0

2017

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	1	2	1	0
	5	6	8	9
	2	1	1	1

Risk Approach Summary

Overdue Risk by Risk Owner



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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>8th November 2018</p> <p>[</p>	 <p>TOWER HAMLETS</p>
<p>Report of: <i>Zena Cooke - Corporate Director - Resources</i></p>	<p>Classification: [Unrestricted or Exempt]</p>
<p><i>Internal Audit and Anti-Fraud Progress Report</i></p>	

<p>Originating Officer(s)</p>	<p>Steve Tinkler</p>
<p>Wards affected</p>	<p>All wards</p>

1. Executive Summary

- 1.1. To provide an update on progress against the delivery of the 2018/19 Annual Audit Plan, highlighting any significant issues since the last report.
- 1.2. To provide an update with regards to the current counter fraud performance and to highlight any new significant corporate fraud related issues since the last report.
- 1.3. Appendix 1 of the report lists all the audits finalised in the period followed by audit summaries of those audits receiving Limited assurance rating.

2. Recommendations

- 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. Currently we assign each review one of four ratings, depending upon the level of our findings. The ratings we use are: -

Assurance	Definition
Full	There is a sound system of control designed to achieve the system objectives, and the controls are being consistently applied;
Substantial	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;
Limited	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;
Nil	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: -

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

4. Overview of finalised audits

- 4.1. Since the last Assurance Report that was presented to the Audit Committee in July 2018, 21 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 and summaries of audits which were assigned Limited assurance.

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

- The overall level of assurance provided.
- 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.

4.3. 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

SUMMARY		Assurance				
		Full	Substantial	Limited	Nil	Total
Significance	Extensive	-	11	7	-	18
	Moderate	-	3	-	-	3
	Low	-	-	-	-	-
Total Numbers		-	14	7	-	21
Total %		-	66%	34%	-	100%

- 4.4. From the table above it can be seen that of the eighteen finalised audits which focused on high risk or high value areas; eleven were assigned Substantial Assurance and seven were assigned Limited assurance. A further three audits were of moderate significance and were assigned Substantial Assurance.
- 4.5. Overall, 66% of audits resulted in substantial assurance. The remaining 34% of audits have a limited assurance rating.

5. Counter Fraud Update

- 5.1 The Corporate Anti-Fraud Team forms part of the Risk Management Service and consists of the following elements:
- An Intelligence Team that acts as a 'hub' for the service and profiles all allegations of impropriety utilising access to Council systems and outside data sources including credit reference agencies.
 - Social Housing Investigations dealing with allegations of social housing tenancy abuse including subletting and abandonment and also work closely with the Right to Buy Team of Tower Hamlets Homes and the Councils Legal Service to identify fraudulent applications.

- Corporate Investigations Team, dealing with internal matters, relating to staff irregularities or potential misuse of council services/ assets. Part of their work is to assist in improving systems and controls compromised by abuse and to assist the Audit and Risk Management functions in the identification of areas of identified risk. There is also a commitment to develop training and awareness within the Council.
- Blue Badge Investigations which is a predominantly mobile resource identifying blue badge and other fraudulent misuse of parking in the borough. The team work to an agreed Service Level Agreement with the Parking Service.
- There is a separate Insurance Team which examines the integrity of insurance claims to eliminate fraudulent submissions and repudiate inappropriate claims.
- In addition to investigating referred cases the Team also undertakes various proactive exercises and also takes part in the National Fraud Initiative, a bi-annual proactive data matching exercise run by the Cabinet Office, in which each local authority participates.

5.2 Summary of Caseload / Referrals

Current caseloads and outcomes for the period 01/04/18 – 30/09/18 for the counter fraud teams are as summarised below:

Social Housing Fraud

Referrals Received	Referrals Investigated	Properties Recovered	Right to Buy Applications Stopped	Other Outcomes Achieved*
164	107	29	7	16*

* Includes prevention of fraudulent housing applications, obtaining Profit Orders, criminal convictions, stopping fraudulent parking permits and identifying Benefit and Council Tax Reduction irregularities.

Corporate Investigations

Referrals Received	Referrals Investigated	Number of Investigations Concluded	Investigations Ongoing
14	13	4	9

Blue Badge Parking Investigations

No. of Vehicles Checked	28,026
Parking Control Notices Issued	16
Badges Inspected	85

Badges Seized	62
Cautions Given	5
Verbal Warnings Issued	28
Resident Permits Cancelled	37

Insurance Team Caseload

Claims Received	124
Total Value of Claims	£657k
Claims Repudiated	41
Claims Withdrawn	3

5.3 Proactive Counter-Fraud Activities

In addition to the reactive investigatory activities outlined above, a number of proactive counter fraud initiatives have also been conducted to promote the counter fraud culture within the Council. Specifically relating to the following:

- The Social Housing Investigations Team carried out a tenancy audit targeting an identified high risk group of 37 tenancies to establish residency in each case. This project was carried out in collaboration with Tower Hamlets Homes. Nine investigations are currently ongoing as a result of this exercise.
- The Social Housing Investigations Team also recently set up a joint working outreach programme with the THH Caretaking Teams which facilitates speedy referral of suspected sublet cases to the Team
- An extensive programme of Fraud Awareness sessions has been rolled out throughout the management meeting forums and internal departments. This exercise is continuing, in order to raise the profile of the team and encourage staff and managers to engage with the team.

6. Comments of the Chief Finance Officer

- 6.1. This is a noting report covering the period April 2018 to August 2018 highlighting findings arising from the work of the internal audit. There are no specific financial implications arising from the contents of this report.

7. Legal Comments

- 7.1. 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.
- 7.2. 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.
- 7.3. 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.
- 7.4. Quarterly Assurance Reporting from Internal Audit is an integral part of ensuring compliance with these duties.

8. One Tower Hamlets

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

9. Best Value Implications

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

10. Risk Management Implications

- 10.1. 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.

11. Sustainable Action for a Greener Environment (SAGE)

11.1 There are no specific SAGE implications.

12. Crime and Disorder Reduction Implications

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

APPENDIX 1

Assurance level	Significance	Directorate	Audit title
LIMITED	Extensive	Corporate	Attendance Management
	Extensive	Corporate	Staff Declaration of Interests – Follow Up audit
	Extensive	Corporate	Disclosure and Barring Service (DBS) – Follow Up Audit
	Extensive	Health, Adults and Community	Management of Care Plans for Vulnerable Adults
	Extensive	Health, Adults and Community	Contract monitoring of Domiciliary Care Contracts
	Extensive	Place	Monitoring of Waste Collection and Cleansing Contract
	Extensive	Resources	Creditors Systems Audit
SUBSTANTIAL			
	Extensive	Corporate	Honoraria and Acting Up Payments – Follow Up
	Extensive	Resources	Programme and Project Management - Follow Up
	Extensive	Resources	General Ledger Systems Audit
	Extensive	Resources	NNDR Systems Audits
	Extensive	Resources	Council Tax Systems Audit
	Extensive	Resources	Payroll Systems Audit
	Extensive	Resources	Sundry Debtors Systems Audit
	Extensive	Resources	Housing Rents Systems Audit
	Extensive	Resources	Revenue and Capital Budgetary Control
	Extensive	Place	Lettings Follow Up audit
	Extensive	Tower Hamlets Homes	Financial Systems
	Moderate	Place	Tendering for Waste Contracts – Follow Up Audit
	Moderate	Children’s Services	Tendering for Ice Cream Pitches – Follow Up audit
	Moderate	Tower Hamlets Homes	Starters and Leavers – Follow Up audit

