

Audit Committee



Thursday, 28 January 2021 at 5.30 p.m.

Online 'Virtual' Meeting - <https://towerhamlets.public-i.tv/core/portal/home>

Agenda

Chair: Councillor Val Whitehead

Members

Vice-Chair: Councillor David Edgar

Councillor Marc Francis, Councillor Ayas Miah, Councillor Puru Miah, Councillor Kyrsten Perry, Councillor Dan Tomlinson and Councillor Andrew Wood

Observers (Independent Persons):

Charlotte Webster (Independent Person)

Substitutes:

Councillor Kevin Brady, Councillor Bex White, Councillor Abdal Ullah and Councillor Peter Golds

[The quorum for the Audit Committee is 3 Members]

Further Information

Reports for consideration, meeting contact details, public participation and more information is available on the following pages.



Public Information

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Audit Committee

Thursday, 28 January 2021

5.30 p.m.

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NUMBER(S)

APOLOGIES FOR ABSENCE

1. DECLARATIONS OF INTEREST

5 - 6

Members are reminded to consider the categories of interest, identified in the Code of Conduct for Members to determine: whether they have an interest in any agenda item and any action they should take. For further details, see the attached note from the Monitoring Officer.

Members are also reminded to declare the nature of the interest at the earliest opportunity and the agenda item it relates to. Please note that ultimately it is the Members' responsibility to identify any interests and also update their register of interest form as required by the Code.

If in doubt as to the nature of an interest, you are advised to seek advice prior the meeting by contacting the Monitoring Officer or Democratic Services.

2. UNRESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

7 - 20

To confirm the minutes of the Audit Committee held on 12th November 2020.

3. DELOITTE ITEMS FOR CONSIDERATION

4. TOWER HAMLETS ITEMS FOR CONSIDERATION

4 .1 Audit of the Council's Accounts 2018/19 & 2019/20 - progress update

To follow.

4 .2 Presentation on the final accounts improvement plan

A verbal update on the account's improvement plan, by Marion Kelly, Finance Improvement Team.

4 .3	Annual Governance Statement for 2019/20	To Follow
	To follow.	
4 .4	Internal Audit and Anti-Fraud Progress Report	21 - 74
4 .5	Risk Management - Corporate Risk Register & Place Directorate Risk Register	75 - 94
4 .6	Treasury Management Strategy Statement, Investment Strategy and Capital Strategy Report for 2021-22	95 - 150
5.	AUDIT COMMITTEE WORK PLAN	151 - 154
6.	EXCLUSION OF PRESS AND PUBLIC	
	In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion:	
	“That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”	
	EXEMPT SECTION (Pink Papers)	
	The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please post them to the Democratic Service Office, 1st Floor, Mulberry Place London E14 3BG or hold onto the papers until such time you can return to the Town Hall and dispose of the papers in the confidential bins.	
6 .1	RESTRICTED MINUTES OF THE PREVIOUS MEETING(S)	155 - 176
7.	ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT	

Next Meeting of the Committee:

Wednesday, 7 April 2021 at 5.30 p.m. to be held in the Online 'Virtual' Meeting - <https://towerhamlets.public-i.tv/core/portal/home>

Agenda Item 1

DECLARATIONS OF INTERESTS AT MEETINGS– NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Code of Conduct for Members at Part C, Section 31 of the Council's Constitution

(i) Disclosable Pecuniary Interests (DPI)

You have a DPI in any item of business on the agenda where it relates to the categories listed in **Appendix A** to this guidance. Please note that a DPI includes: (i) Your own relevant interests; (ii) Those of your spouse or civil partner; (iii) A person with whom the Member is living as husband/wife/civil partners. Other individuals, e.g. Children, siblings and flatmates do not need to be considered. Failure to disclose or register a DPI (within 28 days) is a criminal offence.

Members with a DPI, (unless granted a dispensation) must not seek to improperly influence the decision, must declare the nature of the interest and leave the meeting room (including the public gallery) during the consideration and decision on the item – unless exercising their right to address the Committee.

DPI Dispensations and Sensitive Interests. In certain circumstances, Members may make a request to the Monitoring Officer for a dispensation or for an interest to be treated as sensitive.

(ii) Non - DPI Interests that the Council has decided should be registered – (Non - DPIs)

You will have 'Non DPI Interest' in any item on the agenda, where it relates to (i) the offer of gifts or hospitality, (with an estimated value of at least £25) (ii) Council Appointments or nominations to bodies (iii) Membership of any body exercising a function of a public nature, a charitable purpose or aimed at influencing public opinion.

Members must declare the nature of the interest, but may stay in the meeting room and participate in the consideration of the matter and vote on it **unless:**

- A reasonable person would think that your interest is so significant that it would be likely to impair your judgement of the public interest. **If so, you must withdraw and take no part in the consideration or discussion of the matter.**

(iii) Declarations of Interests not included in the Register of Members' Interest.

Occasions may arise where a matter under consideration would, or would be likely to, **affect the wellbeing of you, your family, or close associate(s) more than it would anyone else living in the local area** but which is not required to be included in the Register of Members' Interests. In such matters, Members must consider the information set out in paragraph (ii) above regarding Non DPI - interests and apply the test, set out in this paragraph.

Guidance on Predetermination and Bias

Member's attention is drawn to the guidance on predetermination and bias, particularly the need to consider the merits of the case with an open mind, as set out in the Planning and Licensing Codes of Conduct, (Part C, Section 34 and 35 of the Constitution). For further advice on the possibility of bias or predetermination, you are advised to seek advice prior to the meeting.

Section 106 of the Local Government Finance Act, 1992 - Declarations which restrict Members in Council Tax arrears, for at least a two months from voting

In such circumstances the member may not vote on any reports and motions with respect to the matter.

Further Advice contact: Asmat Hussain, Corporate Director, Governance and Monitoring Officer,
Tel: 0207 364 4800.

APPENDIX A: Definition of a Disclosable Pecuniary Interest

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

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	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. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	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— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
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	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (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.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE AUDIT COMMITTEE

HELD AT 5.30 P.M. ON THURSDAY, 12 NOVEMBER 2020

ONLINE 'VIRTUAL' MEETING - [HTTPS://TOWERHAMLETS.PUBLIC-I.TV/CORE/PORTAL/HOME](https://towerhamlets.public-i.tv/core/portal/home)

Members Present:

Councillor Val Whitehead (Chair)

Councillor David Edgar
Councillor Marc Francis
Councillor Ayas Miah
Councillor Puru Miah
Councillor Kyrsten Perry
Councillor Dan Tomlinson
Councillor Andrew Wood
Ms Charlotte Webster – Independent Person

Others Present:

Mr Peter Worth	– Independent Reviewer
Mr Jonathan Gooding	– Deloitte
Mr Angus Fish	– Deloitte
Mayor John Biggs	– Tower Hamlets
	–

Officers Present:

Jane Abraham	– (Housing Project Manager)
Allister Bannin	– (Head of Strategic and Corporate Finance)
Kevin Bartle	– Interim Divisional Director of Finance, Procurement and Audit
Rupert Brandon	– Interim Head of Housing Supply
Claudia Brown	– (Divisional Director of Adults Social Care)
Michael Darby	– (Head of Parking & Mobility Services)
Pearl Emovon	– Interim Treasury Manager
Sharon Godman	– (Divisional Director, Strategy, Policy and Performance)
Adrian Gorst	– (Divisional Director, IT)
Tim Harlock	– Interim Chief Accountant
Asmat Hussain	– (Corporate Director, Governance and Monitoring Officer)
Dan Jones	– (Divisional Director, Public Realm)
Marion Kelly	– Finance Improvement Team - Programme Director
Bharat Mehta	– (Audit Manager)
Paul Rock	– (Head of Internal Audit, Anti-Fraud and Risk)

Ann Sutcliffe	– (Corporate Director, Place)
Karen Swift	– (Divisional Director, Housing and Regeneration)
Warwick Tomsett	– Joint Director, Integrated Commissioning
Will Tuckley	– (Chief Executive)
Roger Jones	– (Head of Revenues)
Farhana Zia	– (Democratic Services Officer, Committees, Governance)

APOLOGIES FOR ABSENCE

Apologies for lateness were received from Councillor David Edgar and Councillor Marc Francis.

1. DECLARATIONS OF INTEREST

No declaration of disclosable pecuniary interest were made by the members.

For the record, Councillor Kyrsten Perry stated she is the Chair of the Pensions Committee and Councillor Andrew Wood stated he is a member of the Pensions Committee.

2. APPOINTMENT OF VICE CHAIR

Councillor Dan Tomlinson nominated Cllr David Edgar for the position of vice-chair. The nomination was seconded by Councillor Kyrsten Perry and the Chair, Councillor Val Whitehead.

No further nominations were made.

The Audit Committee **RESOVLED** to:

1. Elect Councillor David Edgar as the Vice-Chair of the Audit Committee for 2020-21.

3. MINUTES OF THE PREVIOUS MEETING(S)

The minutes from the previous meeting of 21st July 2020 were agreed as an accurate record of the meeting save for the following amendment to the list of attendees.

- Charlotte Webster, Independent person did attend the 21st July 2020 meeting.

4. DELOITTE ITEMS FOR CONSIDERATION

The Chair announced the change in the running order of the meeting. She informed attendees the items would be taken in the following sequence:

Items 1,2,3 followed by 5.2, 5.3, 5.4,5.5, 5.6, and item 6 before taking items, 4.1, 5.1 and 8.1 and then item 7.

4.1 **Deloitte Report to the Audit Committee - Audit Year Ending 31st March 2020**

Mr Jonathan Gooding, external auditor from Deloitte's presented their report and said this was a status report on the audits relating to 2018/19 and 2019/20. He said progress reports had been presented to the Committee at previous meetings and in summary, neither years audits were complete.

He informed members whilst some progress had been made in relation to the 2019/20 audit over the last few weeks, with improvement in the information asked for, progress on the 2018/19 remained limited. Mr Gooding said the report outlined the detail and circumstances surrounding the delays.

In response to questions from members the following was noted:

- In answer to if Deloitte's may not be unable to commit significant junior resource beyond November through to April 2021 and its likely impact the 2020/21 audit of accounts, Mr Gooding said that due to delays in receiving information, this could impact on the timetable of delivering future audits. He said they had rearranged resources and staff over the past two years, but they had reached a point where they were particularly busy. Mr Gooding said his colleague Mr Fish would continue to support the Council in its endeavour to finalise the audits, over the coming months but this depended on information coming forth.
- In reference to page 23 of the agenda, last bullet point members enquired what had happened to the audit certificates for 2017/18 from the previous auditors. Mr Bartle said there were a few procedural matters that needed to be dealt with, such as the 'Letters of representation'. However, these letters had not been signed and therefore the certificates had not been issued. He said the delay was because of some of the challenges relating to the 2018/19 accounts, which also impact the 2017/18 accounts.
- Mr Gooding confirmed that due to the pandemic, the deadline to submit the Statement of Accounts, had been moved from July to November 2020, for the 2019/20 accounts. He said there were quite a few authorities who were struggling to meet this deadline, but the cohort of authorities who had previous years of accounts to submit was much smaller. Mr Peter Worth confirmed the number to be thirty-four local authorities.

The Audit Committee **RESOLVED** to:

1. **NOTE** the Deloitte report to the committee regarding the progress made with the outstanding end of year audits for 2018/19 and 2019/20.

5. TOWER HAMLETS ITEMS FOR CONSIDERATION

5.1 Update on 2018/19 and 2019/20 Accounts and Audit

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit briefly outlined the position regarding the 2018/19 and 2019/20 accounts in the public part of the meeting.

Mr Bartle said he and his team were very disappointed not to have the accounts finalised for this meeting and regretted this very much. He said the reasons for the delay and the difficulties experienced would be discussed in part two of the agenda when discussing the Independent Review report. Mr Bartle said he hoped to have answers to the queries raised by Deloitte's, which run into the hundreds by January 2021.

On a more positive note, Mr Bartle said the Pensions Fund Accounts were in a relatively good position for both years, with just a handful of outstanding queries which he hoped would be finalised shortly.

Members made the following comments in relation to the report:

- Councillor Perry, the Chair of the Pensions Committee briefed members that she had been informed there were two outstanding adjustments to make to the Pension Fund Accounts. She said whilst this was encouraging the bigger issue related to the production of the main accounts.
- Councillor Francis stated he appreciated the reasons why some aspects of the production of the accounts were to be taken in private session however given the issues had been on-going for eighteen months, it was important for the Committee and the officers to publicly explain the reasons for the delay of the 2018/19 accounts. Councillor Francis continued stating some of the issues raised related to wider problems than that of the report commissioned. He said there were issues of governance that need to be addressed and resolved.
- The Chair, Councillor Val Whitehead said a report had been commissioned to review independently the reasons for the delay in the production of the 2018/19 accounts and it would not be appropriate to discuss the findings of the report in the public domain. She said it was important for Members to have a frank and open discussion with officers in the private session and for officers to respond to the recommendations made therein. Councillor Whitehead stated that the independent report would be made public in the January agenda papers.
- Councillors Perry and Wood stated they concurred with Councillor Francis' viewpoint however believed the report at present ought to be discussed privately, in order to solve the issues with the accounts before a public debate.

The Audit Committee **RESOVLED** to have a fuller discussion in the private session of the meeting but

1. Noted the continuing progress made on, and the plans for completion of the audits for both the 2018/19 and 2019/20 Statement of Accounts.

5.2 Audit Committee Terms of Reference, Membership, Quorum and Dates of Meetings

Ms Farhana Zia, Senior Committee Officer presented the report, asking members to note the Audit Committee's terms of reference, membership, quorum and dates of meeting for the municipal year 2020/21.

She informed members these had been agreed at Full Council on the 30th September 2020.

The Audit Committee **RESOLVED** to:

1. Note its Terms of Reference, Quorum, Membership and Dates of future meetings as set out in Appendices 1, 2 and 3 to this report; and
2. **AGREED** to hold future meetings of the Audit Committee at 5:30 p.m. if held virtually and at 6:30 p.m. if meetings are held in person at the Town Hall.

5.3 Internal Audit and Anti-Fraud Progress Report

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented the Internal Audit and Anti-Fraud progress report. Mr Rock said the report provided an update on the progress against the delivery of the 2019/20 and 2020/21 Annual Audit Plan and highlighted any significant issues since the last report to the Audit Committee in July 2020.

Mr Rock referred members to paragraph 3.2 and said Officers were present at the meeting to answer questions in relation to the three outstanding reports for 2019/20. He said a management response had been received yesterday in relation to the Domiciliary Care audit, which his team would be finalising shortly. He said he also hoped to finalise the Corporate Governance and the Local Community Fund opinions in the coming weeks. Mr Rock continued stating good progress was being made against the 2020/21 Internal Audit Plan and key officers for the six 'limited' assurance reports, as outlined in Appendix A, were present at the meeting.

Mr Rock said he was particularly pleased with the improvement in the implementation of agreed management actions and said the percentage of actions categorised as 'high priority' and 'medium priority' had significantly increased, when compared with the performance from last year.

Referring to Social Housing Fraud, Mr Rock reported a further four properties had been recovered in addition to the seven mentioned in the report. In addition, the report provided an update on the Anti-Bribery Policy which requires review annually. He said minor changes had been made to this. Mr Rock recommended the Anti-Bribery policy be publicised widely in the Council as well as to the members of the public in order to send a strong message to help minimise the risk of bribery.

The Chair thanked Mr Rock for his report before inviting the Officers to address their individual reports which were either outstanding awaiting management responses or had received 'limited' assurances following Internal Audit's assessments.

Monitoring of Domiciliary Care Contracts

Mr Warwick Tomsett, Joint Director of Integrated Commissioning in the Health, Adults and Communities Directorate presented his response stating that the management response to the internal audit report had now been submitted to Mr Rock. He said all the recommendations therein had been implemented. He said there had been a delay in some of the recommendations being taken forward, especially in relation to contract monitoring and making sure the right performance measures were in place for the contracts. Mr Tomsett described how one of the recommendations in relation to the payment system had resulted in some delay. He said the Electronic Home Care monitoring system was not working effectively and as such the contract was ended with the provider. A simpler system of block payments to care providers was adopted, which is reviewed every six weeks. He informed Members all outstanding issues with the electronic system had now been closed off and outstanding payments had been made to care providers.

In response to questions from members the following was noted:

- There wasn't a gap between the electronic system being terminated and the block payment system being adopted. The contract for the electronic system came to an end in March 2020 and the block payment system was introduced in March 2020. However, a report back to Internal Audit was not provided until all payments from the electronic system had been investigated and paid. This proved particularly challenging as the team was also managing the response to the pandemic.

Corporate Governance

Ms Asmat Hussain, Corporate Director for Governance and Monitoring Officer stated the response to the Corporate Governance Audit opinion was close to being finalised. Ms Hussain said there were a few internal strategies, policies

and procedures that required fine tuning and once this had been done, she hoped to submit her final response next week.

- Members had no specific questions for Ms Hussain.

Local Community Fund

Ms Sharon Godman, Service Head of Corporate Strategy, Policy and Performance stated further evidence was being gathered as per the recommendations made in the audit opinion and she was working with the Audit team on the detail. She said there was no further update at this stage.

- Members had no specific questions for Ms Godman.
- **ACTION:** Internal Audit to provide some detail about the reviews it is evaluating, so to enable Members to ask questions in advance of the final reports/opinion.

IR35 – Management and Control of Off Payroll Engagement

This 'limited' assurance report was deferred until the next meeting of the Audit Committee, as the Officer was not present to answer questions regarding this report.