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
<p>Attendance Management including Annual Leave</p> <p>Corporate report</p>	<p>May 2018</p>	<p>The objective of this audit was to provide assurance over management, control and monitoring of staff attendance and annual leave. We tested a total of 835 attendance records for period January to June 2017 across all five Directorates. The following issues were reported:-</p> <ul style="list-style-type: none"> • Our testing identified 34 instances across all Directorates where discrepancies were highlighted between annual leave recorded on flexi-records and annual leave booked on HR Self Service portal. This was caused by a failure of line managers to consistently complete appropriate reconciliations between the manual flexi-time records and the portal. • Attendance was recorded on a flexi-time sheet for officers grade PO6 and below. However, with the exception of the Governance Directorate, no system was in place for officers graded above PO6 to record their daily attendance including sickness, leave and other absences. • For officers graded PO6 and below, 55% of the flexi-records tested had not been signed by officers as true and correct record of hours worked. In 60% of cases, the flexi-records had not been certified by the relevant managers, as required by procedures. In addition, there were a number of other non-compliance issues with the flexi-time scheme such as carrying forward more than 10 hours of credit and debit, taking more than 2 days of flexi-leave in one calendar month and booking 7 hours credit when on unpaid leave. <p>All findings and recommendations were agreed with individual Divisional Directors and Head of HR and final report issued to Corporate Directors and Chief Executive.</p>	<p>Moderate</p>	<p>Limited</p>

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Staff Declaration of Interests Follow Up audit	Sept. 2018	<p>This audit assessed the progress made in implementing the recommendations agreed at the conclusion of the original audit in August 2017. The Follow Up audit was undertaken during the period April to June 2018. Our testing showed that of the nineteen high priority recommendations, four had been implemented. The remaining fourteen high priority recommendations had not been fully implemented and embedded. Hence the overall control environment has not improved since the last audit. The following issues were reported:-</p> <ul style="list-style-type: none"> • Staff Declaration of Interest (DOI) policy and procedure was still under review and the work was expected to be finalised and signed-off when the newly appointed Divisional Director of HR has taken up the post. • Subsequent to reminders being sent out by HR, as at 14th August 2018, 83% of staff members had completed DOI forms which were then approved by line managers. This compares with 99.98% return rate in August 2017. • Testing of DOI completed by CLT and DLT members identified that authorisation in HR Self Service was outstanding for three CLT members and two DLT members. • Sample testing of 10 DOIs completed by consultants and agency staff identified that of the 6 forms made available to internal audit for testing, only 2 had been completed at the time of audit and none of these had been approved and risk assessed by the relevant line manager. • Staff awareness, induction and training sessions have yet to be arranged by HR to ensure to ensure that all staff are fully aware of the Council's procedures and policy on Declaration of Interests. <p>All findings and recommendations were agreed with the Head of HR and the final report was issued to the Chief Executive and all Corporate Directors.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Disclosure and Barring Service (DBS) 2 nd Follow Up Audit	Oct. 2018	<p>This second follow up audit carried out in July 2018 assessed the progress made in implementing the agreed recommendations at the conclusion of the original audit in January 2017 and the first follow up in March 2018. Our testing showed that of the four high priority recommendations made in the March 2018 Follow-up Report, none of the recommendations had been fully embedded to improve the control environment. The following weaknesses were highlighted :-</p> <ul style="list-style-type: none"> • The Employee’s Code of Conduct document and the Guide for Managers of Posts Requiring DBS Disclosures have not been reviewed since June 2015 and a number of revised policies and forms are not subject to version and date control. • Audit testing of a sample of 6 DBS risk assessments showed that HR notification to carry our risk assessment was issued to the Line Manager between 1 to 17 working days after the disclosure was received by HR. Current DBS policy requires notification to line manager by HR on the same day. • 2 of the 6 risks assessments had not been reviewed and signed-off by the Senior HR Business Partner as required by procedures. • The Corporate Safeguarding Board was advised on the 18th January 2018 that based on the sample testing carried out by HR , not all risk assessments were being completed promptly in accordance with DBS policy. <p>All findings and recommendations were agreed with the Head of HR and the final report was sent to the Chief Executive and all corporate Directors.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Management of Care Plans for Vulnerable Adults	April 2018	<p>The objective of this audit was to provide assurance that systems for preparing, delivering and funding care and support plans for vulnerable adults were sound and secure. The following main issues were raised:</p> <ul style="list-style-type: none"> • Testing of 20 care plans identified that for three cases that reassessments of existing care were outstanding for more than 3 months and reviews of the support plans were outstanding for more than 12 months in ten other cases. • For 2 out of 20 care plans related to mental health cases managed by the Mental Health Trust teams. Documents evidencing eligibility, funding, assessments and care plans were not uploaded on the Framework –i (FWi) case system. To address this control weakness, we recommended that a monitoring system should be introduced to ensure that all documentary evidence confirming eligibility, assessment, review and budget contribution is uploaded on FWi system promptly. • The Care Act 2014 requires that service users' views, wishes, feelings and beliefs should inform their care and support plan. Our testing of 20 care packages showed that in 3 out of 15 relevant cases, there was no evidence that the service user had been involved in the assessment of their needs or their care planning. <p>All findings and recommendations were agreed with the Interim Divisional Director Adult Services and final report was issued to the Corporate Director - Health, Adults and Community.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Contract Monitoring of Domiciliary Care Contracts	Sept. 2018	<p>This audit sought to provide assurance that controls for monitoring of Domiciliary Care Contracts were sound and secure. The Council procured a range of domiciliary care contracts in February 2017. The total spend for the 5 year contract was estimated at £108M. The following issues were reported:-</p> <ul style="list-style-type: none"> • The contract specification required procedures to be set up for an effective monitoring of the contracts. However, these procedures were not clearly documented. Moreover, there was no defined system for management review and quality checks of the monitoring visits and monitoring reports produced by the contract monitoring officers. • Officers carried out monitoring visits to providers. An examination of monitoring visit records identified that suppliers' compliance with Ethical Care Charter requirements such as London Living Wage payment, travel time, transport costs, training and statutory sick pay, was not evidenced for monitoring purposes. • Contracts had not been set up appropriately at the contract set-up stage to ensure that key information such as insurances, licences and financial checks on providers were in place. • Contract specification requires a contract review to be triggered and an action plan to be put in place when the provider's CQC rating does not meet the required standard over a period of time. However, there was lack of evidence to show that an agreed action plan was put in place and that the supplier was monitored effectively to mitigate the risk exposure to the Council. <p>All findings and recommendations were agreed with the Programme Director and the final report was issued to the Corporate Director - Health, Adults and Community.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Monitoring of Waste Collection and Street Cleansing Contract	May 2018	<p>The objective of this audit was to provide assurance over effective monitoring of the waste collection contract, which commenced in February 2006. The contract expired on 31 March 2017 and was extended to 31 March 2020. For 2017/18, it was estimated that payments of £5,412,643 would be made for Refuse Collection and £7,275,588 for Street Cleansing. An additional funding of approximately £750K was provided for street cleansing as part of the Mayor's fund for a cleaner borough for 2017/18.</p> <p>From our testing, we have reported the following key control weaknesses:-</p> <ul style="list-style-type: none"> • The Council's Waste Management Strategy has not been revised since 2003 to reflect the current objectives and priorities of the Council. There had been two unsuccessful attempts since 2006 to develop a new Waste Strategy for adoption. • Some key decisions regarding the contract were made by Senior Officers over a period of time. Clear records of these decisions had not been formally transferred to operational staff responsible for contract monitoring. Therefore, Internal Audit could not examine these key decisions, some of which had on-going financial effects on the value of the contract. • In addition and as a result of a number of restructures effectively the team, key officers with knowledge and responsibility for monitoring the contract either left or transferred to other areas of the organisation. The absence of comprehensive handover procedures, unclear definition of roles and lack of authority to make key decisions has weakened the effectiveness of contract monitoring processes. • Current monitoring staff were not fully aware of detailed contract conditions including the requirement to have priced and approved Change Notices, Insurances and Partnership Agreement. Previous Contract Change Notices were dealt with by previous Chief and Senior Officers without referral to 	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Monitoring of Refuse Collection and Street Cleansing Contracts	May 2018	<p>operational contract monitoring officers. In absence of an audit trail on Contract Change Notices, the adequacy and soundness of contract change control and related financial implications could not be assessed.</p> <ul style="list-style-type: none"> • Key contract monitoring requirements including joint inspections of street cleansing and monitoring of the contractor's self-monitoring system were not being performed. • Officers were aware of a number of risks in the delivery of Refuse Collection, Street Cleansing and other waste contracts. However, these risks had not been documented, assessed and mitigated. Hence there was no visibility of these risks to higher level management. • We noted that an Annual Service Review meeting is required between the Chief Officers of the Council and the Director of Veolia to discuss high level contract issues. Our review of minutes of meetings showed that Senior Strategy Meeting between the Divisional Director – Public Realm, Head of Service and Veolia Director was held on 18th October 2016. However, there was no record of such high level contract review meeting taking place in 2017. <p>All findings and recommendations were agreed with the Interim Divisional Director of Public Realm and final report was issued to the Acting Corporate Director of Place.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Creditors Systems Audit	Sept. 2019	<p>The objective of this audit was to ensure that the Council has sound and secure systems for paying its creditors. The following control weaknesses were reported:-</p> <ul style="list-style-type: none"> • Testing of a sample of 20 paid invoices identified that 6 invoices were received before purchase orders were raised. This is a breach of the Council's Financial Regulations and Procurement Procedures which require purchase orders and commitments to be raised before invoices are received for payment. • 6 out of the 20 invoices were not paid by the due date, increasing the risk of the Council incurring financial penalties for late payment. • Testing of supplier set up process identified that in five out of twenty new suppliers adopted on Agresso, the required validation checks had not been fully undertaken to ensure that supplier details were correct and that they had the necessary Public Liability and Professional indemnity insurances in place. • Testing of 10 CHAPS payments highlighted 8 cases where appropriate checks had not been completed as required by Treasury procedures. • 9 out of 12 staff leavers were not removed promptly from the Agresso system. • The Council's Financial Regulations and Instructions were out of date. The section which covered the procedures for ordering and paying for works, goods and supplies, were not aligned with the revised procurement thresholds approved in December 2017. <p>All findings and recommendations were agreed with the Divisional Director of Finance, Procurement and Audit and the final report was issued to the Corporate Director, Resources.</p>	Extensive	Limited