Back up Schedules and Protection

Mr Adrian Gorst, Divisional Director for IT, said whilst he was disappointed at the 'limited' assurance given, it was a dubious honour being back at the Audit Committee. He said this was quite a deliberate action as his department was using the audit function to flush out the shortcomings in the current arrangement with the strategic partner, before the contract is re-tendered in April 2021. He said by taking this tactical measure to address the shortcomings, he wanted to ensure that any new contract addressed the issues raised by internal audit. Mr Gorst said there was a detailed action plan in place to correct the shortcomings and said he was working to secure funding as part of the capital report going to Cabinet shortly.

He said the new Cloud contracts come into place on the 1st April 2021 and these included protections for business continuity and backups within that, so once the contract is implemented there would be contract monitoring in place, with the usual expectation to ensure it is robust.

In response to questions from Members the following was noted:

- Data is being backed up but to a standard that would have been acceptable five to six years ago. The expectations of how data is backed up has changed, especially now with new threats of data

hacking and cybercrime. Therefore, it needs to be backed up to a different place, encrypted and stored separately.

- In response to how restoration testing is done, Mr Gorst said at present this was done on an ad-hoc basis, when someone had lost a file and wanted it restored. He said restoration testing of back-ups was required and he wanted to ensure this was built into the new contract so regular restoration testing takes place. Mr Gorst said a tiered approach was required to ensure the back-up system is in place and is tested by users to ensure it restores data that is required.
- The current contract has a long duration period and does not have flexibility within it to change the back-up process without additional costs to the council. As such, Mr Gorst wanted to ensure the new contract would meet the Council's needs and expectations.

Control and Monitoring of Parking Permits

Ms Ann Sutcliffe, Corporate Director for Place introduced the report and stated she welcomed the internal audit review as this helped to ensure a thorough review of systems and processes in place for the administration of parking permits.

Mr Dan Jones, Divisional Director for Public Realm added he was thankful to the auditors who had undertaken the review of the parking permit system and the recommendations made by them. He said the issues highlighted by the report had been dealt with; with governance arrangements being strengthened with the help of legal colleagues. Similarly, reconciliation issues had been resolved with IT and budget monitoring had been picked up through staff training. Mr Jones said staff had completed several spot checks with paper permits however as the system had moved to a virtual platform this was now less of an issue.

In response to questions from members the following was noted:

- Referring to the database systems, members asked if issues with the validation of names and addresses had been resolved. Mr Darby, Head of Parking and Mobility Services, responded saying the checking of data comes from the UPNR data and that had been resolved to a satisfactory conclusion. In terms of the Council Tax database, this is used to see if there are any fraudulent claims. For example, a single occupancy household applying for a further parking permit. If anomalies are found these are referred to the anti-fraud team to investigate.

Financial Assessments for Residential and Non-Residential Support

Ms Claudia Brown, Divisional Director for Adult Social Care said the internal audit report had identified several areas for improvement and as such she had instigated a project involving several members to staff to look at each area

that had been identified. She said the 'task and finish' groups would be looking at systems, policies and procedures and would be reporting back at the end of the financial year. In particular, she highlighted the areas of debt recovery and deferred payments.

Mr Roger Jones, Head of Revenue Services added Adult Social Care debt recovery, was a sensitive area with a final warning letter being sent to debtors. However, a more robust approach was required, even if this wasn't palatable to some, such as pursuing debt through county court judgements and the involvement of third-party debt collectors, if this debt is to be collected.

In response to questions from members the following was noted:

- Since the pandemic, the teams working in Adult Social Care had been redesigned with a duty system in place, whereby staff are rostered in and others work from home. Where an assessment needs to be made, this is done via a video call or phone call. However, if staff are required to go to a client's home, they are given the correct PPE to wear.
- Mr Jones confirmed that where a debtor owned assets such as a property, the Council would look to place a charge on this rather than use other methods of debt collection. However, most debtors do not own their home. Ms Brown added there were instances of debtors with cash sums in bank accounts, but these were unreachable. She said she would be preparing a report looking at debt collection and the options available, which would be presented to Councillors.

Capital Programme Governance

Ms Ann Sutcliffe, Corporate Director for Place introduced this report stating the Council had reviewed its capital programme by looking at how this is funded and the governance structures around it. She said the involvement of audit was welcomed and timely as it gave fresh commentary on the systems in place. She said significant inroads had been made to the actions identified in the internal audit report.

Ms Jane Abraham, Interim Head of Capital Delivery stated that from a project management perspective a more robust project documentation process was followed to improve the overall standard of submissions. She said funding sources had to be identified from the onset, as well as authorisation signatures and if legal comments were required this was done. She said this process was followed for growth bids, project initiation documents as well as highlight reports, with the timely monitoring of dashboards.

Ms Marion Kelly, Interim Programme Director, Finance Improvement Team highlighted the issues facing project managers using Agresso and the difficulties in managing budgets and making decisions. She said the finance team was in dialogue with IT through the Agresso Board to develop a pipeline of changes required to address the issues and improve outcomes. A prioritisation matrix was being agreed with IT, with thirty priority areas.

In response to questions from members the following was noted:

- Members thanked Officers for the update and said they appreciated the work being done to address the finance issues highlighted. Reporting issues and the underspend in the capital programme impacted on communities, dependant on the funding.

Management of Acquisition of Properties for Temporary Accommodation

Ms Ann Sutcliffe, Corporate Director for Place introduced the report and stated Ms Karen Swift, Divisional Director for Housing and Regeneration and Mr Rupert Brandon Head of Housing Supply, were also present at the meeting in relation to this report.

Ms Sutcliffe said she always welcomed and embraced audit reports even if this resulted in limited assurances and attendance at Audit Committee. She said this was a critical review of the management of acquisitions of properties for temporary accommodation which was needed because of the sums involved.

Ms Swift provided a short summary of the reasons behind the acquisition of properties for temporary accommodation and said the recommendations identified in the internal audit report were being addressed. She said the recommendation in relation to the 'change note' had been regularised and a further report would be going to Cabinet on all the three streams of the project. Ms Swift said all future Cabinet reports would include stronger finance comments and would set out what the funding streams are. She said the recommendation in relation to insurance had now been completed and she very much saw recommendations five, six and seven as a means for improvement, for future reports and decisions on the acquisition of properties.

In response to questions from members the following was noted:

- In response to what controls had been put in place to ensure the Insurance Team are notified of purchases, Mr Rupert Brandon said there was confusion as to if the council's insurance policies covered properties brought back as leasehold. However, following the audit report, its clear individual properties require insurance and this anomaly has now been corrected. He said the process map for the acquisition of properties was being rewritten as there are many individuals involved in the process.
- Regarding the cost of repair work and if these were higher than the original value for money calculations, Mr Brandon said in respect of Poplar HARCA properties, the Council was not buying these back now. He said they had been batched together as fifteen to twenty properties and were not been fully assessed for repair work, for fear of losing these properties to lettings. Mr Brandon said a new process had been introduced to ensure the cost of repair work for properties bought back

from leaseholders from their own stock did not fluctuate with an inspection regime being undertaken by Tower Hamlets Homes, before the property is valuated.

The Chair thanked all the Officers who made contributions to this item and said she hoped the implementation of the recommendations within the Internal Audit reports would lead to improvements within their areas of responsibility.

Following on from the presentations, general questions regarding the report were asked:

- Councillor Wood recommended the anti-bribery policy should explicitly state when issues should be reported to the police or when they are consulted. He said this was not clear in the policy presented to the Committee. Mr Rock responded stating he believed this point was made in relation to the Anti-Fraud policy previously, however he would look at the both policies to ensure they clearly state this.
- **ACTION:** Mr Rock to review both the Anti-Bribery and Anti-Fraud policies to ensure they are clear on when to involve the responsible authorities, such as the police in cases being investigated.

The Audit Committee **RESOLVED** to:

1. Note the contents of the report and the overall progress and assurance provided, as well as the findings/assurance of individual reports; and
2. Approve the Council's Anti-Bribery Policy.

5.4 Risk Management - Corporate Risk Register

Mr Paul Rock, Head of Internal Audit, Fraud and Risk presented the Risk Management report. He said the Corporate Risk Register had been updated and he had worked with all the Directorates to ensure their registers were up to date. Mr Rock said this was an opportunity for the Committee to decide which Directorate level risk register it wanted to review at a future Audit Committee meeting.

In response to questions from members the following was noted:

- Risk management had witnessed a difficult year with many changes occurring from BDO highlighting concerns, to the remodelling of how the risk management would be taken forward. Mr Rock said this required a strong buy in from the Corporate Leadership Team and just as this was happening the pandemic hit and the only risk resource he had, the Risk Manager left the Council. Mr Rock said despite these challenges, it was clear risk management had achieved a higher status amongst managers and staff, especially the work done with Gold Command and the response to the pandemic crisis. He said he hoped

to capitalise on this by ensuring Directorate Leadership Teams continued to embrace and take ownership of risks in their areas of responsibility.

- In reference to the risk identified on page 97 of the agenda and the Grenfell Fire tragedy, Councillor Wood stated the consequence column ought to have more detail about the financial impact on leaseholders and their livelihoods, which would affect the overall risk rating given to risk. Councillor Wood cited the financial burden that leaseholders would face with possible bankruptcy, should they be unable to afford the cost of remedy work plus the wider impact on the property market
 - **ACTION:** Mr Rock said he would relay the concerns raised back to the risk owners in relation to risk PLC0013.
- Mr Rock stated that with the help of the risk champions and business support officers in each Directorate, he was confident to deliver the risk management agenda until the end of the year. However more resource would be required in order to strive ahead. He said he remained hopeful as he was looking to commence a reorganisation of the team. He said the previous recruitment campaign failed to attract the right calibre of candidate.

A brief discussion took place as to which Directorate level risk register ought to be reviewed at the next meeting of the Audit Committee in January 2021.

- Members suggested the Place Directorate and the Resources Directorate.

The Audit Committee **RESOVLED** to:

1. Note the corporate risks, and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at the next Committee meeting (or separately before the meeting if urgent);
2. Note the progress made against the Annual Action Plan for Risk Management; and
3. Decided the Chair of the Audit Committee liaise with Mr Paul Rock, Head of Internal Audit, Fraud and Risk on which Directorate's risk register should be reviewed first.

5.5 Treasury Management Mid-year Report for 2020-21

This report was taken in conjunction with Item 5.6 Treasury Management report for 2019 -20.

5.6 Treasury Management Report for 2019-20

Mr Kevin Bartle, Interim Divisional Director for Finance, Procurement and Audit presented both reports. Mr Bartle said he would talk about the 2019/20 report before the mid-year report for 2020/21. He said the reports contained a lot of detail on the treasury management activity that had taken place and therefore he would give assurances around the key indicators.

Mr Bartle said all the indicators had been met for the outturn and mid-year Treasury Management reports, as shown in the summaries of the reports. He said the Treasury Management Strategy Statement (TMSS) as approved by Council was being complied with and the Finance Team was keeping a close eye on investment returns because of the bank base rate being at a historic low. He said this could impact significantly on treasury management returns.

In respect of credit worthiness of investments, Mr Bartle stated this was at a satisfactory level despite the investment quality being lower than desired. He referred to the pooled investments funds and said the value of these had nominally dropped from £76M to £69.4M. Mr Bartle said that given the fluctuations in the stock markets, due to the pandemic, these long-term investments have recovered in 2020/21 and are now back up to £73M.

Mr Bartle continued stating that from a budget perspective, the targets for income budgets on investment income were being met, despite the difficult time the faced with low interest rates. Lastly Mr Bartle pointed out the Capital Financing Requirement (CFR) had been changed, in line with the changes made to the Capital Programme.

In response to questions from members the following was noted:

- Councillor Wood referred to Croydon Council and their Section 114 declaration. He said whilst he appreciated Tower Hamlets were not in the same position, the Committee ought to look at the issues raised. He said there had been a drop in financial investments from March 2019 to September 2020, and whilst the Council was spending more, there was still a lot of money left. He recommended that a future meeting the Audit Committee look at lessons to learnt from the Croydon example.
- **ACTION:** The Chair agreed the Committee would examine the lessons learnt from Croydon Council's situation at a future meeting.

The Audit Committee **RESOVLED** to **NOTE** the recommendations in the Treasury Management Mid-Year Report of 2020-21 in so far as:

1. Note the contents of the treasury management activities and performance against targets for the half year ending 30th September 2020; and
2. Note the Council's investments as set out in Appendix 1. The balance outstanding as at 30th September 2020 was £180.90m.

AND NOTE the recommendations in the Treasury Management Report 2019-20 in so far as:

1. Note the contents of the treasury management activities and performance against targets for the year ending 31st March 2020; and
2. Note the Council's investments as set out in Appendix 1. The balance outstanding as at 31st March 2020 was £257.750m.

6. AUDIT COMMITTEE WORK PLAN

The Audit Committee noted the work plan for the remaining meetings of the Committee.

7. ANY OTHER BUSINESS THE CHAIR CONSIDERS URGENT

There was no urgent business to be discussed.

8. EXCLUSION OF PRESS & PUBLIC

The Chair **MOVED** and it was:

RESOLVED

“That, under the provisions of Section 100A of the Local Government Act 1972, as

amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

8.1 Independent Review of Accounts Closure 2018/19

The minute for this item is restricted.

The meeting ended at 8.35 p.m.

Chair, Councillor Val Whitehead
Audit Committee

Non-Executive Report of the: Audit Committee Thursday, 28 January 2021	 TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director, Resources	Classification: Open (Unrestricted)
Internal Audit and Anti-Fraud Progress Report	

Originating Officer(s)	Paul Rock
Wards affected	(All Wards);

Executive Summary

This report provides an update on progress against the delivery of the 2019/20 and 2020/21 Annual Internal Audit Plan and highlights any significant issues since the last report to the Audit Committee in November 2020. An update on anti-fraud activity is also included.

Recommendations:

The Audit Committee is recommended to:

1. **Note** the contents of this report and the overall progress and assurance provided, as well as the findings/assurance of individual reports.
2. **Approve** the Council’s Whistleblowing Policy and the Anti-Fraud and Corruption Strategy.

1. REASONS FOR THE DECISIONS

- 1.1 The Accounts and Audit Regulations 2015 state that a relevant authority must ensure that it has a sound system of internal control which:
 - 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.
- 1.2 The Audit Committee has responsibility for oversight of the arrangements for governance, risk management and control and this report assists the Committee in discharging its responsibilities.

2. **ALTERNATIVE OPTIONS**

2.1 None.

3. **DETAILS OF THE REPORT**

Progress and Finalisation of the 2019/20 Internal Audit Plan

3.1 Since the last Audit Committee in November 2020 we have been working with management to finalise the remaining audits from the 2019/20 Internal Audit plan. The following audits have been finalised and may be used to inform the 2020/21 annual Head of Internal Audit opinion; summaries of these audits are included at Appendix A:

Reasonable / Substantial

- Stepney Greencoat Primary School

Limited

- Corporate Governance
- Bowden House Special School
- St John's Primary School
- Deputyships and Appointeeships

Progress against 2020/21 Internal Audit Plan

3.2 Since the last Audit Committee in July 2020 when the 2020/21 Annual Internal Audit Plan was agreed the following progress has been made:

Audits at Planning Stage (Research)

- Child Exploitation Service and Contracts

Engagement Plans Issued to Management

- Contract Monitoring of Grouped Schools PFI Contract
- Election Spending

Audits in Progress (Fieldwork)

- Supporting Stronger Families – Grant Claim Certification
- Discretionary Housing Payments
- Place Directorate Governance
- Ethical Culture
- Planning and Capital Projects Community Infrastructure Levy (CIL) Collection and Utilisation
- Asset Management
- Management of Complaints
- Payroll
- NNDR

- Drugs and Alcohol Services – Contract Monitoring
- Overview and Scrutiny functions
- Contract Monitoring of Children’s Commissioned Services
- Staff Declaration of Interests
- Delivery of Efficiency Savings
- Emergency Hardship Payments (Resident Support Scheme)
- Treasury Management
- Private Sector Compliance with Fire Risk Assessments
- Debtors and Income Recovery

Draft Reports

- Local Community Fund (First issued 16/06/20, amended drafts issued 21/10/20 & 5/1/2021)
- Housing Allocations and Lettings (First issued 13/10/2020)
- Pension Administration (First issued 29/10/20)
- General Ledger (First Issued 18/11/2020)
- New Town Hall – Contract Audit (First 8/01/2021)
- IT Remote Working (Issued week commencing 25/1/2021)

Final Reports

- PCI and DSS Governance (IT Audit) – Limited Assurance.
- Payment Controls for Temporary Accommodation – Reasonable Assurance
- Cyber and Network Security (IT Audit) – Limited Assurance

3.3 Summaries of the finalised audits are included at Appendix A.

Annual Internal Audit Opinion

3.4 In accordance with the Public Sector Internal Audit Standards the Head of Internal Audit is required to give an overall opinion on the governance, risk management and internal control environment of the Council. This opinion is mainly, although not exclusively, based on the outcomes of internal audit’s activity. If asked to provide an opinion today the balance of work would suggest that a Limited assurance opinion would be warranted.

Table 1 – Final Audit Opinions Issued in 2020/21

Reasonable Assurance	Limited Assurance
DSP Tool Kit	IR35 Off Payroll Engagements
Payment Controls for Temporary Accommodation	Back up Schedules and Protection (IT Audit)
Creditors	Control and Monitoring of Parking Permits
	Acquisition of Properties for Temporary Accommodation
	Capital Programme Governance

	Financial Assessments of Contributions to Social Care
	PCI DSS Governance
	Corporate Governance
	Cyber and Network Security (IT Audit)
	Deputyships and Appointeeships

Implementation of Agreed Management Actions

- 3.5 In each instance where weaknesses have been identified, Internal Audit has obtained an agreed management action plan to address the weaknesses and improve the risk management, governance and/or controls.
- 3.6 Historically, internal audit has followed up high and medium priority recommendations six months after the issue of the final reports to assess the progress made in implementing the agreed actions. We reviewed our approach to following up management actions and reporting progress to the Audit Committee and implemented the new process from May 2020.
- 3.7 During the period May 2020 to December 2020, eight follow up audits were undertaken to assess the progress in implementing the agreed actions and recommendations. The following Table gives an analysis of the progress in the implementation of agreed management actions.