Non-Executive Report of the: Audit Committee 8th November 2018	
Report of: Zena Cooke – Corporate Director of Resources	Classification: Unrestricted
Annual Audit Letter 2017-18	

Note, report is for noting, not decision. Draft of audit report was considered at Audit Committee

Originating Officer(s)	Kevin Miles – Chief Accountant
Wards affected	All Wards

Executive Summary

This report presents the final Annual Audit Letter from the council’s auditors, KPMG, for 2017-18. This formally records the completion of the 2017-18 audit. A draft version of this letter was brought before Audit Committee in July 2018.

Recommendations:

The Audit Committee is recommended to:

1. Consider and Approve the Annual Audit Letter 2017-18

1. REASONS FOR THE DECISIONS

- 1.1 It is requirement of S20 of the Accounting and Audit Guidelines that the Annual Audit Letter be considered and approved by committee. Although this could be approved by another committee of the Council, we have sought to include it on the Audit Committee agenda for the sake of consistency as this committee reviewed the draft document.

2. ALTERNATIVE OPTIONS

2.1 None.

3. DETAILS OF THE REPORT

3.1 The Annual Audit Letter (AAL) is produced by the Council's auditors, KPMG. It marks the completion of the audit of the 2017/18 financial statements, and gives details of their findings, including

- Audit opinion
- Recommendations
- Management representations
- Audit fee

3.2 This report covers the Annual Audit Letter for 2017/18. A draft of this report was presented by Mr Andrew Sayers – Partner, KPMG at Audit Committee on 25th July 2018, along with the audited financial statements.

3.3 The final version of the letter is very similar to the draft versions, with only slight wording and cosmetic changes. Other than to say the Whole of Government Accounts audit was completed on time in August, there are no new issues concerning the Annual Audit Letter and the Annual Financial report to bring to the attention of the Committee.

4. EQUALITIES IMPLICATIONS

4.1 There are no equalities implications in this report.

5. OTHER STATUTORY IMPLICATIONS – BEST VALUE (BV) IMPLICATIONS

5.1 The report contains reference to the achievement of Best Value by the Council in the year. The report provides an update on progress made by the Council.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

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

7. COMMENTS OF LEGAL SERVICES

7.1 The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit Regulations 2015. This specifies a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 31 May each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's

income and expenditure for the year. The Audit Committee must approve the statement of accounts by 31 July each year and the statement must be signed by the chair of the meeting at which the accounts were approved. Upon receipt of the Annual Audit Letter the council must approve, publish and make available copies of the letter to interested parties.

Linked Reports, Appendices and Background Documents

Linked Report

- Annual Financial Reports 2017-18 (Incorporating KPMG's Reports to Those Charged With Governance 2017-18) – Tabled at Audit Committee 25/07/2018.

Appendices

- Annual Audit Letter 2017-18

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:

- Kevin Miles – Chief Accountant ext. 6791

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Annual Audit Letter 2017/18

London Borough of Tower Hamlets

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August 2018

Contents

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Page 66

Page

Report sections

— Headlines 3

Appendices

1. Summary of reports issues 7
2. Audit fees 8

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 Appointment's website (www.psaa.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. If you are dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing 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.

This Annual Audit Letter summarises the outcome from our audit work at the London Borough of Tower Hamlets in relation to the 2017/18 audit year, which is the final year that KPMG is the auditor of the Authority and its pension fund.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

The VFM conclusion was issued with an 'except for' qualification.

Value for Money conclusion

We issued a qualified conclusion on the Authority's arrangements to secure value for money (the VFM conclusion) for 2017/18 on 31 July 2018. To arrive at our conclusion we looked at the Authority's arrangements for informed decision making, sustainable resource deployment and working with partners and third parties.

We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources throughout 2017/18. However, we remain satisfied that none of the outstanding issues have an adverse impact on the 'sustainable resource deployment' sub criterion. We therefore issued a qualified VFM conclusion on an 'except for' basis (similar to our VFM conclusion for 2016/17).

Value for Money risk areas

We identified one significant risk and two areas of audit focus in relation to our VFM work. The significant risk was in relation to the implementation of the Best Value (BV) Improvement Plans (Authority and Children's Services) and the areas of focus were the Medium Term Financial Strategy (MTFS); and the 'Clear Up' project.

In terms of our VFM conclusion our key consideration has been in relation to the progress made on the areas which led us to qualify our VFM conclusion in 2013/14, 2014/15, 2015/16 (each year was qualified on an adverse basis) and 2016/17 (qualified on an except for basis). These areas were grant payments and connected decisions; disposal of property and the granting of leasehold interests; spending on publicity; and corporate governance arrangements in the three areas.

The Secretary of State for Housing, Communities and Local Government (SoS for HCLG) decided in March 2017 to end the 2014 Directions and not extend the appointment of the Commissioners beyond March 2017 in recognition of the Authority's progress. In light of the remaining work that the Authority had set out as still needing to be completed, the SoS for HCLG made three new, less intrusive Directions (in force until 30 September 2018) which require the Authority to set up a Best Value Improvement Board (with cross party and independent membership); submit quarterly progress reports on the BV Improvement Plan to the SoS for HCLG; and set up an independent review of achievement of the BV Improvement Plan with a report to the SoS HCLG by 1 August 2018. *(We understand that the report has been delivered to the SoS HCLG, in accordance with the required timetable.)*

Consequently, in terms of 2017/18 we have considered the quarterly reporting by the Authority to the SoS for HCLG and the extent to which the actions in the Authority's BV Improvement Plan were reported as completed.

In terms of the latest progress report the Authority considers that almost 80% of the 109 identified actions are completed or on track. During the first year of the BV Improvement Plan the Authority reports that it has delivered the majority of the short-term and medium-term milestones and where there are any delays a revised plan has been set out. Work on the longer-term milestones are considered to be on-going with plans for delivery over the next financial year. Regular updates on progress are provided to the Corporate Leadership Team and Members and all activities have been incorporated within individual Directorate Plans to ensure the focus remains on delivery.

An unqualified audit opinion was issued for 2017/18 for the Authority.