Table 2 – Implementation of Agreed Management Actions

	High Priority	Medium Priority
Number of Agreed Management Actions Followed Up	56	22
Number of Management Actions Fully Implemented	42	9
Number of Management Actions Partially Implemented	14	10
Number of Management Actions Not Implemented	0	3
% Fully Implemented	75%	41%
% Partially Implemented	25%	45%
% Not Implemented	-	14%

- 3.8 It is pleasing to report that 100% of high priority actions have either been fully implemented or partially implemented, with only 3 medium priority recommendations that have not been implemented. This is a positive response from management.

Public Sector Internal Audit Standards

- 3.9 The Public Sector Internal Audit Standards (PSIAS) require the Head of Internal Audit to periodically self-assess conformance against the standards and report to the Audit Committee any partial or non-conformance as well as a plan to address any such issues.
- 3.10 The Committee were previously advised of the self-assessment for 2019/20 and the resulting action plan to address the areas of partial/non-compliance. Progress against this action plan is summarised in Appendix B; all actions are now complete. Actions that have previously been reported to the Committee as completed have been removed from the update.

Internal Audit Perception Survey

- 3.11 To further improve the internal audit service, we have sought the views of management across the Council through a short perception survey. Recipients were asked to grade internal (4-point scale, strongly disagree to strongly agree) on the following statements:
1. I understand the role and importance of Internal Audit and how it helps the Council accomplish its objectives?
 2. Internal Audit activity is aligned with the strategies, objectives and risks of the Council?
 3. Internal Audit consistently demonstrates competence and due professional care?
 4. Internal Audit is objective and independent?
 5. Internal Audit adds value with the work they deliver?
 6. Internal Audit is insightful, proactive and future focussed?
 7. Internal Audit promotes and supports organisational improvement and transformation?
 8. Internal Audit provides accurate, objective, clear, concise, constructive, complete and timely reports that meet your needs?
 9. Internal Audit consistently demonstrates integrity?
 10. Internal Audit enables the sharing of good practice and experience across the Council?
 11. Internal Audit demonstrates quality and continuous improvement in internal audit practice?
 12. Internal Audit has provided an effective service for the Council in the last 12 months?
- 3.12 There were 35 responses in total. The results are detailed in Appendix C. We are pleased to report the following:

- 80% or more of respondents 'strongly agreed' or 'agreed' with statements 1, 2, 3, 4, 5, 7 & 9.
- 74% to 77% of respondents 'strongly agreed' or 'agreed' with statements 6, 8, 11 and 12; around 20% of respondents disagreed with these statements or did not respond.
- The lowest percentage of 'strongly agreed' and 'agreed' was for statement 10 which scored 63%, 34% disagreed and 3% did not respond.

3.13 Some respondents added additional comments, a sample is below:

- It would be good to understand how internal audit makes decisions about what areas require audit and what is being planned for this year and the following year.
- I think it will be useful for all staff within the Council to undertake some form of awareness training to understand the importance of internal audit and why this is required. I do feel that staff, especially those that are a frontline, do not always understand this or the importance of internal audit.
- They have always provided good support and advice when asked for and conducted all audits I have been involved in with professionalism and by working with me.
- One of the audits that was completed last year showed a complete lack of understanding of the staff group we employ. I don't know what added value this provides to the Council.
- Our current audit reports could be smarter and easier to follow as some actions/findings historically have overlapped and have been almost been there for the sake of it, rather than making a real difference.
- Internal Audit is integral to assisting delivery of services in an efficient and compliant manner, although many managers may not know their specific function.

3.14 Whilst most responses were positive there remains room for improvement. In 2021/2022 we will seek to improve how insightful, future focused and proactive we are, our reporting, how we share good practice and our Quality Assurance and Improve Programme. We will also deliver a series of workshops and update our Intranet content to better explain the role of Internal Audit and how we support the organisation in achieving its objectives. Further details will be provided when we review our audit strategy and plan our audit activity for the coming financial year.

3.15 This is the first time such a survey has been undertaken and we will repeat this survey each year to measure our performance and progress and report the results to the Corporate Leadership Team and the Audit Committee.

Corporate and Social Housing Fraud

3.16 The Corporate Anti-Fraud Team consists of the following sub teams:

- Intelligence
- Social Housing
- Corporate Investigations
- Blue Badge

3.17 There is also an investigator in the Insurance Service who examines the integrity of insurance claims to eliminate fraudulent submissions and repudiate inappropriate claims.

3.18 In addition to investigating referred cases, the Corporate Anti-Fraud Team also undertakes various proactive exercises and coordinates the Council's participation in the National Fraud Initiative, a biennial proactive data matching exercise run by the Cabinet Office in which each local authority must participate.

3.19 The various fraud teams continue to diligently investigate allegations of fraud as and when they arise. In line with the Council's strategy during the pandemic, only essential services were in operation and key workers deployed and to minimise the risk to the investigators and the public, interviews, foot patrols and visiting were stopped, although desktop investigations have continued throughout. In October 2020 we received confirmation that our service risk assessment had been agreed in line with the Council's recovery and reconstitution process, and with the appropriate safety measures in place some visiting and interviews have recommenced, however these have since halted with the reintroduction of restrictions. It's likely we will see a reduction in outcomes over the coming months until the backlog of investigation and Court work is cleared. The Courts are currently adjourning most cases whilst they clear their own backlog. Most Court cases are being relisted for hearings in 2021 and 2022.

Summary of Referrals and Outcomes for 2020/21

3.20 A summary of referrals and outcomes for 2020/21 is show below:

Table 3 - Corporate Fraud Team, October 2020 to December 2020

No. of referrals	Closed	Rejected	Ongoing
9	0	2	7

Table 4 - Social Housing Fraud Team, October 2020 to December 2020

No. of Referrals	Closed	Rejected	Ongoing	Properties Recovered	RTB Applications Stopped	Misc. successful outcomes
57	11	18	28	7	2	0

Table 5 - Insurance Investigator Caseload 2020/21

Total No. of claims received:	114
No. of claims investigated:	41
Total value of claims investigated:	£1,468,052
No. of claims repudiated as a result of investigation:	16
No. of claims withdrawn during investigation:	0
Total value of claims repudiated or withdrawn (above):	£142,056

3.21 In addition, a further 25 claims with a reserve value of £1.3m remain under investigation.

Proactive Anti-Fraud Activity

3.22 In order to regain ground lost to the impact of the of the pandemic we have been undertaking a validation exercise with the Blue Badge Digital Service to recover badges where the Badge Holder has passed away and the relatives have not returned the badge for cancelation. It is not uncommon for these badges to be sold and/or misused. In addition to recovering these badge the exercise will ensure that more parking is available for genuine Blue Badge holders. To date this exercise has identified 196 Blue Badges and we are in the processes of recovering them.

3.23 In addition to the Blue Badge exercise we are participating in a Transliteration pilot with the Cabinet Office which targets multiple identify fraud by using data we have already submitted via the National Fraud Initiative. There are over 5 million individuals in the UK who have the ability to use two or more genuine forms of ID, with undetectable and unlinked iterations of their names. This allows them to commit undetected application fraud evidenced with genuine documentation, by generating multiple applications with multiple names for the same services. Additionally, it allows couples to use different surnames to perpetrate Undeclared Partner Fraud. We anticipate receiving the results of this pilot exercise in January and will report our progress in April 2021.

Whistleblowing Policy and the Anti-Fraud and Corruption Strategy

3.24 The Whistleblowing Policy and Anti-Fraud and Corruption Strategy are reviewed annually to ensure they remain up to date and fit for purpose. Both the policy and the strategy have been reviewed and are presented to the Audit Committee for approval; both documents have only required minor updates and are attached at Appendix D and E respectively.

4. EQUALITIES IMPLICATIONS

4.1 There are no equalities implications.

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.
- Data Protection / Privacy Impact Assessment.

5.2 Other than the Accounts and Audit Regulations 2015 there are no other statutory implications.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 Other than the requirements on the authority and responsible financial officer set out in the Accounts and Audit Regulations 2015, there are no significant financial implications.

7. COMMENTS OF LEGAL SERVICES

7.1 A local authority is required by the Accounts and Audit Regulations 2015 to have a sound system of internal control, which facilitates the effective exercise of its functions, ensure that the financial and operational management of the authority is effective, and includes effective arrangements for the management of risk. In addition, section 151 of the Local Government Act 1972 requires a local authority to make arrangement for the proper administration of their financial affairs. This report demonstrates the Council's compliance with the above requirements.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix A – Summary of Finalised Audits
- Appendix B – PSIAS Action Plan
- Appendix C – Internal Audit Perception Survey Results
- Appendix D – Whistleblowing Policy
- Appendix E – Anti-Fraud and Corruption Strategy

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:

Paul Rock, Head of Internal Audit, Fraud and Risk

Tel: 07562 431830. Email: paul.rock@towerhamlets.gov.uk

Summaries of Finalised Internal Audits

Assurance level	Significance	Directorate	Audit title
LIMITED			
	Extensive	Corporate Cross Cutting	Corporate Governance
	Extensive	Corporate Cross Cutting	PCI and DSS Compliance
	Moderate	Children and Culture	Bowden House Special School
	Moderate	Children and Culture	St. John's Primary School
	Extensive	Resources and Health, Adults & Community	Management of Appointeeships and Deputyships
	Extensive	Resources	Cyber and Network Security
REASONABLE			
	Extensive	Place	Payment Control for Temporary Accommodation
	Moderate	Children and Culture	Stepney Greencoat Primary School

Limited Assurance

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Corporate Governance	Jan 2021	<p>Good governance is essential for ensuring that the Council conducts its business in accordance with the law and proper standards and that public money is properly accounted for. CIPFA/SOLACE have published best practice guidance notes on Delivering Good Governance in Local Government. This guidance defines best practice for developing and maintaining a locally adopted code of governance and assists local authorities in reviewing the effectiveness of their own governance arrangements.</p> <p>The objective of this audit was to provide assurance that the Council's arrangements for corporate governance are sound, secure and effective.</p> <p>This audit was undertaken in 2019. The audit testing, findings and opinions relate to the governance arrangements in place across the Council up to March 2020. Finalising the audit has been understandably delayed by the pandemic. Where management has subsequently taken action to update and/or improve its governance arrangements since March 2020 we included references to these changes and improvements in the report.</p> <p>The Council commissioned Grant Thornton in 2018 to undertake a review of its governance arrangements against CIPFA's "Delivering Good Governance in Local Government 2016". During this audit we assessed the progress made in implementing key actions from this report. The following key issues and findings were reported at the conclusion of this audit:</p> <ul style="list-style-type: none"> • The Council has a Code of Corporate Governance which sets out the commitment to uphold the highest possible standards of good governance. The Code was first put together in 2018, it was reviewed in 2019 but in a less formal manner before being provided to the Audit Committee as an appendix to an early draft of the 2018/19 Annual Governance Statement. It 	Extensive	Limited

		<p>would have been more appropriate to report the document to CLT for verification that all policies, procedures and other documents cited in the Code to support and evidence compliance were up to date, appropriate, relevant and valid.</p> <ul style="list-style-type: none"> • Since this audit was undertaken, the Code has been reviewed and presented to both CLT and the Audit Committee for their review, comment and agreement. During the audit, in order to verify that the collection of policies, procedures and other documentary evidence listed in the Code against CIPFA/SOLACE principles were actually operational and effective, we reviewed a sample of key documents and carried out our own independent audit testing. The detailed issues and observations were reported and management comments and proposed actions were agreed. • The final report in June 2018 on Grant Thornton’s review of the Council’s governance arrangements contained 48 separate observations/actions. Our enquiries found that there was no action plan to progress and implement key issues raised in this report. The outcome was not formerly reported to the CLT or the Audit Committee. This issue was brought to the Monitoring Officer’s attention and she immediately tasked the Deputy Monitoring Officer to review the GT report and prepare an action plan. • Local authorities are required to report publicly about how they have complied with their governance arrangements through an Annual Governance Statement (AGS). Each Corporate Director is required to confirm that their Directorates are run efficiently, effectively, and with proper risk management, governance and sound system of internal control. Directors are required to review their internal controls and submit an Annual Assurance Statement to the lead Officer identifying any significant governance issues within their Directorates. • During the preparation of AGS for 2018/19, the previous Head of Internal Audit wrote to all Corporate Directors for a self- evaluation to be carried out and this followed up by reminders. The first draft of the 2018/19 AGS 		
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		<p>was published in the Statement of Accounts before the returns were received from the Corporate Directors. When we reviewed the returns, which were received in July 2019, we noted that a full response was received only from the Corporate Director, Resources and Corporate Director, Health, Adults and Community; nil returns were received from the Corporate Director, Governance, Corporate Director of Place and the Corporate Director of Children’s and Culture. The two populated responses formed the basis of the significant governance issues raised for 2018/19 within the AGS. The 2018/19 AGS was approved by the Audit Committee in July 2020.</p> <ul style="list-style-type: none"> • Recently, there has been no evaluation of how various policies and documents listed in the Code effectively deliver good governance of the Council. The Code of Corporate Governance should not just record and list a collection of policies and procedures, but there should be an evaluation on a regular basis to assess how these policies and procedures are effectively delivering good governance. • At the time of the audit, the 2019 Code of Corporate Governance had not been published on the staff intranet or on the LBTH Internet website to ensure that all staff and stakeholders are informed fully in an open and transparent manner about its governance processes. Since our fieldwork concluded, the 2019 Code has been updated and approved by both CLT and the Audit Committee, it will be published in the Intranet imminently. • At the time of the audit, the Council had not issued up to date guidance on the Councillor Call for Action Procedure, which would enhance the overview and scrutiny function. Since our fieldwork concluded, guidance is currently being produced and is expected to be published imminently. <p>All findings and actions were agreed by the Monitoring Officer and by individual Divisional Directors and Heads of Services. The final audit report was issued to the Chief Executive and all Corporate Directors.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payment Card Industry Data Security Standard (PCI DSS) Governance	December 2020	<p>This audit sought to provide assurance that the processes and systems for ensuring that the Council is compliant with the required standards.</p> <p>The following issues were reported:</p> <ul style="list-style-type: none"> • There was a lack of clear ownership and responsibility for ensuring that the Council meets the requirements of the PCI DSS. • There was no strategic document or policy in place for compliance with PCI DSS. <p>All findings and recommendations were discussed and agreed with the Divisional Director of Finance, Procurement and Audit, and Interim Corporate Director Resources and Section 151 Officer and Head of Revenue & Benefit Services in November and December 2020, and the final report was issued in December 2020.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Bowden House Special School	December 2020	<p>This audit sought to provide assurance over financial management, governance and administration of the school's financial affairs. The following issues were reported:</p> <ul style="list-style-type: none"> • The School was not routinely raising purchase orders, therefore goods received and invoices could not be easily matched to the original order, which could lead to paying for unauthorised goods/services. • The Scheme of Delegation did not contain sufficient evidence surrounding financial limits. Financial limits for signing work/purchase orders/invoices and signing cheques/payment instructions were not included. • Financial cost and implications were not included in the School Improvement Plan. • For high value transactions there was insufficient evidence that the School is getting the correct amount of quotes. • There was insufficient evidence of E-safety arrangements being discussed with the Governors. • The School had several policies which had not been reviewed within the timeframes outlined by the School's policy log. • The School did not have a contracts register in place. <p>All findings and recommendations were discussed and agreed with the Head Teacher in October and November 2020, and the final report was issued in December 2020.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
St John's Primary School	November 2020	<p>This audit sought to provide assurance that there were adequate and effective controls over the governance and financial management of the school. The following issues were reported:</p> <ul style="list-style-type: none"> • Adequate evidence was not in place resulting in control weaknesses for self-employment status and tax responsibilities for contractors and self-employed individuals resulting in possible non-compliance with IR35 tax legislation. • Arrangements needed to be improved to support effective Governance and decision making. These included Governing Body and committee minutes not being sufficiently detailed, Terms of Reference for committees not adequately documented, an outdated policy log and declarations of interest forms were not complete and reviewed. • Reconciliation of the School Fund account needed to be improved. • Control weaknesses for personnel and payroll management related to medical checks being undertaken prior to employment. • School assets were not being security marked to identify them as property of the school. • The procedures in place to ensure compliance with data protection regulations were inadequate. We identified the school was not registered with the Information Commissioners Office (ICO), leaving the school exposed to risks of regulatory non-compliance and fines. <p>All findings and recommendations were discussed and agreed with the Head Teacher in October and November 2020, and the final report was issued in November 2020.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Appointeeships and Deputyships	January 2021	<p>This audit sought to provide assurance on the adequacy and effectiveness of the control framework for managing the Deputyships and Appointeeships arrangements.</p> <p>A deputy is an individual or entity appointed by the Court of Protection to manage the affairs of an individual who lacks the mental capacity to manage their own affairs. If the individual in question has no property or savings, and their only income is from benefits, there is no need for a deputy, as the benefits can be managed by an 'appointee' – who is an individual or entity appointed by the DWP.</p> <p>The following issues were reported:</p> <ul style="list-style-type: none"> • Whilst a central record is maintained that recorded a description of the items within each storage box obtained from an individual subject to an appointeeship or Deputyship process , it contained minimal information surrounding dates of items being entered into storage or key information such as which box the possessions are stored in, meaning it was difficult to reconcile the boxes and the database. • There was no single record for signing items in and out of storage confirming all movement of items within the box. It was not possible to verify if any removal of personal effects or documentation from storage had been approved by anyone other than the social worker. • Three different procedure documents were in place, they did not include information regarding the process for storage of personal possessions, except for financial documentation or the requirements relating to the length of time the service has to process an application once the referral has been received. The procedures were not being reviewed regularly or version controlled. 	Extensive	Limited