<p>Value for Money risk areas (continued)</p>	<p>The above generally shows a positive picture of progress being made by the Authority to address the actions/milestones in the BV Improvement Plan. However, it also shows that the Authority still has a little way to go in terms of completing the BV Improvement Plan in full and probably some way to go before the impact of all of the work that has been done could be said to have become embedded within the Authority.</p> <p>In terms of the 2017 Ofsted inspection which rated the Authority’s services for children to be inadequate overall with some features requiring improvement, the Authority established a Children’s Services Improvement Board led by an Independent Chair. The consequent Improvement Plan is challenging and aims to achieve a standard of at least ‘good’ by April 2019.</p> <p>Progress is reviewed regularly by Ofsted. The findings from the Ofsted monitoring visits indicate a positive trajectory of change including the important finding from the December 2017 visit that “no children were identified as being at risk of immediate harm”. The letter also stated that “A relentless focus by senior leaders on ensuring compliance with statutory requirements, such as visiting children at home, is starting to change the culture in children’s services.” The most recent Ofsted visit (May 2018) focused on high risk adolescents. The feedback was again positive, stating “The evidence gathered during this visit has identified substantial but very recent improvements in the quality of multi-agency and social work practice for vulnerable adolescents and their families. This is extremely encouraging given the particularly complex challenges involved in this work. Political leaders and managers are demonstrating considerable determination and commitment to embedding and sustaining these changes, while simultaneously addressing the areas of poor practice.”</p> <p>In terms of the other areas of focus (MTFS and ‘Clear Up’ project) there were no significant matters arising.</p>
<p>Audit opinion</p>	<p>We issued an unqualified opinion on the Authority’s financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements include those of the Pension Fund.</p>
<p>Financial statements audit</p>	<p>Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority’s accounts was set at £17.5 million which equates to around 1.4 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £17.5 million which is around 1.2 percent of gross assets.</p> <p>We report to the Audit Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £850,000. The same value was also used for the Pension Fund i.e. £850,000.</p> <p>We did not identify any audit adjustments during our audit.</p>

Financial statements audit (continued)

Our audit work was designed to specifically address the following significant risks:

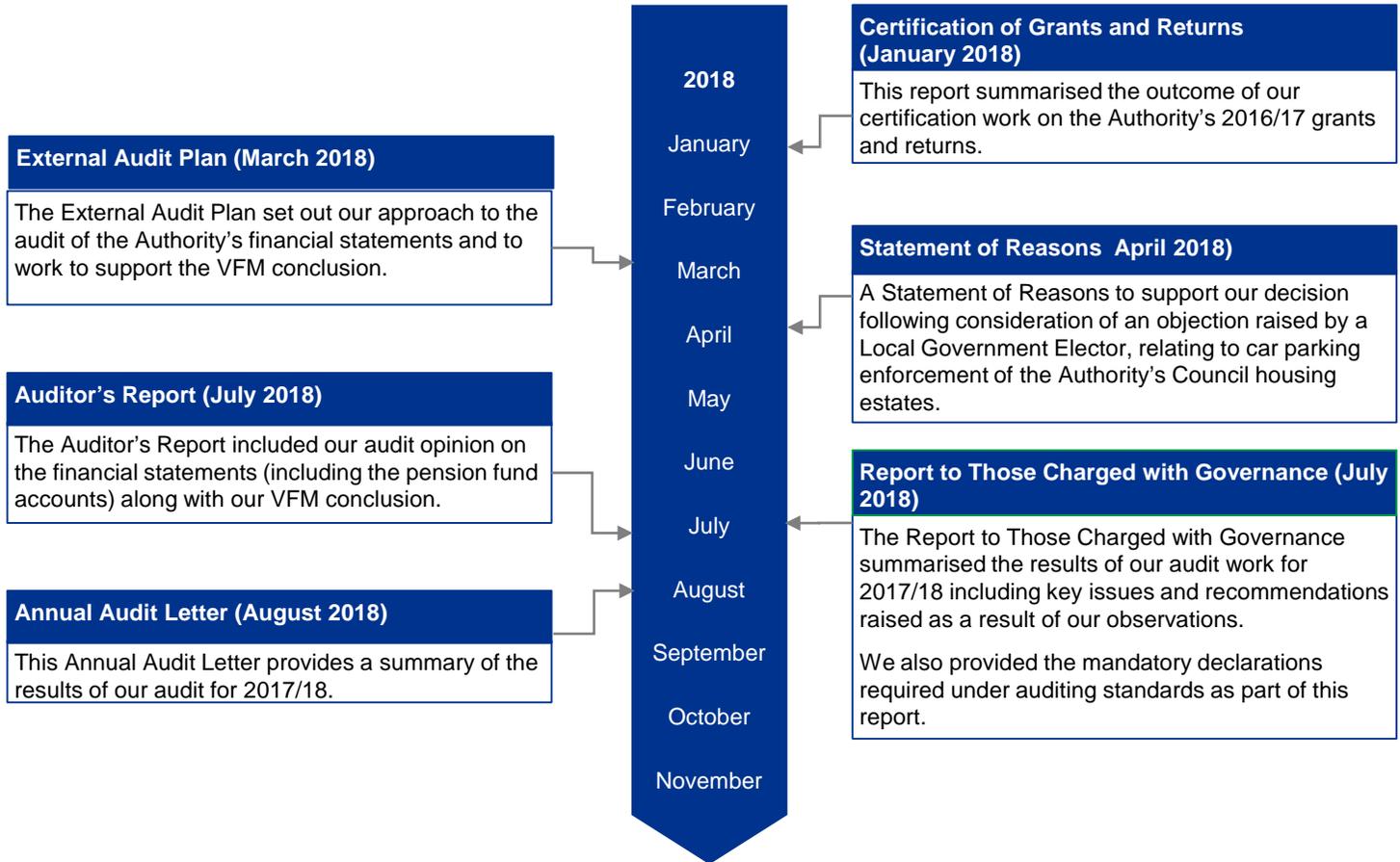
- Management Override of Controls – our audit methodology incorporates the risk of management override as a default significant risk, including controls testing and substantive procedures over journal entries and accounting estimates. We did not identify any specific additional risks of management override relating to this audit.
- Valuation of land and buildings – we reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. We also assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). As a result of our work we had no issues arising relating to the valuation of land and buildings as disclosed in the financial statements.
- Pensions Liabilities – we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary (Hymans Robertson), including the Authority’s process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Hymans Robertson. We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges. We also reviewed the methodology applied in the valuation by Hymans Robertson. In addition, we reviewed the overall Actuarial Valuation and considered the disclosure implications in the financial statements. As a result of this work we determined that pension assets and liabilities movements and year end balances were reflected correctly in the financial statements.
- Grant payments/property leases – in 2015/16 and 2016/17, a small number of grant payments were identified that were not made in accordance with all of the conditions set by Commissioners. Specifically for the organisations receiving the grant there was no formal agreement in place setting out the agreed use/occupation of the property, and so these payments (£151,000 in 2015/16; and £79,000 in 2016/17) were considered to be unlawful and were disclosed in the respective years’ financial statements. This year we considered the detailed approach and systems put in place by the Authority and tested a sample of payments. We also assessed whether any conditions/ delegation arrangements had been implemented effectively. We had no matters arising from this work to raise with the Authority
- Declarations of interest – in 2016/17 we noted that the Authority had taken significant steps to address historic declarations of interest issues and ensure systems and processes were more robust. However we also noted that an August 2017 Internal Audit review had identified further issues including: existing policy, guidance and forms must be reviewed; inconsistent management actions in response to declarations made by staff; declarations found to be incomplete; and a lack of declarations for family relationships within the Authority. This year we have considered the Authority’s actions taken and follow up work undertaken by Internal Audit and completed supporting testing as considered appropriate. We had no issues arising regarding declarations of interest in relation to the financial statements.