		<ul style="list-style-type: none"> • In two out of ten sampled cases, the files for clients held information pertaining to a different client. Whilst a checklist is present within the process documentation, this was not present within the physical or digital folders to confirm a quality check had been undertaken. • The reconciliations between the Client Financial Affairs community account and the general ledger within the Agresso finance system were not being completed on a timely basis each month and not signed off by a second officer. • There was no evidence of separation of duties between the preparation and approval of the annual returns to the Office of the Public Guardian (OPG) for deputyship clients. <p>All findings and recommendations were discussed and agreed with the Interim Head of Strategic Finance – Health, Adults and Community Services between October and December 2020, and the final report was issued in January 2021.</p>		
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Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Cyber and Network Security	January 2021	<p>This audit sought to provide assurance that the Council has implemented adequate and effective controls over the procedures for identifying, protecting, detecting, responding, and recovering its information assets from cyber-attacks and for managing its cyber security risks on an ongoing basis. The following issues were reported:</p> <ul style="list-style-type: none"> • There are 47 privileged user accounts in the Council's IT network and 30 Azure Global administrator accounts. Best practice to manage privileged user accounts is to assign the administrator role to the fewest possible users. Not restricting the number of users with elevated permissions increases the risk of users gaining unauthorised access to the Council's IT network • There is no programme in place for providing cyber security training and awareness to members of staff. • The Council has unsupported Windows operating machines (Windows 7, Windows 2008 servers) in use. The use of unsupported operating systems increases the risk of vulnerabilities to the IT network. • There are no defined procedures in place for responding to cyber security incidents. • There is no mechanism in place for proactively identifying and responding to suspicious network activity. <p>All findings and recommendations were discussed and agreed with the ICT Team in October 2020, and the final report was issued in January 2021.</p>	Extensive	Limited

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payment Control for Temporary Accommodation-Compliance audit	Dec. 2021	<p>This audit tested the payment control for all forms of temporary accommodation to ensure that there was adequate division of duties, authorisation and checking before payments were made to providers. The budget for accommodation sourced from the private sector (PLA) for 2020/21 is £26M against the outturn of £26M for 2019/20. The current budget for accommodation sourced through THH and other RPs (including buybacks) is £4.1M against the 2019/20 outturn of £3.6M. For B&B and hotel accommodation, the budget for 2020/21 is £3.9M against the outturn of £3M for 2019/20. The following issues were reported:</p> <ul style="list-style-type: none"> • At the commencement of this audit, there were no formal procedures in place covering payment controls for temporary accommodation. This hindered the audit process as reliance had to be placed on information obtained through staff interviews. We also noted that as the audit progressed, some procedures were drafted, but not all procedures were subject to formal review, management approval or were version controlled. • Our testing showed that the quality of checks on invoices before they were approved for payment was not robust. Invoices from hotels for B&B were paid on the basis of weekly Registers sent to the Council. However, in view of some discrepancies, we were not clear how the invoices were being matched with Registers. We provided examples of discrepancies to the Manager for further checks and investigations. The extent of checks carried out to verify and approve invoice payments on the basis of hotel registers may not be as sound as it should be. The Council's Financial Regulations require that payments are made after ensuring that goods and services are actually received by the Council. The system for approving invoices on the basis of hotel registers did not meet the requirements of the Financial Regulations and it was unclear who authorised this process. 	Extensive	Reasonable

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Payment Control for Temporary Accommodation	Dec. 2021	<ul style="list-style-type: none"> • There was no reconciliations process carried out between what should be paid on Northgate SX3 system and what was actually paid on Agresso system. • There were a number of administrative issues such as Service Level Agreement with one NST provider had not been signed; B&B bookings forms which had the wrong rates due to clerical errors; not all booking letters tested had been signed by the booking officer for NST; and in one case the invoice did not record the key details. All these issues were referred to the Manager who duly looked into the issues with resolution proposed. <p>All findings and issues were discussed with the Divisional Director, Housing & Regeneration and actions for improving internal control were agreed. The Housing Management and Procurement Manager took timely actions to address some of the issues raised by audit. Final report was issued to the Corporate Director, Place.</p>		

Title	Date of Report	Comments / Findings	Scale of Service	Assurance Level
Stepney Greencoat Primary School	October 2020	<p>This audit sought to provide assurance that the school has implemented adequate and effective controls over its governance, administration and financial management.</p> <p>The following issues were reported:</p> <ul style="list-style-type: none"> • The procurement processes were not adequate. There are no assessments or agreements in place for self-employed individuals providing services to the School to confirm their employment status. There was an inappropriate leasing arrangement and tendering has not been undertaken for high value payments that could result in the School not receiving value for money. • There were weaknesses in the Governance arrangements to support decision making. We identified Governors DBS clearances had not been undertaken prior to being appointed and declaration of interest forms had not been reviewed. • The controls relating to new starters were not demonstrated as no medical checks had been completed and overtime claim forms were not signed by the employee; this could result in non-compliance with safe staffing processes and inaccurate or fraudulent claims being made. <p>All findings and recommendations were discussed and agreed with the Head Teacher in September 2020, and the final report was issued in October 2020.</p>	Extensive	Substantial

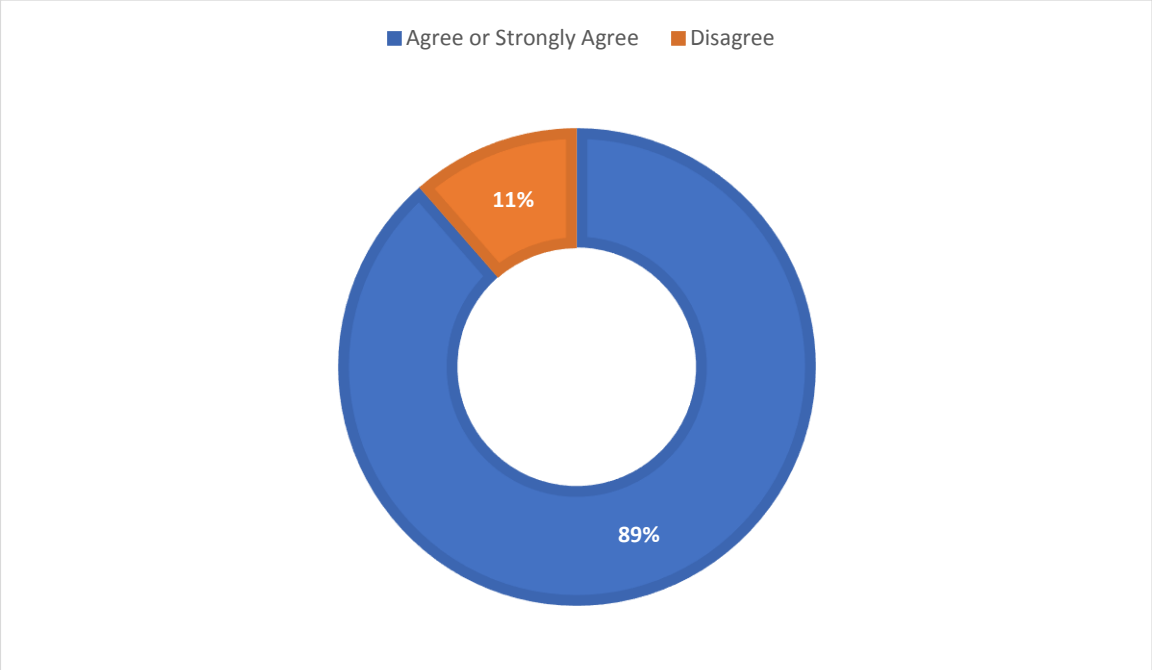
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Public Sector Internal Audit Standards Action Plan Progress

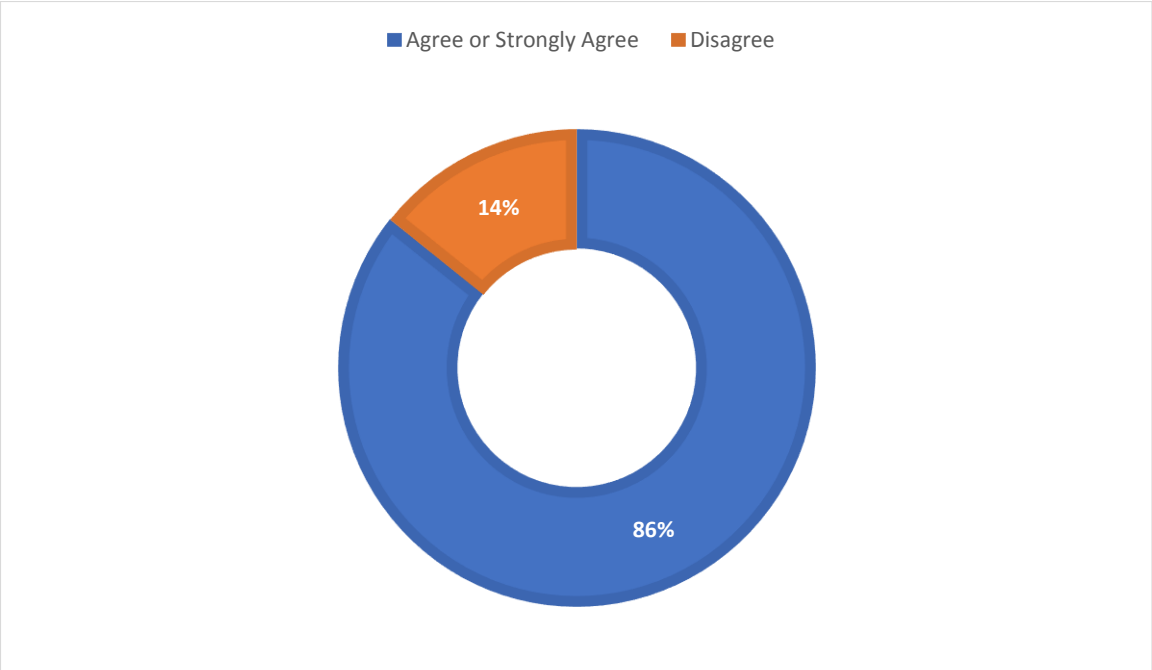
Attribute Standards	Action	Progress
<p>1130 Impairment to Independence or Objectivity</p> <p>The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting does not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.</p>	<p>Document in the audit manual how the risk of over-familiarity will be managed and ensure the management of this risk is documented on each audit file.</p>	<p>Complete</p> <p>The audit manual is now up to date.</p>
<p>2040 Policies and Procedures</p> <p>The chief audit executive must establish policies and procedures to guide the internal audit activity.</p>	<p>Review the audit manual and the electronic audit management system (Galileo) to ensure both reflect current working practices and standards.</p>	<p>Complete</p> <p>The audit manual is now up to date. The service is now using an alternative, inhouse solution for audit software.</p>

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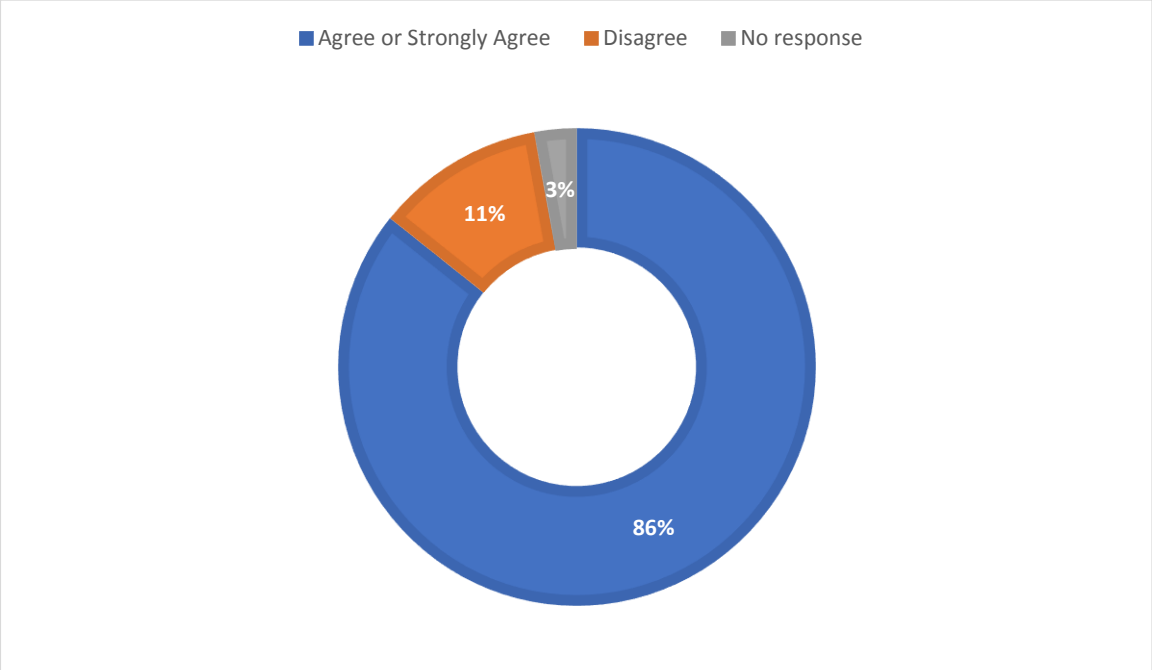
1. I understand the role and importance of Internal Audit and how it helps the Council accomplish its objectives?



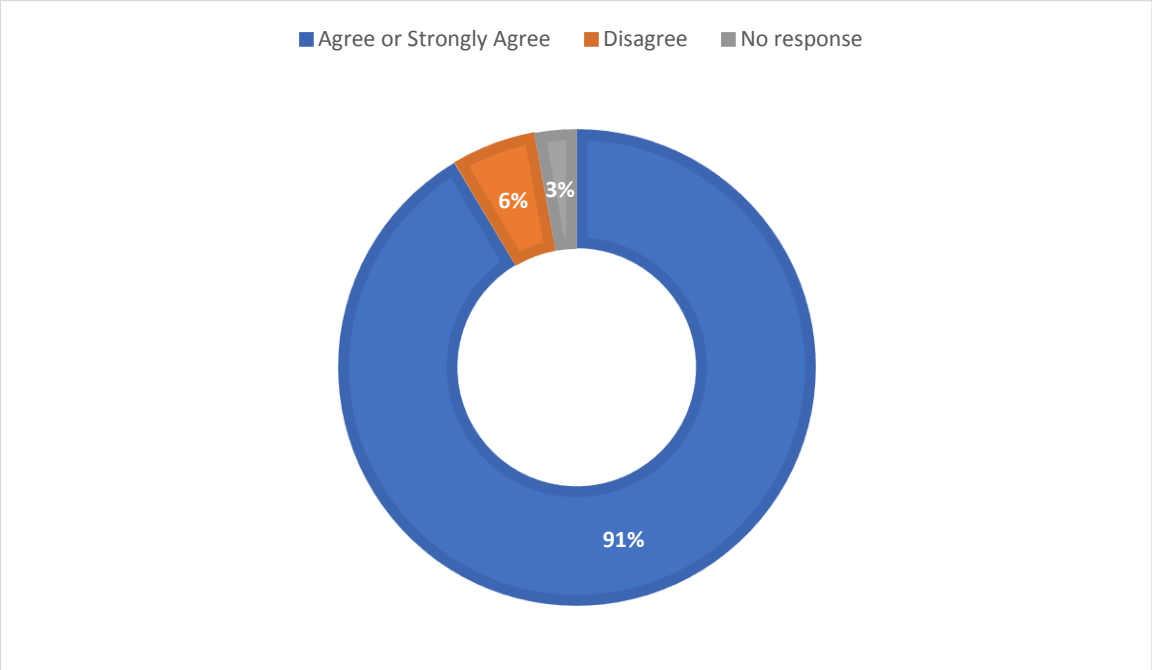
2. Internal Audit activity is aligned with the strategies, objectives and risks of the Council?



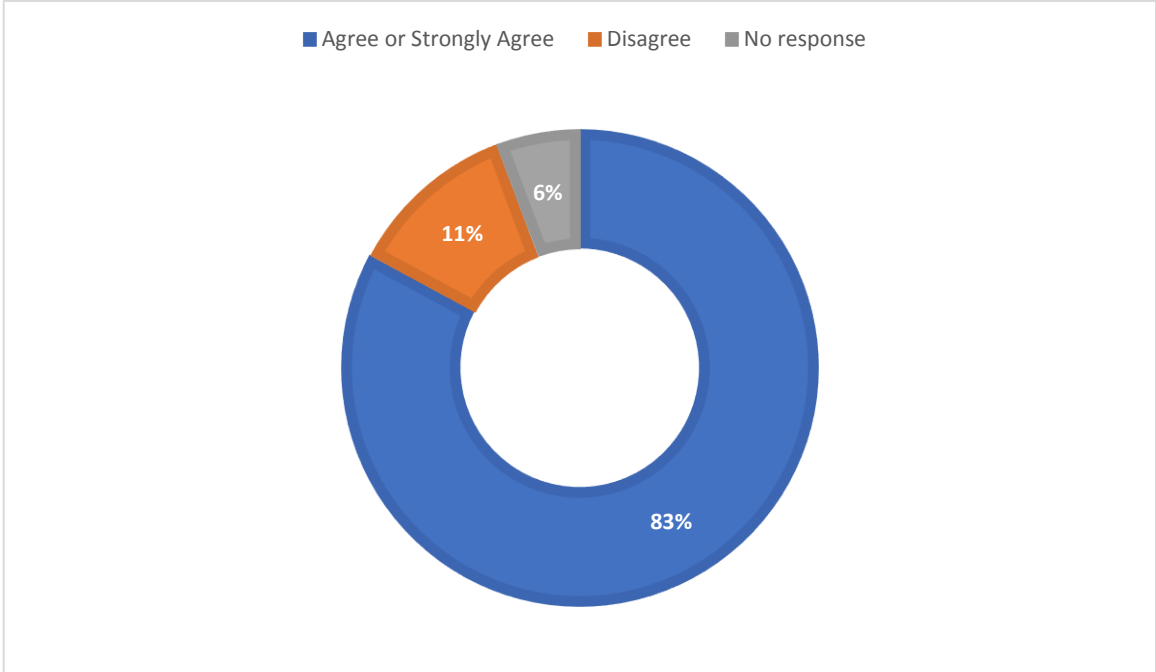
3. Internal Audit consistently demonstrates competence and due professional care?



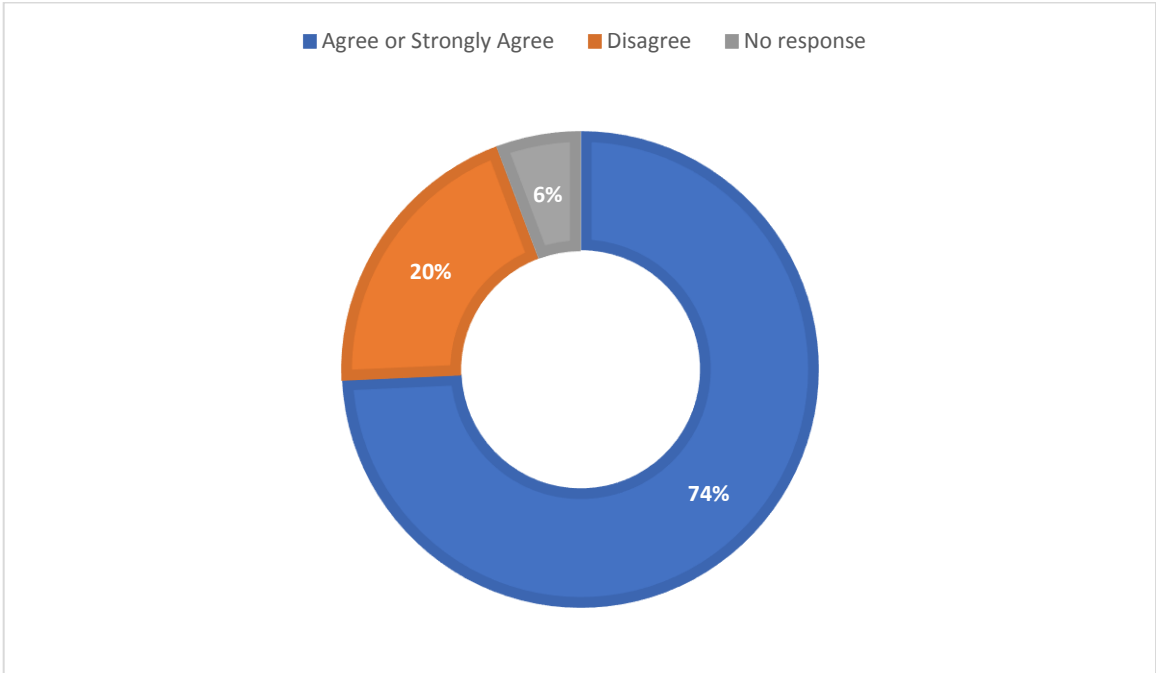
4. Internal Audit is objective and independent?

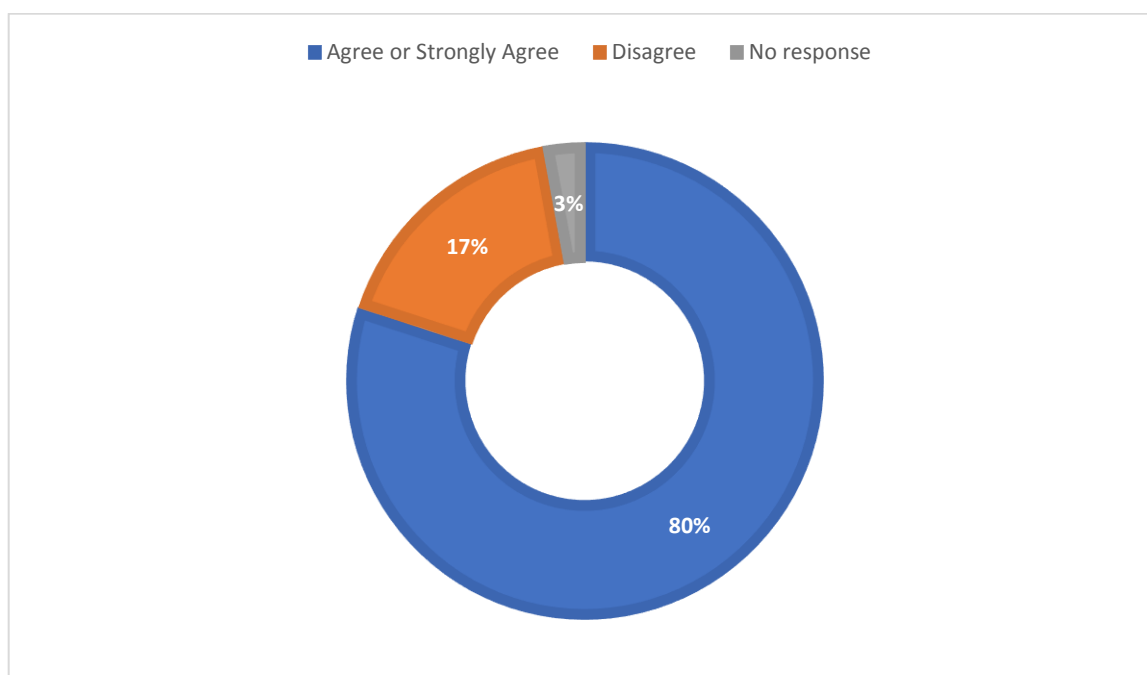
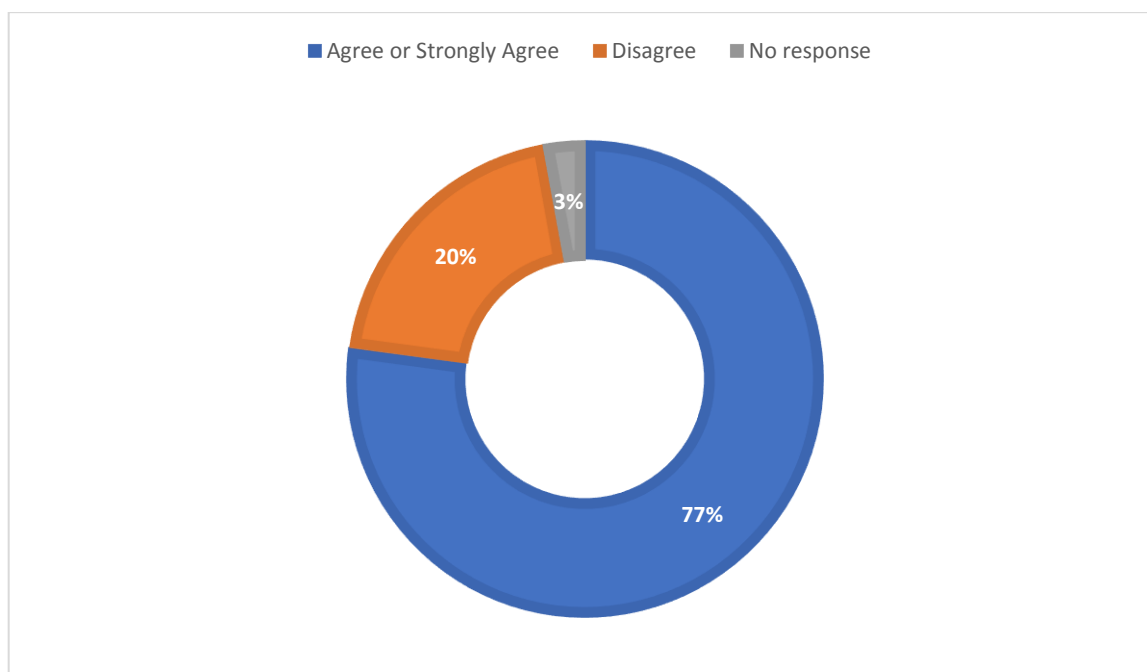


5. Internal Audit adds value with the work they deliver?

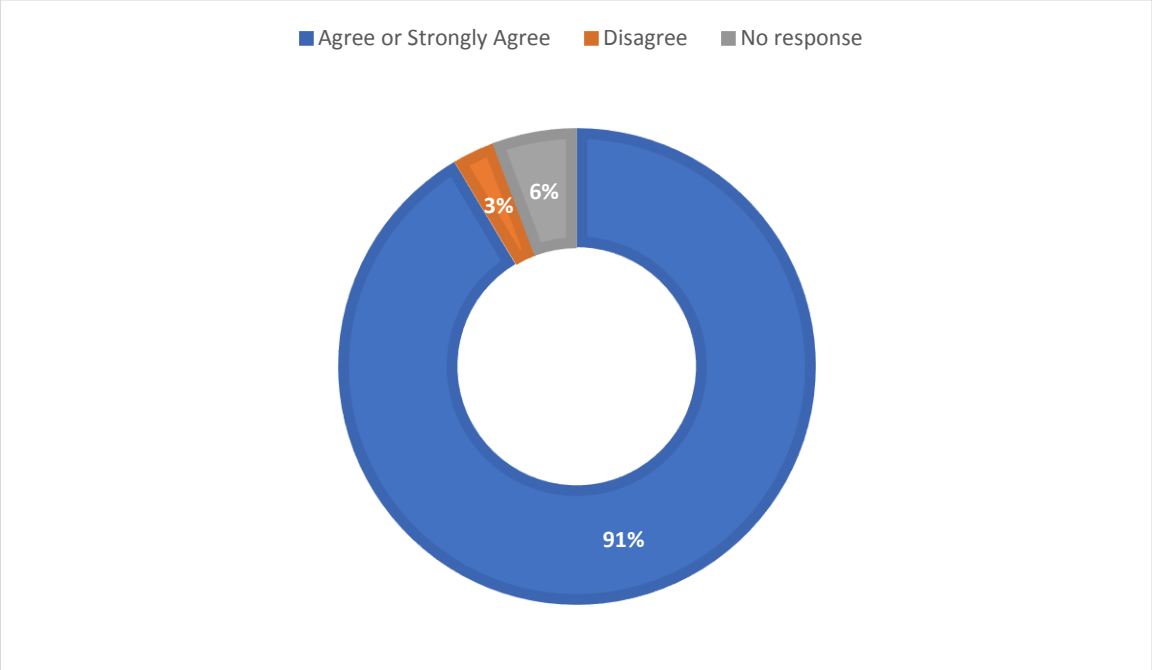


6. Internal Audit is insightful, proactive and future focussed?

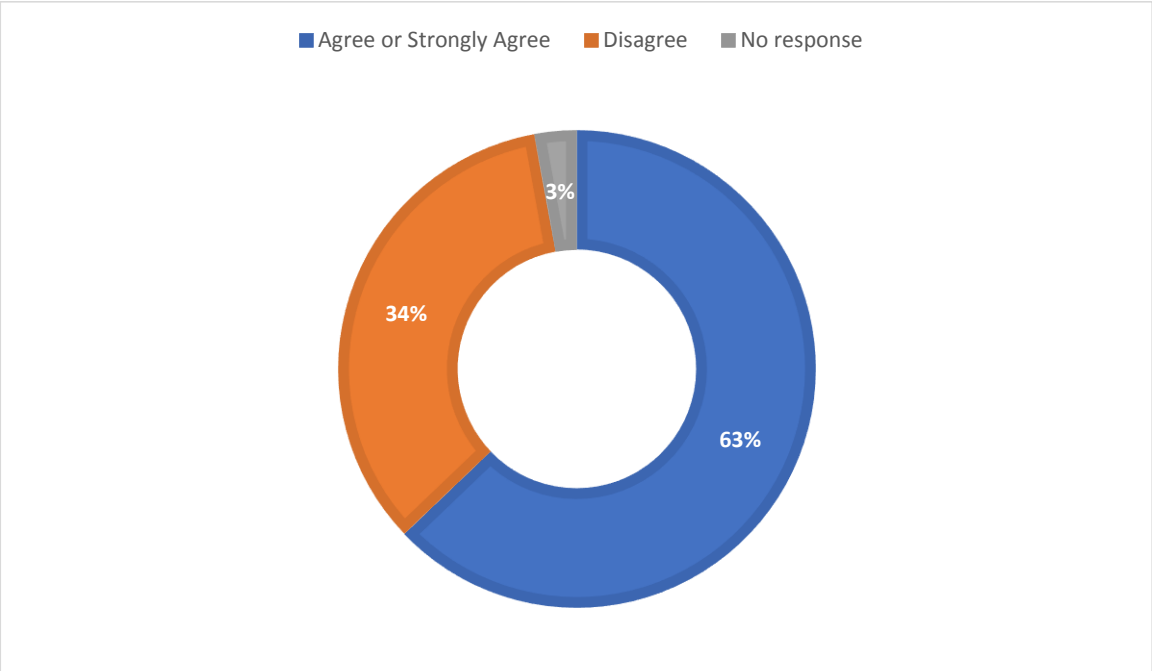


7. Internal Audit promotes and supports organisational improvement and transformation?**8. Internal Audit provides accurate, objective, clear, concise, constructive, complete and timely reports that meet your needs?**

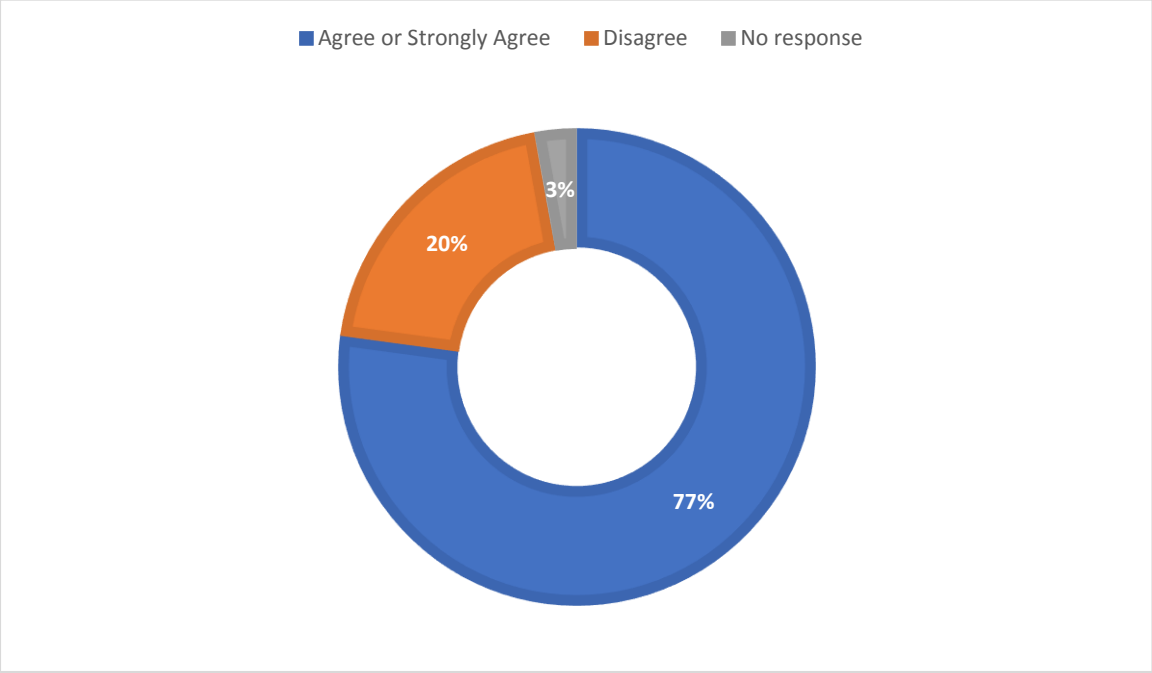
9. Internal Audit consistently demonstrates integrity?