<p>An unqualified audit opinion was issued for 2017/18 for the Pension Fund.</p>	<p>Other information accompanying the financial statements</p>	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.</p>
	<p>Pension Fund audit</p>	<p>There were no significant issues arising from our audit of the Pension Fund and we issued an unqualified opinion on the Pension Fund financial statements as part of our audit report.</p> <p>Our audit work was designed to specifically address the following significant risk relating to the Pension Fund:</p> <ul style="list-style-type: none"> — Investment valuation – we verified a sample of investment asset prices to third party information and obtained independent confirmation on asset existence. We assessed the design and operation of controls in place, obtaining independent confirmations from the Custodian (and Fund Managers as necessary) to verify year end balances, and considered the relevant controls reports for the Custodian. We also undertook substantive testing over sales and purchases made in the year, reviewed year on year movements, and compared performance to known benchmarks. We had no issues arising regarding the valuation of Pension Fund investments in the financial statements.
	<p>Whole of Government Accounts</p>	<p>We have not yet completed our review of the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. This work is in progress and is expected to be completed by the end of August deadline.</p>
	<p>Recommendations</p>	<p>We raised no new recommendations as a result of our 2017/18 work.</p>
	<p>Certificate</p>	<p>The audit cannot be formally concluded and an audit certificate issued as we are considering an elector query relating to 2016/17. Until we have completed our consideration of this we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.</p>
	<p>Audit fee</p>	<p>Our fee for 2017-18 was £209,918, excluding VAT (2016/17: £231,996, although the 2016/17 fees does not include the additional fee that will be needed to complete our consideration of the elector query referred to above). Our fee for the audit of the Pension Fund was £21,000 excluding VAT (2016/17: £21,000). Further detail is contained in Appendix 2.</p>
	<p>Exercising of audit powers</p>	<p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.</p>

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at www.towerhamlets.gov.uk.



Appendix 2: Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2017/18 planned audit fee.

External audit

Our final fee for the 2017/18 audit of the Authority was £209,918, which is in line with the planned fee.

Our final fee for the 2017/18 audit of the Pension Fund was in line with the planned fee of £21,000.

Our fees for dealing with the 2016/17 objection by a Local Government Elector are still subject to final determination by Public Sector Audit Appointments.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is still ongoing. The final fee will be confirmed through our reporting on the outcome of that work in January 2019.

Other services

We expect to charge £7,000 for additional audit-related services for the certification of the Pooling of Housing Capital Receipts claim and Teachers' Pensions return, which are outside of Public Sector Audit Appointment's certification regime.



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<p>Non-Executive Report of the:</p> <p>Audit Committee</p> <p>8th November 2018</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Zena Cooke, Corporate Director, Resources</p>	<p>Classification:</p> <p>Unrestricted</p>
<p>Treasury Management Mid-Year Report for 2018/19</p>	

<p>Originating Officer(s)</p>	<p>Bola Tobun – Investment & Treasury Manager</p>
<p>Wards affected</p>	<p>All Wards</p>

Summary

This Report is produced in accordance with the CIPFA Treasury Management Code of Practice

The Treasury Management Strategy Statement and the Treasury Prudential Indicators, for 2018/19 were approved by the Council on 21st February 2018 as required by the Local Government Act 2003. This report covers the period 1st April 2018 to 30th September 2018

Investment returns fluctuate in line with the bank of England base rate. Base rate was raised from 0.50% to 0.75% in August 2018.

The Council has substantial sums of money invested and is therefore exposed to financial risks including the loss of invested funds and the impact of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy. Risk includes interest rate fluctuations and change to inflation.

The investment income budget set for 2018/19 was £4m and with first half year income of £1.9m, we are broadly on target.

This Report advises the Audit Committee of the work carried out in investing in pooled funds in order to generate higher returns over the longer term in accordance with the investment strategy approved in February 2018 by the Full Council. For the 2018/19 budget, £100m of investments were set aside for investment in pooled funds; due to investments being historically expensive and the need to confirm the proposed new investments with the new Audit Committee, investments into the pooled vehicles were delayed until well into the new year. In July/August £65m has been invested and a further £35m will, subject to market conditions be invested by the end of November.

From Benchmarking exercise A total return of 1.01% was achieved for the reporting period, which

The 7 day London Interbank Bid Rate (LIBID) is the performance measure for the Council's investment returns and the return for year to date is 0.50%. For this reporting period, The investments portfolio returned 1.01%. This was better than the benchmarking average of 0.84%. More information

was 0.25% above, the average for similar LA's return but 0.23% below average for All LA's return.

on this can be found in section 3.6.

The credit worthiness of investments is maintained at –AA and the average credit score has improved from 4.28 to 3.99 for this reporting period, signifying LBTH portfolio credit risk is lower than that of the others.

Prudential Indicators (PI) and Treasury Management (TM) indicators have been fully complied with.

Over the reporting period, all treasury management (TM) activities have been carried out in accordance with the approved limits and the prudential indicators (PI) set out in the Council's Treasury Management Strategy statement. No long-term or short-term borrowing has been raised for the reporting financial year 2018/19. If an opportunity does arise to refinance the £60m LOBO loan to remove optionality, officers will look to capitalise on this do this in consultation with the Cabinet Member for Resources and the Voluntary Sector.

Recommendations:

Members are recommended to:

- note the contents of the treasury management activities and performance against targets for half year ending 30 September 2018; and
- note the Council's investments as set out in Appendix 1. The balance outstanding as at 30 September 2018 was £447.62m which includes £10m, pension fund cash awaiting investment.

1. REASONS FOR THE DECISIONS

- 1.1 The Local Government Act 2003 and the Local Authorities (Capital Financing and Accounting) Regulations 2003 require that regular reports be submitted to the relevant Council Committee detailing the Council's treasury management activities.
- 1.2 This report updates members on both the borrowing and investment decisions made by the Corporate Director, Resources under delegated authority in the context of prevailing economic conditions and considers the Council's Treasury Management performance.
- 1.3 The regular reporting of treasury management activities assists Members to scrutinise officer decisions and monitor progress on the implementation of its investment strategy as approved by Full Council.

2. ALTERNATIVE OPTIONS

- 2.1 The Council is bound by legislation to have regard to the Treasury Management (TM) Code. The Code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities. If the Council were to deviate from those requirements, there would need to be justifiable reason for doing so.

3. DETAILS OF REPORT

- 3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 require local authorities to have regard to the Treasury Management Code. The Treasury Management code requires that the Council or a sub-committee of the Council (Audit Committee) should receive regular monitoring reports on treasury management activities and risks.
- 3.2 Treasury management is defined as “the management of the Council’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. Within reason, the Council can vary its treasury management strategy having regard to its own views about its appetite for risk in relation to the financial returns required.
- 3.3 The Treasury Management Strategy, Investment Strategy and Minimum Revenue Provision reports were included in the Budget Pack that was presented to Full Council on 21 February 2018.
- 3.4 **ECONOMIC OUTLOOK AND INTEREST RATE FORECAST FROM ARLINGCLOSE**
- 3.4.1 The MPC left Bank Rate unchanged at the September meeting, after voting unanimously to increase Bank Rate to 0.75% in August.
- 3.4.2 Arlingclose projected outlook for the UK economy means, they maintain the significant downside risks to their interest rate forecast. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average.
- 3.4.3 Our treasury adviser view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- 3.4.4 Cost pressures were projected to ease but have risen more recently and are forecast to remain above the Bank’s 2% target through most of the forecast period. The rising price of oil and tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.
- 3.4.5 The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believe that MPC members consider both that:
- 1) Ultra-low interest rates result in other economic problems, and
 - 2) Higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise and cuts are required.
- 3.4.6 The global economy appears to be slowing, particularly the Eurozone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank is adopting a more strident tone in conditioning markets for the end of QE (Quantitative Easing), the timing of the first rate hike (2019) and their path thereafter. Meanwhile, European political issues, most recently with Italy, continue.
- 3.4.7 The US economy is expanding more rapidly. The Federal Reserve has tightened monetary policy by raising interest rates to the current 2% - 2.25% range; further rate hikes are likely, which will start to slow economic growth. Central bank actions and

geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

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

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

	Dec-18	Mar-19	Sep-19	Mar-20	Sep-20	Mar-21	Sep-21
Official Bank Rate							
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.75	1.00	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75
3-mth money market rate							
Upside risk	0.10	0.10	0.10	0.20	0.20	0.20	0.20
Arlingclose Central Case	0.80	1.00	1.20	1.30	1.20	1.20	1.20
Downside risk	0.20	0.50	0.70	0.80	0.75	0.75	0.75
1-yr money market rate							
Upside risk	0.20	0.30	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.05	1.25	1.40	1.45	1.40	1.40	1.40
Downside risk	0.35	0.50	0.75	0.75	0.75	0.75	0.75
5-yr gilt yield							
Upside risk	0.15	0.20	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.15	1.20	1.35	1.40	1.35	1.30	1.30
Downside risk	0.30	0.35	0.50	0.60	0.60	0.60	0.60
10-yr gilt yield							
Upside risk	0.20	0.25	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.60	1.65	1.70	1.75	1.70	1.70	1.70
Downside risk	0.30	0.45	0.55	0.60	0.60	0.60	0.60
20-yr gilt yield							
Upside risk	0.20	0.25	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.90	1.95	2.00	2.00	2.00	2.00	2.00
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45
50-yr gilt yield							
Upside risk	0.20	0.25	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.80	1.85	1.90	1.90	1.90	1.90	1.90
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45