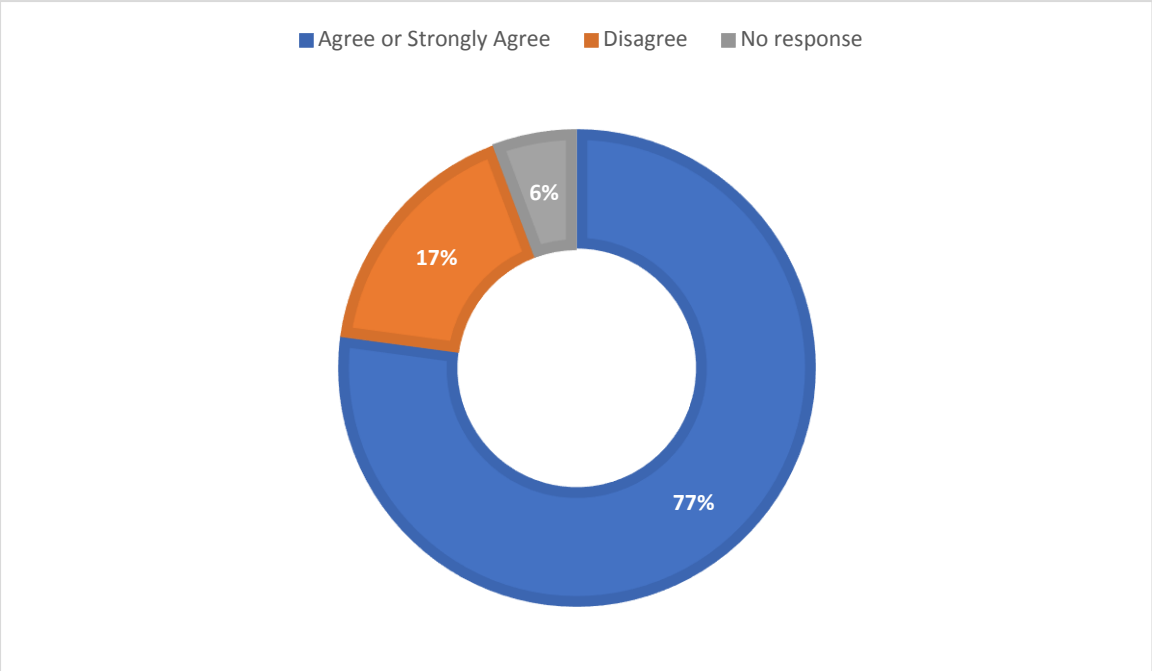
10. Internal Audit enables the sharing of good practice and experience across the Council?



11. Internal Audit demonstrates quality and continuous improvement in internal audit practice?



12. Internal Audit has provided an effective service for the Council in the last 12 months?



LONDON BOROUGH OF TOWER HAMLETS

WHISTLEBLOWING POLICY

SPEAK UP
Let's work together against what's wrong.



1. INTRODUCTION

- 1.1 Tower Hamlets is committed to the highest standards of behaviour, openness, probity and accountability of all employees, Councillors and its contractors and as such takes very seriously any form of malpractice that is identified or discovered.
- 1.2 Whistleblowing is the term used when a worker passes on information concerning wrongdoing. The wrongdoing will typically (although not necessarily) be something you have witnessed at work.
- 1.3 An important aspect of accountability and transparency is a mechanism to enable Councillors, employees, contractors, suppliers and partners to voice concerns about such wrongdoings in a responsible and effective manner. You may be worried about raising such issues or may want to keep the concerns to yourself, perhaps feeling it's none of your business or that it's only a suspicion. You may not express your concerns because you feel that speaking up would be disloyal to your colleagues, managers, or to the Council. You may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice.
- 1.4 We expect employees, and others that we deal with, who have serious concerns about any aspect of the Council's work which you believe shows serious malpractice or wrongdoing within the Council to bring it to our attention and this Policy puts an easy mechanism in place to report your concerns and to raise issues.
- 1.5 All employees of London Borough of Tower Hamlets may use this Policy. This includes permanent and temporary employees. It also covers agency workers and employees seconded to the Council.
- 1.6 Contractors working for the Council may also use this Policy in order to make us aware of any concerns that they, their employees or sub-contractors may have with regard to any contractual or other arrangement with the Council. Any concerns relating to non-Council business, however, should be raised with the relevant contractor's organisation, regulator or other suitable agency.

2. SCOPE

- 2.1 This Policy and associated procedures is not designed to be used where more appropriate procedures are available. For example, your issue may be a personal grievance about a problem or concern you have about your work, working conditions or relationships with colleagues. If so, then these should raise these with your line manager in the first instance or use the Council's Dispute Resolution processes.
- 2.2 Further, this Policy and procedures are in addition to the Council's complaints procedures and other statutory reporting procedures applying to Directorates. You

are responsible for making service users aware of the existence of these additional procedures.

- 2.3 This Policy and its procedures/guidance are designed to enable you to raise concerns at a high level and to disclose information which you believe shows malpractice, impropriety, criminal activity, or dangers to health and safety. This policy is intended to cover concerns which are in the public interest and may at least initially be investigated separately but might then lead to the instigation of other procedures e.g. disciplinary.
- 2.4 Further you need to be acting in the public interest and which is why personal grievances and complaints are not usually covered by this Policy.
- 2.5 The Policy is intended to cover concerns where you reasonably believe that the disclosure tends to show past, present or likely future wrongdoing falling into one or more of the following categories:
- criminal offences (this may include, for example, types of financial impropriety such as fraud);
 - unauthorised use or misuse of public funds
 - failure to comply with an obligation set out in law;
 - abuse of position, whether or not for personal gain
 - miscarriages of justice;
 - endangering of someone's health and safety;
 - damage to the environment;
 - conduct which may damage the Council's reputation;
 - other unethical conduct; and
 - covering up wrongdoing in the above categories.

3. OUR ASSURANCES TO YOU

Your safety

- 3.1 The Mayor, Councillors, the Chief Executive and Corporate Leadership Team are committed to this Policy and recognise that the decision to report a concern can be a difficult one to make. If you raise a genuine concern under this Policy, you should have nothing to fear, you will not be at risk of losing your job or suffering any form of retribution as a result. Provided you are acting in good faith, it does not matter if you are mistaken, no action will be taken against you.
- 3.2 It is important to note that this assurance does not extend to those who make malicious or vexatious allegations or who make an allegation for personal gain. This could be construed as gross misconduct and disciplinary action may be taken against you.

Statutory protection

- 3.3 Whistleblowing law is located in the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998). It provides the right for you to take a case to an employment tribunal if you have been victimised at work or you have lost their job because they have 'blown the whistle'. This is on the basis that you have a reasonable belief that what you have reported is true and the report is in good faith.

Harassment or victimisation

- 3.4 The Council will not tolerate any harassment or victimisation (including informal pressures) from your colleagues, peers, managers, or from external sources, and will take appropriate action to protect you when you raise a concern in good faith.
- 3.5 Any investigation into allegations of potential malpractice will not influence or be influenced by any disciplinary, capability, or redundancy procedures that already affect you.
- 3.6 If you consider that you have been, are being or are likely to be victimised, dismissed, made redundant or made to suffer some other detriment as a result of making a report under this procedure, you should report your concerns to the Council's Monitoring Officer. The matter will then be dealt with as a new referral under this procedure.

Your confidentiality

- 3.7 We will treat all concerns raised in a confidential and sensitive manner. Your identity will be kept confidential so long as it does not hinder or frustrate any investigation. However, the investigation process could reveal the source of the information and you may need to provide a statement as part of the evidence required. In such cases, we will always ask your consent to disclose your identity. Further, it is always possible that your identity could be guessed.

Anonymous allegations

- 3.8 It is not unusual for individuals who are thinking about raising a concern to want to make it anonymously. However it is best that concerns are raised openly as it makes it easier for consideration and investigation of the concern. It is recognised, however, that there are circumstances when you would wish to keep your identity confidential.
- 3.9 Anonymous concerns that do not have a point of contact to which correspondence can be sent (e.g. an email address) will be considered at the discretion of the Council. In exercising this discretion the following factors will be taken into account
- the seriousness of the issues raised;
 - the credibility of the concern; and
 - the likelihood of confirming the allegation from attributable sources.
- 3.10 Therefore whilst we do not rule out the possibility of conducting investigations where you have not given a point of contact, it should be noted that, in practice, we

are unlikely to be able to proceed in the majority of such cases because of the practical difficulties that arise. No contact point will often present a barrier to effective investigation because it is impossible to contact you to check information received, ask for more details, or give feedback.

4. THE RESPONSIBLE OFFICER

- 4.1 The Monitoring Officer has overall responsibility for the maintenance and operation of this policy.

5. RECORDING AND MONITORING

- 5.1 The Monitoring Officer will maintain a confidential and secure register of all concerns raised through this Whistleblowing Policy. Investigations undertaken as a result of concerns being raised through these channels will be reported to the Audit Committee. Furthermore, weaknesses in Tower Hamlets controls may be identified through our investigations and recommendations to improve these will be raised with relevant managers and Chief Officers.

- 5.2 All records will be treated as confidential and kept no longer than necessary in accordance with Data Protection rules. Individuals have a right to request and have access to certain personal data: however, some information may be withheld in order to protect a third party.

6. REVIEW OF WHISTLEBLOWING POLICY

- 6.1 This Policy and reports made under it will be reviewed annually by the Monitoring Officer who will make a report to the Audit Committee.

7. EXTERNAL CONTACTS

- 7.1 Whilst we hope this Policy gives you the reassurance you need to raise such matters internally, we would rather you raised a matter with the appropriate regulator than not at all. If you do not wish to report your concern to the Monitoring Officer: you can get legal advice from a lawyer, or tell a prescribed person or body.

- 7.2 A Prescribed person or body as set out in the “prescribed persons list” published by the Department for Business, Innovation and Skills. The organisations and individuals on the list have usually been designated as prescribed persons because they have an authoritative or oversight relationship with the sector, often as a regulatory body. An up-to-date list can be found here:

<https://www.gov.uk/government/publications/blowing-the-whistle-list-of-prescribed-people-and-bodies--2>

- 7.3 If you tell a prescribed person or body, it must be one that deals with the issue you are raising, e.g. a disclosure about wrongdoing in a care home can be made to the Care Quality Commission.
- 7.4 If you raise concerns outside the Council you should ensure that it is to either one of the prescribed persons or bodies as set out in the “prescribed persons list” published by the Department for Business, Innovation and Skill. Through this Policy however, the Council also guarantees like protection if it is a qualified disclosure made to:
- The Police
 - Public Concern at Work
020 7404 6609_
<http://www.pcaw.org.uk/>
(The whistleblowing charity who can give advice and help on whistleblowing)
 - The Local Government Ombudsman
0300 061 0614
http://www.lgo.org.uk/forms/ShowForm.asp?fm_fid=62
- 7.5 You should not disclose information that is confidential to the Council or to anyone else, such as a client or contractor of the Council, except to either one of the prescribed persons or bodies as set out in the “prescribed persons list” or 7.4 above.

London Borough of
Tower Hamlets

Corporate Anti-Fraud &
Corruption Strategy 2021/22

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1. Introduction

- 1.1. The London Borough of Tower Hamlets together with other public and private sector entities is at risk of loss due to fraud, corruption, theft and error. Although the council will have good policies and procedures, financial abuse can emerge due to non-compliance. The objective of all bodies is to minimise the risk of fraud and corruption in order that for the residents of Tower Hamlets resources are earmarked for their desired objectives and services are delivered efficiently and at best value, without fear of loss or abuse.
- 1.2. This Strategy forms part of the governance arrangements of the Council. It outlines the Council's intent to minimise the risk of loss to the organisation resulting from fraud and corruption originating both internally and externally. The Strategy is supported by management arrangements for effective governance and demonstrates the council's commitment to a counter-fraud culture with high ethical standards in the administration of public funds.
- 1.3. Tower Hamlets is one of the most diverse authorities in the country and has undergone vast change over the last thirty years. The resultant wealth with the introduction of big business emerging from Canary Wharf has significantly affected the financial landscape seeing huge increases in prosperity through employment opportunities and property price increases and yet despite this we still have large numbers of residents with above average deprivation. In light of these factors the Council has many challenges to manage for the benefit of all of its residents and service users. In the context of fraud, it needs to be said, that it is recognised that the vast majority of our residents are honest and would not contemplate fraud.
- 1.4. There are however, a tiny minority of people who seek to benefit themselves at the expense of others. Fraud is not a victimless crime despite the belief of perpetrators that it is. All charge payers meet the cost of fraud as services that are affected must make up the shortfall and the cost of services may well rise as a result. The objective then must be to minimise the scope for fraud and financial abuse from the outset.
- 1.5. To achieve this, we must have strong gateways to prevent abuse and apply effective governance arrangements. This together with robust management checks and meaningful audit assurance reviews will assist in reducing our risk. Where breaches do occur, it is important that they are investigated, resolved and proportionate action taken together with any weaknesses closed to minimise future exposure.
- 1.6. Internal Audit & Risk Management in delivering an internal audit function to the Council, reviews the effectiveness of internal controls in operation. The service also includes investigations into suspected cases of fraud or corruption and the development and implementation of fraud prevention practices. Fraud and Corruption can be reported to the Council in a number of different ways. These are outlined in Section 4, the Fraud Response Plan.

1.7 This strategy outlines the Council's commitment and approach to tackling both internal and external fraud, including roles and responsibilities. It applies to:

- Councillors
- Employees
- Agency workers
- Contractors
- Partners
- Consultants
- Suppliers
- Service users

2. Scope

2.1 The Strategy is designed to:

- Encourage prevention
- Promote transparency
- Ensure effective investigation where suspected fraud or corruption has occurred
- Prosecute offenders where appropriate and proportionate to do so
- Close system weaknesses as they are identified
- Publicise success to act as a deterrent
- Revise controls with Internal Audit and Management

2.2. There is a reasonable expectation and requirement that all of our Members, employees, consultants, contractors, and service users be fair and honest in their dealings with the council and will provide help, information and support to assist in the investigation of fraud and corruption.

2.3 This Anti-Fraud and Corruption Strategy links into the National Fraud Strategy, "Fighting Fraud Locally" and provides a strategic approach for Local Authorities to tackle fraud, by **Acknowledging** and seeking to understand fraud risks. **Preventing** and **Detecting** more fraud and **Pursuing** those who commit fraud against the authority by prosecuting and seeking financial redress to recover losses. This strategy outlines how the Corporate Anti-Fraud Team (CAFT) will deliver this commitment and provides advice on how individuals and organisations may raise concerns relating to fraud and corruption.

3. Definition of Fraud and Corruption

3.1 Fraud can be defined as;

'any intentional false representation, including failure to declare information or abuse of position, which is carried out to make gain, cause loss or expose another to the risk of loss'.

The Fraud Act 2006 introduced a general offence of fraud, divided into three categories as follows:

Fraud by false representation - A person commits fraud by false representation if he/she:

- Dishonestly makes a false representation, and
- Intends, by making the representation, to make a gain for him/herself or another, or to cause loss to another or to expose another to a risk of loss.

Fraud by failing to disclose information - A person commits fraud by failing to disclose information if he/she:

- dishonestly fails to disclose to another person information which he is under a legal duty to disclose, and
- Intends, by failing to disclose the information to make a gain for him/herself or another, or to cause loss to another or to expose another to a risk of loss.

Fraud by abuse of position - A person commits fraud by abuse of position if he/she:

- Occupies a position, in which he is expected to safeguard, or not to act against, the financial interests of another person, and dishonestly abuses that position, and
- Intends, by means of the abuse of that position to make a gain for him/herself or another, or to cause loss to another or to expose another to a risk of loss.

- 3.2 The Bribery Act 2010 makes it an offence to offer, promise or give a bribe, as well as requesting, receiving or accepting a bribe. The consequences of committing breaches of this legislation include custodial sentences, as well as substantial fines for organisations including Local Authorities who fail to prevent bribery.

In those circumstances any person who represents the council who is offered a bribe must report this approach without delay, as detailed in the Council's Bribery Policy. Please see : [Anti Bribery Policy](#)

4. Roles and Responsibilities

4.1 Conduct

The Council is an ethical organisation and requires that it's elected Members, Staff, inclusive of permanent and temporary workers, agency workers and contractors and all individuals and organisations associated with it to be honest and fair in their dealings with the Council and its service users.

Members and managers are expected to lead by example in this regard, observing the Principles of the Nolan Committee into Standards in Public Life. These are shown below:

Selflessness- Holders of public office take decisions in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family or their friends

Integrity- Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in their performance of their official duties

Objectivity- In carrying out public business, including making public appointments, awarding contracts or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability- Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness- Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

Honesty- Holders of public office have a duty to declare any private interests relating to their public duties to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership- Holders of public office should promote and support these principals by leadership and example.

4.2 Employee Responsibilities

Employees have a critical role to play in the prevention of fraud and corruption throughout their daily undertakings and in their general conduct. All individuals should be aware of and understand the Councils expectations as relevant to their role under the Officer Code of Conduct, Financial Regulations and other regulations of the Council as outlined in section 4 below. Failure to adhere to these regulations may result in disciplinary action.

Employees who suspect a fraud or irregularity have a duty to report their concerns. Where such concerns exist, individuals are asked to make a note of all relevant details, such as what was said in phone or other conversations, when these conversations took place and the names of anyone involved. The matter should be reported immediately to either your:

- Line Manager
- Head of Service

- Divisional Director
- Corporate Director

Or independently to the Monitoring Officer, in accordance with the Councils Whistleblowing Policy “Speak Up” as detailed in section 7 How to Report a Concern.

Anyone wishing to report a concern should be aware that every effort will be made to preserve confidentiality, although in certain circumstances, such as those resulting in criminal proceedings, individuals may be called upon to provide a witness statement or attend court as a witness.

Employees must not do any of the following:

- Contact the suspected perpetrator in an effort to determine facts or demand restitution
- Discuss the case facts, suspicions or allegations with anyone outside the Council (including the Press)
- Discuss the case with anyone within the Council other than those listed above.

4.3 Members

4.3.1 Members will:

- Sign to evidence that they have been trained in and understood the Code of Conduct for Members when they take office;
- Discharge their duties by complying with the Code of Conduct for Members and the Constitution;
- Declare personal interests which could enable them to gain from, or be perceived as potential conflicts with, the Council’s business;
- Provide a key link to the residents of the borough and have a wider role in promoting the Council’s ethics and values within the community;
- Raise any fraud concerns with the Head of Audit & Risk Management or the Monitoring Officer.

If complaints are received in relation to the conduct of Members, these will be considered by the Council’s Monitoring Officer who can refer the matter either to the Corporate Anti-Fraud Team or Standards Committee.