3.5 TREASURY MANAGEMENT STRATEGY 2018/19

3.5.1 The Treasury Management Strategy was approved on 21 February 2018 by Council. The Strategy comprehensively outlined how the treasury function would operate throughout the financial year 2018/19 including the limits and criteria for selecting institutions to be used for the investment of surplus cash and the council's policy on long-term borrowing and limits on debt. The Council complied with the strategy throughout the reporting period and all investments were made to counterparties within the Council's approved lending list.

- 3.5.2 On 31st March 2018, the Council had net investments of £355.9m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The balance sheet summary position at 31st March 2018 and the forecast for 31st March 2019 are shown in Table 1 below.

Table 1: Balance Sheet Summary

	31st March 2018 Actual £m	Movement over the period £m	31st March 2019 Forecast £m
General Fund CFR	226.720	2.006	228.726
HRA CFR	83.915	17.985	101.900
Total CFR	310.635	19.991	330.626
Less: Other debt liabilities *	(34.957)	1.779	(33.178)
Borrowing CFR	275.678	21.770	297.448
<i>External Borrowing</i>	84.966	(0.670)	84.296
<i>Internal Borrowing</i>	190.712	22.440	213.152
Less: Usable reserves	(515.673)	26.859	(488.814)
Less: Working capital	(159.819)	0.385	(159.434)
Net (investments)	(355.854)	5.054	(350.800)

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

- 3.5.3 In table 1 above, the extent of internal borrowing which stood at £190.7m at the end of the financial year 2017/18 is the difference between the Borrowing CFR (£275.7m) and the level of external borrowing (£84.9m), with an increased forecast level for 31st March 2019. The General Fund CFR increased by £2m over the period this is due to expected £10m capital expenditure on temporary accommodation and public realm less prudential borrowing principal repaid and minimum revenue provision (MRP) charges for the year.
- 3.5.4 The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.
- 3.5.5 The treasury management position as at 30th September 2018 shown in table 2 below.

Table 2: Treasury Management Summary

	31.03.18 Balance £m	Movement over the Year £m	30.09.18 Balance £m	31.09.18 Rate %
Long-term borrowing	84.966	(0.670)	84.296	4.46
Short-term borrowing	Nil	Nil	Nil	Nil
Total borrowing	84.966	(0.670)	84.296	4.46
Long-term investments	67.000	35.000	102.000	
Short-term investments	291.000	12.000	303.000	

Cash and cash equivalents	**82.820	(40.200)	42.620	
Total investments	440.820	6.800	447.620	0.77
Net investments	355.854	(5.054)	350.800	

**excluding pension fund balance of £24.8m as at 31/03/2018

Borrowing Strategy during the period

- 3.5.6 The Council held £84.296m of external loans at 30th September 2018 which is £670k lower than 31st March 2018 position of £84.966m. No borrowing has been undertaken and no debt rescheduling opportunities arose during the reporting financial year as the cost of premium payable outweigh savings that could be made from the lower PWLB borrowing rates. The borrowing position as at 30th September 2018 is shown in table 3 below.

Table 3: Borrowing Position

	31.03.18 Balance £m	Movement £m	30.09.18 Balance £m	30.09.18 Rate %	30.09.18 WAM* years
Public Works Loan Board	7.466	0.670	6.796	5.97	8.2
Banks (LOBO)	60.000	0.000	60.000	4.32	41.4
Banks (fixed-term)	17.500	0.000	17.500	4.34	58.9
Total borrowing	84.966	0.670	84.296	4.46	42.3

*Weighted average maturity

- 3.5.7 The Council takes a low risk approach to its borrowing strategy. This means that the principal objective when borrowing has been to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The secondary objective being to have flexibility to renegotiate loans should the Council's long-term plans change.
- 3.5.8 The Council continues to hold £60m of LOBO (Lender's Option Borrower's Option) loans with RBS, where the lender has the option to propose an increase in the interest rate at set dates. The Council has the option to either accept the new rate or to repay the loan at no additional cost. RBS has not exercised their option during this reporting period. If there is an opportunity to reduce this risk and reduce debt costs in the long term by repaying this LOBO loan and replace it with a PWLB maturity loan, the Council is likely to seriously consider doing this either through the use of cash or by replacing with like for like PWLB borrowing.

Investment Activity

- 3.5.9 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balance ranged between £440m to £530m due to timing differences between income and expenditure. The investment position at this reporting period is shown in table 4 below.
- 3.5.10 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

Investments Outstanding & Maturity Structure

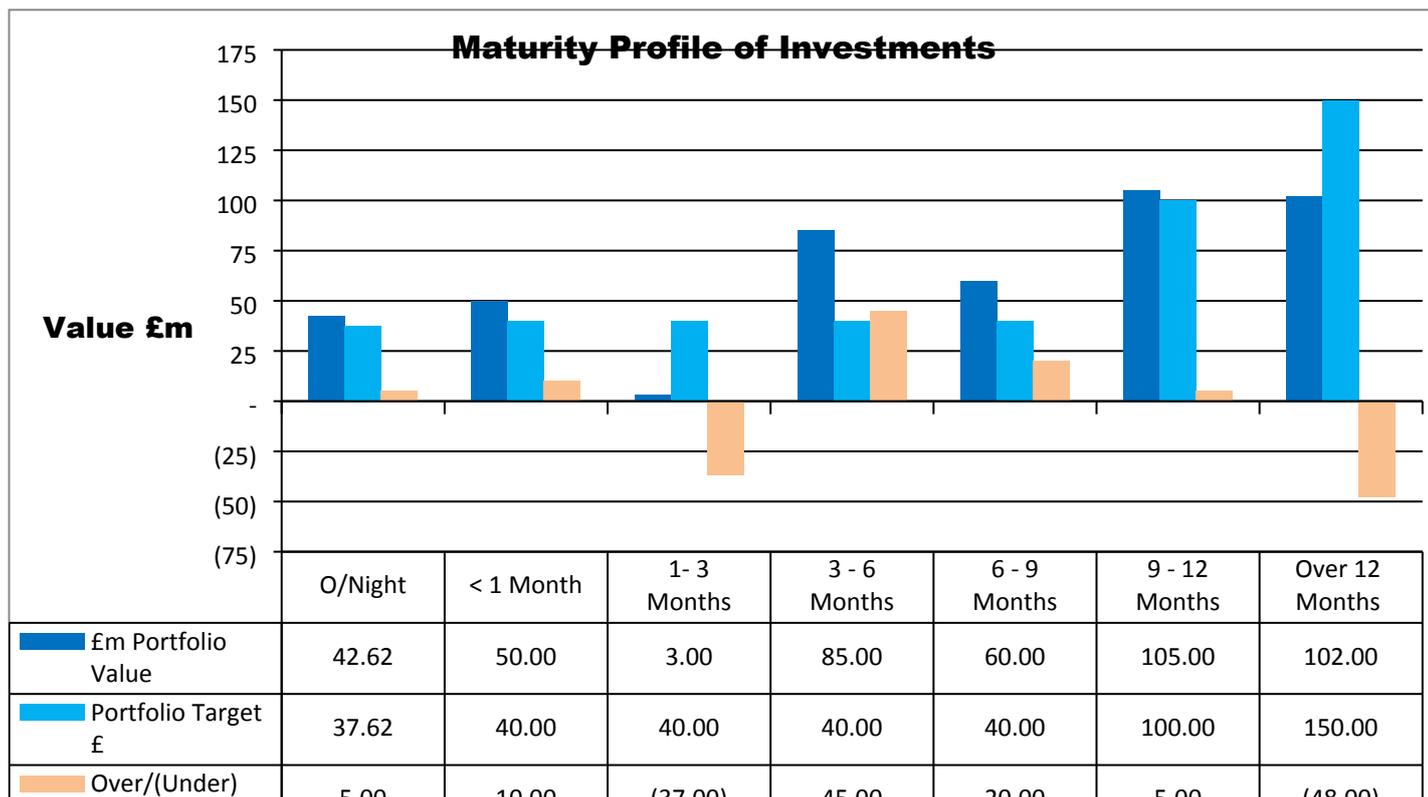
3.5.11 The table below shows the amount of investments outstanding at the end of September 2018 split according to the financial sector.

3.5.12 The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Given the increasing risk and falling returns from short-term unsecured bank investments, the Council has diversified into more secure and/or higher yielding asset classes by allocating £100m for strategic pooled investments and currently £65m has been invested as shown in table 4 below.

Table 4 Outstanding Investments by Financial Sector

Financial Sector	31.03.18 Balance £m	Movement over the Year £m	30.09.18 Balance £m	% Portfolio
UK Banks	50.000	(25.000)	25.000	5.59
UK Building Societies	15.000	(15.000)	0.000	0.00
Government (incl. local authorities)	278.000	(83.000)	195.000	43.56
Oversea Banks	85.000	35.000	120.000	26.81
Money Market Funds	12.820	29.800	42.620	9.52
Pooled Investment Funds:	0.000	65.000	65.000	14.52
<i>Cash plus funds</i>	0.000	20.000	20.000	
<i>Short-dated bond funds</i>	0.000	18.000	18.000	
<i>Strategic bond funds</i>	0.000	5.000	5.000	
<i>Equity Income funds</i>	0.000	6.000	6.000	
<i>Property funds</i>	0.000	5.000	5.000	
<i>Multi asset income funds</i>	0.000	11.000	11.000	
Total investments	440.820	6.800	447.620	

Chart 1 – Maturity of Investment Portfolio as at 30th September 2018



3.5.13 Chart 1 above illustrates the maturity structure of deposits as at 30th September 2018; we have £42.62m as overnight deposits including £10m pension fund cash awaiting investments, and this is predominantly invested in Money Market Funds.

3.5.14 £65m that was available for longer-term investment was moved from bank and building society deposits into pooled property/bond and equity funds. As a result, investment risk was diversified while the average rate of return has increased. The progression of risk and return metrics are shown in the extracts from Arlingclose’s quarterly investment benchmarking in table 6 below.

3.5.15 The Council’s £65m of externally managed pooled bond, equity and property funds generated an average total return of 1.17%, comprising a 3.94% income return which is used to support services in year, and -1.56% of capital growth. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council’s investment objectives is regularly reviewed. In light of their performance and the Council’s latest cash flow forecasts, investment in these funds is proposed to increase to £100m.

3.5.16 It is worth noting that capital gain on the pooled investment funds will fluctuate (with the possibility of losses); hence a provision for capital losses from investment returns above the £1.4m growth target would be created. This will be applied over a five year investment time horizon to offset capital future losses arising from property and equity value falls.

3.5.17 MHCLG consulted on statutory overrides relating to the IFRS 9 Financial Instruments accounting standard from 2018/19. The consultation recognised that the requirement in IFRS 9 for certain investments to be accounted for as fair value through profit and loss may introduce “more income statement volatility” which may impact on budget calculations. The consultation proposed a time-limited statutory override and sought views whether it should be applied only to pooled property funds. The Council

responded to the consultation which closed on 28th September and the outcome of the consultation is awaited whilst fair value adjustments might create more volatility, the investments have been chosen to provide higher returns over the long term.

Performance Report

3.5.18 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 5 below.

Table 5: Investment performance for financial year to 30th September 2018

Period	LBTH Performance	Benchmark Return	Over/(Under) Performance
Full Year 2017/18	0.78%	0.36%	0.42%
Quarter 1	0.72%	0.46%	0.26%
Quarter 2	0.82%	0.55%	0.27%
Mid-Year 2018/19	0.77%	0.50%	0.27%

3.5.19 The Council's budgeted investment return for 2018/19 is **115 basis points** (1.15%) with average cash balance of £350m. This is based on placing £100m in pooled investments during 2018/19. There was a delay in placing these investments because of investment market sentiment over historically expensive investment values.

3.5.20 £65m was invested in pooled funds in July/August 2018 with a further £35m to follow. This is to spread the risk of investing at the top of the market. The funds will be in place to deliver the full year savings target in 2019/20 onwards, however due to the nature of the funds, returns will fluctuate from year to year. The risk profile of these investments is an important consideration for the Committee, in order to achieve higher returns, there can be a need to accept higher levels of risk.

3.5.21 The investment performance for the reporting period is **77bps** with average cash balance of £460m. Investment income of £1.9m has been generated, in the year to the current reporting period

3.6 Investment Benchmarking

3.6.1 LBTH participates in a benchmarking club being run by Arlingclose to enable officers to compare the Council's treasury management / investment returns against those of similar authorities. The model takes into account a combination of credit, duration and returns achieved over the duration, and it includes data from 135 local authorities. The progression of risk and return metrics are shown in table 6 below.

Table 6: Investment Benchmarking

	Tower Hamlets		12 London & Metropolitan Average	135 Local Authorities (LAs) Average
	31 March 2018	30 Sept 2018		

Internal Investments	£464.8m	£382.62m	£107.9m	£57.1m
External Funds	£0.0m	£65.00m	£3.9m	£10.2m
Average Credit Score	4.28	3.99	4.47	4.38
Average Credit Rating	AA-	AA-	AA-	AA-
Number of Counterparties & Funds	37	37	14	15
Proportion Exposed to Bail-in	26%	26%	59%	60%
Proportion Available within 7 days	16%	21%	50%	40%
Proportion Available within 100 days	54%	28%	74%	66%
Average Days to Maturity	161	208	57	38
Internal Investment Return	0.68%	0.88%	0.73%	0.76%
External Funds - Income Return	0.0%	1.17%	0.92%	1.17%
Total Investments - Total Return	0.68%	1.01%	0.84%	1.24%

3.6.2 As at 30th September 2018 LBTH investment portfolio delivered 0.88% for internal investment management, outperforming the benchmarking average of 0.73% and also the average return for 135 LAs with 0.76%, whilst for total return for total investments LBTH generated 1.01% outperforming the average return for 12 London Boroughs and Metropolitan Boroughs with return of 0.84% by 25bps but underperforming the average return for 135 LAs with return of 1.24% by 23bps.

3.6.3 It can be seen from the above table 6 that the internal managed investment returns had improved this was partly due to an increase in base rate from 50bps to 75bps in August 2018.

3.6.4 Based on the advice received from Arlingclose the investment portfolio credit scores has improved from 4.28 to 3.99, far better than the benchmark average, signifying LBTH portfolio credit risk is lower than that of the others. As a consequence our investment portfolio credit worthiness also improved from A+ to AA-.

3.6.5 The proportion of the portfolio investments exposed to bail-in is maintained at 26%, this level is more than halved the benchmark average of 59%. This means we have taken less bail-in risk on our investors compared to the others. Bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings.

3.6.6 It can also be seen from the above table that the number of counterparties the Council had as at 30th September was 37, the same as number held as at 31st March 2018. The number of counterparties the Council had investments with during the period is more than double the benchmarking average of 14. This demonstrates the Council reduces the counterparty risk and concentration risk of the investments portfolio significantly by investing with many quality institutions and local authorities. The lower average credit score compared to others reflects the lower risk of lending to Local Authorities.