4.4 Section 151 Officer

4.4.1 The Council has appointed Section 151 Officer, responsible for the proper administration of the Council’s financial affairs. The Section 151 Officer will:

- Authorise Internal Audit to examine financial and non-financial records and to inspect the Council’s stores, assets and cash balances and those of its partner organisations;
- Require employees to provide the internal auditor with information or explanations that they may need to effectively perform their duties.

4.5 Monitoring Officer

- 4.5.1 The Divisional Director of Legal Services is the Council's Monitoring Officer, entrusted with ensuring that all decisions that the Council makes are within the law. The Monitoring Officer will promote and maintain high standards of conduct amongst Members, through supporting them to follow the Code of Conduct for Members and the Council's other rules and procedures.

4.6 Chief Executive and Senior Management

- 4.6.1 The Chief Executive is responsible for leading and promoting the Council's ethical agenda.

- 4.6.2 Corporate Directors, Divisional Directors and heads of service must maintain adequate systems of internal control within their respective departments. Corporate Directors will:

- Promote and implement this Strategy and supporting policies, including the Whistleblowing Policy and Anti Money Laundering Policy.
- Ensure that staff and other workers, including agency staff and contractors with a financial responsibility, are made aware of the standards expected of them, as set out in Financial Regulations and the Council's counter fraud policies and procedures.
- Notify the Head of Internal Audit or the Corporate Anti-Fraud Manager immediately of any matter relating to loss or irregularities, including those affecting cash, stores or other property of the Council or its clients for whom the Council has accepted financial responsibility.
- Encourage employees to raise any concerns they may have about bribery, fraud or corruption, in line with the Anti-Fraud Policy and Whistleblowing Policy.
- Confirm that sufficient actions have been taken to reduce fraud as part of the Council's Annual Governance Statement.

4.7 Audit Committee

The Anti-Fraud and Corruption Strategy is approved by the Audit Committee. The Committee receives regular fraud update reports, regarding the investigation caseload and details of proactive anti-fraud activities planned and undertaken.

5. Regulations and Legislation

- 5.1 The Council has developed a series of regulatory documents and protocols which govern how we operate and take decisions and outline the procedures to follow to ensure that our actions are fair, efficient, transparent and accountable to our community. As well as governing operations, our regulations form a key component of the internal control

environment, following and applying these creates a strong basis on which to reduce the risk of fraud and corruption. The following documents which are endorsed by the Council provide further information and guidance.

- Council Constitution
- Standing Orders
- Financial Regulations
- Employee Code of Conduct
- Member Code of Conduct
- Anti-Money Laundering Policy

There is a range of relevant legislation that is also available. These include:

- Fraud Act 2006
- Theft Acts 1968 and 1978 as amended
- Prevention of Social Housing Fraud Act 2013
- Bribery Act 2010
- Public Interest Disclosure Act 1998
- Proceeds of Crime Act 2003
- Local Audit and Accountability Act 2014
- Regulation of Investigatory Powers Act 2000
- The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
- Computer misuse Act 1990

6. Strategy

6.1 Deterrence

6.1.1 The Council will seek actively to deter potential fraudsters from committing or attempting to commit fraudulent or corrupt acts. It will do so through:

- Publicising that the Council will not tolerate fraud and corruption, demonstrated by this anti-fraud & corruption strategy and the whistleblowing policy.
- Encouraging a strong anti-fraud culture amongst its employees and Members, and providing easy and effective means to report suspicions of fraud or corruption, e.g. the whistle blow hotline **0800 528 0294** the dedicated email address anti-fraud@towerhamlets.gov.uk and on-line form for raising concerns.
- Taking robust action when fraud and/ or corruption are identified, in the form of conducting complete and thorough investigations and taking decisive action if allegations are proven. This will include 'triple tracking' cases via prosecution, disciplinary action including dismissal and civil action as appropriate. Where there is scope to pursue losses we will enforce financial recovery through Compensation or the Proceeds of Crime Act, where appropriate.

- Engaging with the Councils Communications service where appropriate, in order to maximise the publicity of successful outcomes in combating fraud and corruption.
- Deploying robust systems of internal control to mitigate the opportunity for fraud and corruption on an on-going basis.
- Developing and delivering general and tailored fraud awareness sessions to Council employees and its partner Tower Hamlets Homes.
- Maintaining fraud awareness presentations and e-learning for all officers.

6.2 Prevention

- 6.2.1 The Council employs a range of control mechanisms within its systems, policies and procedures in order to mitigate the risk of fraud and corruption. Chief Officers and Managers across the authority are the key management control and are responsible for assessing the risk of fraud and corruption in their operational area and, as such are responsible for implementing appropriate strategies in order to manage this risk.
- 6.2.2 The Head of Internal Audit is responsible for both Risk Management and Counter-Fraud & Investigation; while these two operational functions are distinct from the main assurance role of Internal Audit, all three work together in order to promote and advise on key actions that can be taken to aid in the prevention of fraud and corruption against the Council.

6.3 Detection

- 6.3.1 The Council has a robust Whistleblowing procedure and our Financial Regulations require employees to report any suspected cases of fraud or corruption appropriately.
- 6.3.2 The Council participates in a range of data matching exercises to detect fraud including-
- 6.3.3 The National Fraud Initiative currently managed by the Cabinet Office
- 6.3.4 Undertaking internal data – matching exercises utilising data held by the Council.
- 6.3.5 Working in partnership with local authorities, the National Anti-Fraud Network, government bodies and the commercial sector
- 6.3.6 Sample transaction and control testing as part of Internal Audit reviews undertaken as part of the on-going Internal Audit Plan.

7. Investigations

- 7.1 The Council is committed to the highest possible standards of openness, probity and accountability. Therefore, the Council expects all councillors, employees, contractors, partners and suppliers to raise any concerns they may have about standards of probity in any aspect of the Council's work.

This Fraud Response Plan sets out the responsibilities of stakeholders and provides guidance for the action that should be taken in relation to suspected instances of theft, bribery, fraud or corruption involving the Council's funds and assets or those that the Council administers on behalf of others.

7.2 What to do when fraud, bribery or corruption is suspected

- 7.2.1 The Corporate Anti-Fraud team is responsible for the investigation of allegations of fraud and corruption against the Council. Each allegation will be considered on its individual merits and a decision made on the most appropriate way to proceed with any investigation, this may include:

- Criminal or civil investigation by the Council's Corporate Anti-Fraud Team.
- Internal examination as part of an Internal Audit review.
- Dedicated internal fraud investigation.
- Management investigation overseen by the Corporate Anti-Fraud Team.

7.2.2 Initial Action

- All allegations will be logged and risk assessed by the Intel Team and reviewed by Corporate Anti-Fraud Manager.
- If it is considered the allegation requires further investigation, a lead Investigating Officer will be appointed. This officer will be suitably trained and experienced in undertaking fraud investigations.
- The investigator will prepare an investigation plan and agree a scope of work with a nominated manager in the department where the investigation is being completed.

- 7.2.3 Investigations into allegations, as part of any investigation, the Council will ensure that:

- Any allegation is dealt with promptly, confidentially and fairly.
- The investigation will be undertaken against an agreed scoping brief and be compliant with existing procedures and legislative guidelines.
- All records, assets and correspondence will be held securely and if it is believed that computer records are held that are relevant to the investigation these will be secured for analysis.
- If email data is considered appropriate to access in order to take the investigation forward this will be approved by the Head of Internal before access is granted.

- The investigation will be undertaken with a view to obtaining evidence to a criminal standard.
- Where sufficient evidence leads to belief that criminal action should be considered a referral will be made to the Council's Legal Service for consideration to prosecute.
- Where abuse identifies system breaches or other weaknesses these will be reported upon and suggestions for improvement made.
- Human Resources and/or the Divisional Director of Legal Services is consulted where appropriate.
- All evidence that has been collected is stored securely and recorded appropriately.
- Any interviews undertaken are conducted fairly and in line with appropriate legislation such as the Police & Criminal Evidence Act.
- Relevant Chief Officers and Managers are informed of the progress of the investigation as appropriate.
- All investigations are conducted in a timely manner, in-line with the Criminal Procedures & Investigations Act, and the Human Rights Act.

7.2.4 As part of the investigation the Council will consider whether:

- Disciplinary action will be taken against any employee involved
- Civil or criminal prosecution action should be instigated
- The matter should be referred to the Police particularly where corrupt or extensive external involvement is involved and the Police would offer a more detailed review through their powers. An example being the application of Production Orders.
- Changes are required to improve the systems and controls of the affected area to improve effective governance and reduce further risk to fraud or impropriety
- Any other action should be recommended

7.2.5 At the conclusion of an investigation, the investigating officer will report the findings to the relevant managers, Chief Officer and Human Resources. Any disciplinary action considered will be in compliance with human resources policy and procedures. Where necessary, the individual who is subject to investigation will be informed of the outcome in writing and will be advised of what action, if any is to be taken.

7.2.6 Where it is found that a fraud has been committed against the Council we will make recommendations to ensure that any control weaknesses which provided the opportunity for the fraud are addressed and followed up as part of the Internal Audit review cycle.

7.3 Disciplinary Procedures and Suspension from Work

7.3.1 Where investigations result in a case of breaches of the appropriate Council Code of Conduct there may be occasions when 'prima facie' a disciplinary investigation is appropriate. The Investigating Officer will

support this enquiry but it will be undertaken independently from the Corporate Anti-Fraud Team and led by HR. Where it is appropriate to consider suspension from work a decision will be made by the appropriate Divisional Director supported by the HR Business Partner..

8. Liaison with Other Organisations

- 8.1 The Council will actively engage with other organisations, and develop and maintain strong links in its efforts to pursue and strengthen its anti-fraud and corruption strategy at both a local and national level. The Corporate Anti-Fraud Team works with the Police, Local Authorities, the CIPFA Counter Fraud Centre, the DWP, Home Office, Immigration teams and central Government departments.
- 8.2 The Council is an active user of the National Anti-Fraud Network (NAFN) services and will utilise the full range of intelligence and evidence gathering avenues to support its counter-fraud and investigation activity.
- 8.3 The Council is a member of the London Borough Fraud Investigators Group (LBFIG), with the Corporate Anti-Fraud Manager being part of the LBFIG Executive Committee.

9. Post Investigations

Sanctions

- 9.1.1 Where financial impropriety has been discovered, whether perpetrated by Officers, Members or third parties (e.g. suppliers, contractors, service providers), the Head of Internal Audit will consult with the Divisional Director of Legal Services as appropriate, to form a view on whether the matter should be reported to the Police. The final decision whether to refer a case to the Police or not will be made by the Monitoring Officer as soon as reasonable practicable. The Monitoring Officer will consider factors such as the nature and seriousness of the offence, as well as the Council's ability to investigate/prosecute itself. In all cases where matters are referred to the Police, the Police, and latterly the Crown Prosecution Service, will determine whether or not an investigation and/or prosecution will be pursued.
- 9.1.2 Should matters be dealt with internally, a decision will be made in conjunction with Senior Management and Corporate HR on the most suitable course of action, in accordance with the Council's Enforcement Policy, Members Code of Conduct, Employee Code of Conduct and the Councils disciplinary procedure.
- 9.1.3 Suspected financial impropriety by any third party that the Council has dealings with will be the subject of investigation. If proven, this may result in the termination of individual contracts and may result in prosecution or civil action.

9.2 Prosecution

- 9.2.1 Any matters considered for prosecution will be subject to the Code for Crown Prosecutors, the Evidential Test and the Public Interest test. While each case is considered on its own merits, a consistent set of principles will be applied in forming the decision whether or not to prosecute.
- 9.2.2 In cases where fraud and/or corruption is proven, the Council in-line with its Enforcement Policy, will consider instigating prosecution proceedings in conjunction with the Divisional Director of Legal Services. Please see [Enforcement Policy](#)
- 9.2.3 Should matters that are referred to the Police be considered for prosecution, action will be instigated through the Crown Prosecution Service.

9.3 Recovery of Losses

- 9.3.1 In proven cases of financial loss, the Council will seek to recover all such losses through whatever means it considers appropriate. If the fraud was committed by an employee, the loss may be recovered from any monies due to the individual on termination of employment.
- 9.3.2 Where the opportunity exists and evidence is strong enough to utilise the services of the Council's Financial Investigator this will be done to exercise recovery through the application of Proceeds of Crime action.

10. Review of internal controls

- 10.1 To prevent any recurrence of fraud, the system of internal control will be assessed to identify weaknesses that have allowed the fraud to occur. The investigation report will highlight the system failures and make recommendations for improvements which will be included in an action plan for agreement with the relevant Head of Service.
- 10.2 The Corporate Anti-Fraud Manager will liaise with the Internal Audit team to ensure that future audit plans and work programmes reflect identified control weaknesses.
- 10.3 Elected Members and directors have a significant role to play in the Council's corporate governance. To facilitate this role, a summary of all fraud cases will be submitted on a regular basis to the Audit Committee and Statutory Officers Meetings.

11. How to Report a Concern

- 11.1 There are a number of ways that individuals may raise a concern or report a suspected fraud or irregularity; any reports received will be treated confidentially in accordance with the Council's Whistleblowing Policy. [Whistleblowing Policy](#)

11.2 Employees are urged to consider the nature of the concern, whether it involves immediate management, and the seriousness and sensitivity of the issues involved.

11.3. As soon as an employee becomes reasonably concerned about a matter, they are encouraged to raise this in the first instance with their line manager. All managers have a responsibility to act on concerns raised. The line manager should report the concern to the Council's Monitoring Officer who will consider referral to the Head of Internal Audit or the Corporate Anti-Fraud Manager as soon as practicably possible.

11.4 **Contact details**

11.4.1 For further advice on any fraud issues or to report a fraud please contact one of the following:

Paul Rock – Head of Internal Audit

Email: Paul.Rock@towerhamlets.gov.uk

Tony Qayum – Corporate Anti-Fraud Manager

Email: Tony.Qayum@towerhamlets.gov.uk

Sue Oakley – Corporate Anti-Fraud Team Leader

Email: - Sue.Oakley@towerhamlets.gov.uk

Rob Watt – Social Housing Investigations Fraud Team Leader

Email: Rob.Watt@towerhamlets.gov.uk

You can also email us on socialhousingfraud@towerhamlets.gov.uk for any housing fraud or illegal sub-letting.

And for any other fraud matters concerning Tower Hamlets these can be reported on the following link [Report a fraud](#)

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Non-Executive Report of the: Audit Committee Thursday, 28 January 2021	 TOWER HAMLETS
Report of: Kevin Bartle Interim Corporate Director, Resources (S.151 Officer)	Classification: Open (Unrestricted)
Risk Management - Corporate and Place Directorate Risk Register	

Originating Officer(s)	Paul Rock
Wards affected	(All Wards);

Executive Summary

This report presents the Audit Committee with the opportunity to review the Corporate and Place Directorate Risk Registers.

Recommendations:

The Audit Committee is recommended to:

1. **Note** the corporate risks, and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at the next Committee meeting (or separately before the meeting if urgent).
2. Note the Place Directorate risks and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the directorates objectives at the next Committee meeting (or separately before the meeting if urgent).
3. **Note** the progress made against the Annual Action Plan for Risk Management.

1. REASONS FOR THE DECISIONS

- 1.1 The Audit Committee has responsibility for oversight of the arrangements for governance, risk management and control and this report assists the Committee in discharging its responsibilities.

2. ALTERNATIVE OPTIONS

- 2.1 None.

3. DETAILS OF THE REPORT

Corporate Risk Register

- 3.1 The Head of Risk has been working with Corporate and Divisional Directors to update the Corporate Risk Register. The updated register is attached at Appendix A. This register was presented to CLT in January 2020 for their review and agreement.
- 3.2 The Audit Committee should review the Corporate Risks and be satisfied that the risks are appropriate. In doing so the Committee may wish to consider the following questions:
- a. Are these the key, corporate level risks that might prevent the Council from achieving its objectives?
 - b. Are there any key, corporate levels risks missing, bearing in mind there are many more risks being managed at Directorate and Service level?
 - c. Are the risks up to date, scored correctly and owned appropriately?
 - d. Are the control measures (actions) up to date and owned appropriately?
 - e. Do you want to request any of the risk owner(s) to provide a more detailed update on the treatment and mitigation of their respective risk(s) including impact on the corporate objectives?
 - f. Do you require any independent assurance from Internal Audit or elsewhere that the corporate risks are being appropriately managed?

Recommendation

- 3.3 The Committee is recommended to **note** the corporate risks, and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact on the corporate objectives at the next Committee meeting (or separately before the meeting if urgent).

Place Directorate Risk Register

- 3.4 Since the last Audit Committee meeting the Chair of the Audit Committee confirmed that the Committee would like to review the Place Directorate level risk register. This register is attached at Appendix B.
- 3.5 The Audit Committee should review the directorate risks and be satisfied that the risks are appropriate. In doing so the Committee may wish to consider similar challenge questions as those presented above.

Recommendation

- 3.6 The Committee is recommended to **note** the directorate risks, and where applicable request risk owner(s) with risks requiring further scrutiny to provide a detailed update on the treatment and mitigation of their risk including impact

on the directorate objectives at the next Committee meeting (or separately before the meeting if urgent).