3.7 **Compliance Report**

3.7.1 All treasury management activities undertaken from the beginning of the financial year 2018/19 to the this reporting period complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

3.7.2 Compliance with the authorised limit and operational boundary for external debt is set out in table 7 below.

Table 7: Debt Limits

	31.03.18 Actual £m	2018/19 Forecast £m	2018/19 Operational Boundary £m	2018/19 Authorised Limit £m	Complied
Borrowing	84.966	95.000	297.150	307.150	✓
PFI & finance leases	34.957	40.000	33.415	43.415	✓
Total debt	119.923	135.000	330.565	350.565	✓

3.7.3 The Council measures and manages its exposures to treasury management risks using a range of indicators.

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

	31.03.18 Actual	30.09.18 Actual	2018/19 Target	Complied
Portfolio average credit rating	AA-	AA-	A-	✓

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

	31.03.18 Actual	30.09.18 Actual	2018/19 Target	Complied
Total cash available within [3] months	£176.10m	£95.62m	£75m	✓
Total sum borrowed in past [3] months without prior notice	Nil	nil	Nil	✓

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

	30.09.18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	£0.669m	10%	0%	✓
12 months and within 24 months	£1.004m	30%	0%	✓
24 months and within 5 years	£1.004m	40%	0%	✓
5 years and within 10 years	£3.580m	80%	0%	✓
10 years and above*	£78.709m	100%	0%	✓

*This includes £60m LOBO with maturity date over 60 years and it could be call for repayment within the next 6 months following the last interest payment date, but there is a very slim chance of this happening hence it is included in this category

- 3.7.7 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£102m	£102m	£70m
Limit on principal invested beyond year end	£150m	£150m	£150m
Complied	✓	✓	✓

3.8 **Non-Treasury Investments**

- 3.8.1 The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. For English Authorities: This is replicated in MHCLG’s Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

- 3.8.2 The Council currently does not have such investments.

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

- 4.1 This report provides an update on Treasury Management activities from April 2018 to September 2018.
- 4.2 The Council adopted a new approach to its investment activities in line with approvals given in the 2018/19 Treasury management Strategy and its MTFS to increase the level of investment income it generates for 2018/19.
- 4.3 As at the 30th September 2018 the Council held an outstanding investments portfolio of £447.62m and this generated a total investment income of £1.9m. The annual investment income budget is £4m and current estimates indicate that this is achievable.

5. **LEGAL COMMENTS**

- 5.1 The Local Government Act 2003 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 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 Local Government Act 2003.
- 5.3 This noting report of the Corporate Director, Resources advises the Committee of the Council’s borrowing and investment activities for the half-year ending 30th September 2018 and is consistent with the key principles expressed in the Treasury Management

Code. 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.

- 5.4 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.

APPENDICES

Appendix 1 – Investments Outstanding at 30th September 2018

Appendix 2 – Glossary

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

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

Arlingclose LTD - Treasury Management Benchmarking Report and Quarter 2 2018/19
and Treasury Management Mid-Year Report Template

Brief description of “background papers’

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

Bola Tobun, x4733, Mulberry Place

Appendix 1: Investments Outstanding as at 30th September 2018

Time to Maturity	Counterparty	From	Maturity	Amount £m	Rate
Overnight	Amundi MMF		MMF	8.75	0.67%
	BNP Paribas MMF		MMF	16.22	0.66%
	Deutsche MMF		MMF	17.65	0.56%
	SUB TOTAL			42.62*	
Long Term	CCLA Diversified Income Fund	30/07/2018	POOLED	5.00	3.07% ⁺
	CCLA Local Authorities Property Fund	31/07/2018	POOLED	5.00	4.75% ⁺
	Payden & Rygel Absolute Return Bond Funds	31/07/2018	POOLED	10.00	2.05% ⁺
	Payden Rygel Sterling Reserve Fund	31/07/2018	POOLED	10.00	0.72% ⁺
	Threadneedle Global Equity Income Fund	01/08/2018	POOLED	3.00	3.38% ⁺
	Threadneedle Strategic Bond Fund	01/08/2018	POOLED	5.00	3.44% ⁺
	Threadneedle Sterling Short-Dated Corporate Bond Fund	01/08/2018	POOLED	8.00	1.75% ⁺
	Investec, Diversified Income Fund	09/08/2018	POOLED	6.00	4.07% ⁺
	Royal London Enhanced Cash Plus	15/08/2018	POOLED	10.00	1.05% ⁺
	Schroder Income Maximiser Fund	15/08/2018	POOLED	3.00	7.43% ⁺
	SUB TOTAL			65.00	
< 1 Month	Southampton City Council	02/10/2017	01/10/2018	10.00	0.60%
	Lancashire County Council	06/10/2017	05/10/2018	10.00	0.58%
	Rabobank	06/10/2017	05/10/2018	20.00	0.68%
	King & Shaxson (Rabobank CD)	18/04/2018	18/10/2018	10.00	0.87%
	SUB TOTAL			50.00	
1 - 3 Months	Staffordshire Moorlands DC	08/02/2018	08/11/2018	3.00	0.65%
	SUB TOTAL			3.00	
3 - 6 Months	Santander	00/01/1900	CALL 95	20.00	0.65%
	Australia & New Zealand Banking Group	06/08/2018	06/02/2019	10.00	1.00%
	Isle of Wight Council	07/02/2018	06/02/2019	3.00	0.77%
	London Borough of Ealing	20/02/2018	19/02/2019	10.00	0.85%
	Monmouthshire County Council	23/02/2018	22/02/2019	5.00	0.85%
	Coventry City Council	26/02/2018	26/02/2019	10.00	1.00%
	Cambridgeshire County Council	27/02/2018	27/02/2019	10.00	0.85%
	Blackpool Council	16/03/2018	15/03/2019	17.00	0.85%
	SUB TOTAL			85.00	
3 - 6 Months	Australia & New Zealand Banking Group	23/05/2018	22/05/2019	20.00	0.95%
	Commonwealth Bank of Australia	23/05/2018	22/05/2019	20.00	0.95%
	Wrexham County Borough Council	03/09/2018	03/06/2019	20.00	1.05%
	SUB TOTAL			60.00	
6 - 9 Months	Toronto Dominion Bank	05/07/2018	03/07/2019	20.00	0.95%
	Canadian Imperial Bank of Commerce	12/07/2018	11/07/2019	10.00	0.95%
	Bank of Montreal	12/07/2018	12/07/2019	10.00	0.96%
	The Royal Bank of Scotland PLC	19/08/2018	19/08/2019	5.00	0.96%
	Birmingham City Council	28/08/2018	27/08/2019	20.00	1.08%
	Bournemouth Borough Council	25/09/2017	25/09/2019	20.00	0.75%
	Surrey County Council	26/09/2018	25/09/2019	20.00	1.15%
	SUB TOTAL			105.00	
> 12 Months	Thurrock Borough Council	08/11/2017	08/11/2019	20.00	1.05%
	Middlesbrough Council	26/01/2018	27/01/2020	10.00	1.08%
	Isle of Wight Council	07/02/2018	07/02/2020	2.00	1.05%
	Dumfries & Galloway	20/08/2018	20/08/2021	5.00	1.20%
	SUB TOTAL			37.00	
	TOTAL			447.62	

* MMF balance includes £10m of Pension Fund cash awaiting investments. Returns shown are the month of August 2018.

+ Long Term funds have not been in place long enough to show a meaningful return – as a guide the rates shown are for the year to June 2018 prior to the Council investing.

Appendix 2 – Glossary

Asset Life	How long an asset, e.g. a Council building is likely to last.
Bail-in	A bail-in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings rather than the government or taxpayers.
Bail-out	A bailout is a colloquial term for the provision of financial help to a corporation or country which otherwise would be on the brink of failure or bankruptcy.
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	The main inflation rate used in the UK is the CPI. The

& Retail Prices Index (CPI & RPI)	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 programmes 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.
Quantitative Easing (QE)	Quantitative easing (QE), also known as large-scale asset purchases, is an expansionary monetary policy whereby a central bank buys predetermined amounts of government bonds or other financial assets in order to stimulate the economy.
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.