Future Directorate Risk Register Reviews

3.7 Going forward the Committee will be presented with the other directorates risk registers on a rolling programme as follows:

- Governance and Resources (new combined directorate)
- Children's and Culture
- Health, Adults and Community

Progress against Annual Action Plan for Risk Management

3.8 Progress against the Annual Action Plan for Risk Management has been slow as a recruitment freeze remains in place and there are no dedicated risk resources in the Risk Team. Nevertheless, some progress has been made as follows:

- The Risk Management Strategy has been updated and was approved by the Audit Committee in July 2020.
- Each Directorate has nominated a Risk Champion to lead on risk in their respective Directorates. The Risk Champions meetings have been reconstituted.
- The Corporate Leadership Team have been requested to ensure risk management features at least quarterly on their Divisional Leadership Team meeting agendas.
- The Directorate Risk Registers for Place, Health Adults and Community, Children's and Culture, Governance and Resources have all been reviewed and actions identified to update and/or close out of date active risks.
- Training has been provided to Senior Business Support Officers enabling them to support Directorates in updating risks on JCAD (the Council's risk management software).
- Both the Joint Health and Safety Committee and the Civil Contingencies Board continue to receive risk reports in their respective areas.
- A separate risk register is being maintained and coordinated through the Head of Risk for the Council's response to Covid-19; updates are reported weekly to CLT Gold. This bespoke risk register is available to the Committee Members upon request.
- The review of the Council risk management software (JCAD) has been put on hold until 2021 due to financial and other resource constraints.
- The Audit Committee has been presented with its first opportunity to review a directorate level risk register and a timetable is in place to review all other directorate registers in the future.

Recommendation

3.9 The Committee is recommended to **note** the progress made against the Annual Action Plan for Risk Management.

4. EQUALITIES IMPLICATIONS

4.1 There are no specific equalities implications.

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.
- Data Protection / Privacy Impact Assessment.

5.2 The Accounts and Audit Regulations 2015 require authorities to ensure they have a sound system of internal control which:

- 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.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no specific financial implications arising from the content of 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.

7. COMMENTS OF LEGAL SERVICES

7.1 The Accounts and Audit Regulations 2015 require local authorities to ensure they have a sound system of internal control which facilitates effective exercise of its functions and includes effective arrangements for the management of risk. This report demonstrates the Council's compliance with this requirement.

Linked Reports, Appendices and Background Documents

Linked Report

- None.

Appendices

- Appendix A – Corporate Risk Register
- Appendix B – Place Directorate Level Risk Register

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:

Paul Rock, Head of Internal Audit, Fraud and Risk

Tel: 07562 431830. Email: paul.rock@towerhamlets.gov.uk

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Detailed Risk Report (incl Control Measure Target Date)

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
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. There is an on-going need to ensure that services to all vulnerable children and young people have focus on safeguarding and a prevention of harm.	Our most recent Ofsted report (June 2019) rates Children's Social Care and Early Help service's as "Good". However, there will be a need to regularly review and scrutinise the quality of services for vulnerable young people. This scrutiny and challenge will need to have a focus on; <ul style="list-style-type: none"> Overall management oversight and quality of supervision. Compliance with core statutory and local requirements. Adherence to key safeguarding thresholds. Regular assessments of cases, and emerging /changing risks. Strong planning for children, with regular reviews to avoid drift and delay. Maintaining strong quality assurance and auditing mechanisms. 	<ul style="list-style-type: none"> Harm to individual Children and young people being left in situations of risk and or unassisted harm. Poorer than expected outcomes for a child. Poor audit/review findings Reputational damage to the council. Poor Staff development and competence. Poor Quality assurance and Performance Management Loss of experienced professional staff. Potential for legal proceedings against the council leading to financial loss 	<p>Monthly meeting of the Continuous Improvement Board, chaired by the DCS, and involving the Lead member.</p> <p>New multi-agency Children's Safeguarding Partnership. Arrangements are over-seen by the independent Scrutineer.</p> <p>Monthly service level performance meetings held by the Divisional Director.</p> <p>An established Audit process which is undertaken 5 x times each year.</p> <p>Practice Week which is held twice a year (May and November) which involves all Corporate Directors and members.</p>	5	5	25	4	4	16	James Thomas	People Are Aspirational, Independent And Have Equal Access To Opportunities.
				<p>Overview of level of violence and risk in families in Tower Hamlets</p> <p>Given the number of critical incidents involving children and young people in Tower Hamlets over the last 12 months, it is proposed via the CMT Safeguarding Board that we update the JSNA on domestic violence and abuse as part of the annual assessment on community safety. The links between gang violence and violence in families will be explored as part of this analysis.</p> <p>The purpose will be to test the feasibility of a public health type specific reducing violence strategy across the borough. It will also enable CMT to consider the integration of the the many pieces of work going on within the council and across the wider partnership aiming to increase safety and wellbeing of c/yp within a measurable framework.</p> <p>Richard Baldwin</p> <p><u>Required Control Measure</u></p> <p>Target Date: 01/09/2021</p> <p>Improvement Arrangements to respond to the Ofsted Report</p> <p>Richard Baldwin</p> <p><u>Required Control Measure</u></p> <p>Target Date: 31/03/2021</p>								

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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
COVID0001	Risk to essential service delivery including the protection of staff, stakeholders and continued service delivery (critical) as a result of the current coronavirus pandemic.	Classification as a pandemic by the world health organisation. Increase in the number of people infected by the virus.	Death to members of the public, service users and staff. NHS and hospitals unable to cater for increase in population requiring hospitalisation and intensive care. Collapse of public services including local government, significant down turn in the economy.		4	5	20	Pandemic Flu Plan and Emergency Borough Command Structure The Council has instigated it's Multi Agency Pandemic Influenza Plan and the emergency Borough Command Structure. Gold, Silver and Bronze groups are operating effectively. Key risks have been identified and are being managed and reviewed at Gold and Silver meetings. Will Tuckley <u>Required Control Measure</u> Target Date: 31/03/2021 Recovery and Reconstitution The Council began its recovery phase during the summer of 2020. The plan anticipates additional waves of the pandemic occurring. A new MTFs has been agreed. Whilst R&R work has slowed in some areas this is anticipated and activity will be stepped up between waves of the virus. The Council is maintaining essential business as usual. Will Tuckley <u>Required Control Measure</u> Target Date: 30/06/2021	4	3	12	Will Tuckley	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
RS0056	<p>The Council may significantly overspend its budget, fail to deliver savings and continue to rely on dwindling reserves.</p> <p>As of January 2021, we have a balanced budget for 2021/22, albeit still drawing on reserves to balance and a longer term funding gap of £11m.</p>	<p>COVID-19 Virus outbreak and associated increase in costs.</p> <p>Loss of income in particular council tax, business rates and leisure events.</p> <p>Poor budget management</p> <p>Failure to deliver savings</p>	<p>Significant financial losses, overspent budgets, further drawn down on reserves.</p>	<p>Financial Measures</p> <p>CLT and SLT have prepared savings proposals to deliver savings across 9 themes which were presented Members for their agreement:</p> <ol style="list-style-type: none"> 1. New ways of working from the pandemic 2. Managing demand by enabling people to help themselves 3. Streamlining our back office 4. Greater use of community assets 5. Digital 6. Buildings 7. Non- statutory services 8. Joining up services 9. Headcount reductions <p>Financial Actions</p> <p>Increased focus on budget management. Budget Managers Handbook Issued. All budget managers directed by CLT to remain in budget. High risk budgets reviewed by the Corporate Director Resources or the Divisional Director of Finance, Procurement and Audit.</p> <p>Redoubled efforts to deliver previously agreed savings proposals.</p>	5	4	20	<p>Monitoring and Control</p> <p>Continual focus on budget management. Closely tracking delivery of savings and identifying alternatives if proposals become undeliverable.</p> <p>Regular budget reporting to CLT, Portfolio Leads, MAB and Cabinet.</p> <p>Allister Bannin</p> <p><u>Required Control Measure</u></p> <p><u>Target Date:</u> 31/03/2022</p>	4	3	12	Kevin Bartle			
BCLR0013	<p>Whilst an EU-UK Trade and Cooperation Agreement was reached and ratified by the UK in December 2020, considerable uncertainty remains about the medium to long term impact leaving the EU will have on the Council and it's residents.</p>	<p>Unknown and/or unforeseen impacts of the EU-UK Trade and Cooperation Agreement that have yet to materialise.</p>	<p>The consequences for the Council and the community may include less grant funding, data adequacy/protection, new regulatory services, increased settlement application support, construction, and some supply chain delays whilst business adapt to the new processes.</p>		4	4	16	<p>Brexit Impact Monitoring and Response</p> <p>Each Directorate will be closely monitoring the impact of the EU-UK Trade and Cooperation Agreement and will rapidly put in place appropriate actions to mitigate. CLT is maintaining oversight and receiving regular reports on progress, implications and necessary actions.</p>	4	2	8	Will Tuckley	<p>A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To</p>		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT	
					L	I	Total	L	I	Total	L	I	Total			
									Sharon Godman <u>Required Control Measure</u> Target Date: 31/03/2021							
ASD0015	Death or serious harm to a vulnerable adult that was or should have been in receipt of services, either from the council or a partner agency.	<p>There is a failure of one or more of the controls which fails to identify the degree of risk to a vulnerable adult.</p> <p>Poor practice and inadequate management oversight.</p> <p>Failure of quality control systems.</p> <p>Service user fails to work to agreed partnership / agency arrangements.</p> <p>Poor communication and partnership work.</p> <p>Poor resourcing of service areas against increased demand.</p> <p>Local authority contracted out service do not have sufficiently robust safeguarding arrangements.</p>	<p>Harm to an individual.</p> <p>Reputational damage to the Council.</p> <p>Potential for legal proceedings against the council leading to financial loss.</p> <p>Loss of confidence in safeguarding capability.</p>	<p>Oversight through management reporting</p> <p>Social workers have 1:1 supervision monthly on their casework including safeguarding cases.</p> <p>The PSMT meet monthly to review and monitor Adult Safeguarding casework, particularly serious cases and develop and implement action plans and lessons learnt.</p> <p>Information campaigns to raise awareness of safeguarding oversight from safeguarding adult's board</p> <p>A sub group of the Safeboarding board leads on publicity and promotion of safeguarding</p> <p>Safeguarding issues as part of contract management procedures</p> <p>.</p> <p>Target operating module as part of the care act implemented.</p> <p>This includes key worker role assigned.</p> <p>Signs of safety framework implemented.</p> <p>This framework helps identify the risks in a strategic manner.</p> <p>CQC care commission embargo list used.</p> <p>This list is available from the CQC highlighting all providers where the CQC has raised concerns.</p> <p>Failed visit policy and procedures in place.</p> <p>Introduction of safeguarding Star Chamber for front line teams</p> <p>discharge policy in consultation with Bart's</p>	3	5	15	5 year (2019 – 2024)	Safeguarding Adults Board Strategy	The actions within the SAB strategy aim to mitigate the risks associated with safeguarding.	Claudia Brown	<u>Required Control Measure</u>	Target Date:	31/03/2024	Denise Radley	People Are Aspirational, Independent And Have Equal Access To Opportunities.

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
ORG0026	There is a risk the Council will be unable to deliver critical and essential services.	<p>Cyber Security Attack e.g. ransomware, denial of service, phishing, malware or an active attack exploiting network security vulnerabilities.</p> <p>Industrial dispute</p> <p>Pandemic Flu or similar widespread infections/diseases.</p> <p>Natural disasters (fire, flood etc)</p> <p>Failure of critical third party provided services.</p> <p>Loss of regional infrastructure e.g. utilities</p>	<p>Failure to deliver critical services</p> <p>Death of serious injury e.g. to staff, members of the public or service users</p> <p>Failure to comply with statutory duties or other legal responsibilities</p> <p>Financial loss</p>		3	5	15	<p>A fully functioning and embedded Business Continuity Framework</p> <p>The Corporate Leadership Team has adopted a business continuity policy and civil contingencies arrangements. The development & maintenance of these arrangements is managed through the Civil Contingencies Board which is chaired by Denise Radley. The CCB meeting quarterly and more frequently when required. In 2019/20, new business continuity software (Clearview) to support directorates and services to manage key risks was implemented and is being embedded across the Council. A recent audit of Business Continuity and Resilience identified some areas for improvement which are in the process of being actioned. The Council will soon run an exercise to test its preparedness for a cyber attack.</p> <p>Denise Radley</p> <p><u>Required Control Measure</u></p> <p>Target Date: 31/03/2021</p> <p>Cyber Insurance</p> <p>The Council is currently seeking quotes to purchase insurance to mitigate the potential costs of a successful cyber attack.</p> <p>Adrian Gorst</p> <p><u>Required Control Measure</u></p> <p>Target Date: 31/01/2021</p>	3	3	9	Will Tuckley	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
PLC0013	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.	Accountability for fire safety is not correctly designated, communicated and understood Fire Risk Assessments: * are incomplete, inadequate or not carried out in accordance with the latest advice from DCLG and fire and rescue services * are not published in accordance with the Mayor's commitment * do not include the time limits on recommendations Fire Risk Assessment Action Plans: are not produced and/or delivered within appropriate timescales Limited current contractor supplier chain for scale of identified fire safety works Constrained and limited ability for Tower Hamlets Homes to complete all the Fire Risk Assessment work identified in the new round of comprehensive Fire Risk Assessments Unable to justify block prioritisation policy for programmes of Fire Risk Assessment works Leaseholders do not fit fire rated flat entry doors (ALL flat entrance doors in a block will need to be compliant to achieve	Loss of life Loss of housing stock Lobbying and/or protesting The council and local housing management organisations lose the trust of residents Individual prosecution under a number of Acts of Parliament and common law offences with potential penalties including unlimited fines and a maximum of life imprisonment Corporate prosecution with potential penalties of unlimited fines, remedial orders and publicity orders Adverse national media coverage Uninsured financial loss Council perceived as not having fulfilled statutory duty to keep local housing conditions under review	Tower Hamlets Homes (THH) Fire Safety Programme progress reported to and monitored by THH and Council Bi-Monthly Operational Meeting - Standing Agenda Item Quarterly Strategic Meeting - Standing Agenda Item Quarterly Mayoral Meeting - Standing Agenda Item Capital Programme Board Council client team to review and agree timetable for publishing remaining Fire Risks Assessments Ensure Fire Risk Assessments are carried out annually or (after works) on ALL council owned housing blocks Capital Programme Board - This is specifically to include blocks who have not yet had programmed work completed	3	5	15	1	5	5	Ann Sutcliffe	A Borough That Our Residents Are Proud Of And Love To Live In.

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
		good fire compartmentalisation and a 'Tolerable' fire safety standard) Fire safety measures are uncoordinated							
ASD0038	There is a risk that the Council will fail to comply with its obligations in relation to the Protection of Freedoms Act 2012 and therefore failing to meet the Code of Practice compiled under that Act by the Home Office Surveillance Camera Commissioner (SCC) for the operation of video surveillance systems. The Council may also fail to meet the requirements of the Data Protection Act 2018 related to the use and management of video surveillance systems.	A lack of appropriate governance, policy and standard operating procedures. No asset registers for surveillance systems. Out of date or missing Data Processing Impact Assessments No SLAs with major stakeholders such as the Police and Transport for London A lack of compliance with agreed governance, policy and procedures. An inspection by the Surveillance Camera Commissioner. An inspection by the Information Commissioner. A freedom of information request.	Financial, legal and reputational.		3 4 12	Improvement Action Plan Completion SPP have been commissioned by the Senior Responsible Officer to draft an action plan and ensure we are compliant with the regulations. SPP will also draft the Council policies and procedures. All the client departments such as Parks, FM, Parking and CCTV will need to ensure that they implement the action plan, policies and procedures. The action plan will be monitored by the Information Governance Board. Each client department to nominate a lead, a Single Point of Contact (SPOC) who will be responsible for all operational matters relating to surveillance cameras and they will act as the main contact point for anything related to surveillance camera systems. They SPOCs will support the SRO regarding compliance with Protection of Freedoms Act. Ann Corbett <u>Required Control Measure</u> Target Date: 28/02/2021	2 2 4	Denise Radley	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
COVID0002	Risk that inequalities in attainment and well-being between disadvantaged children and other children will increase as a consequence of prolonged period out of school.	<p>Lock down and partial opening of schools to key worker and vulnerable children only March – July 2020</p> <p>Post 1st September: Confirmed cases of Covid 19 infection and /or isolation of school staff and pupils following contact with a confirmed case of Covid 19</p> <p>Potential school closure on infection control grounds and or business continuity grounds</p> <p>Second full lockdown from 5th January – keyworker and vulnerable children in school only, remote learning for all others.</p>	In the short term, pupils not achieving their educational potential and missing out on opportunities for personal, social and physical development Children and young people identified as 'vulnerable' may be particularly at risk when out of school. Large groups of young people (secondary schools operate year groups as bubbles) out of school isolating potentially not staying at home but congregating outside	<p>Infection control measures, partership working, lap to scheme & additional safeguarding guidance. Infection control measures, partnership working, laptop scheme & additional safeguarding guidance. All schools advised and supported to put rigorous infection control measures in place inside the school and to manage parents dropping off and picking up primary pupils outside schools. Health and Safety guidance is regularly updated. All work is delivered through a partnership between council officers and school workforce unions.</p> <p>Schools have audited families' IT capacity to identify pupils/families that are unable to access online learning and put other provision in place.</p> <p>Roll out of the government's laptop scheme, providing laptops for all children and young people with a social work and those leaving care, as well as vulnerable pupils in year 10 at school.</p> <p>Support for IT equipment to be purchased for pupils through the business community.</p> <p>Schools purchasing IT equipment for pupils.</p> <p>Additional safeguarding guidance issued to schools about pupils who are isolating.</p> <p>Information sharing across the council and with police regarding schools with groups of pupils who are isolating.</p>	4	3	12	<p>Summer programme</p> <p>Proposals under development in partnership with schools, including additional support for schools and children in September; broader summer programme for children moving from year 6 to year 7.</p> <p>Update 8 June 2020: Expansion of Year 7 transition programme underway. Planning underway with both primary and secondary schools to plan for a response to issues emerging when pupils return to school. Information gathering exercise planned with schools to understand current level of support and good practice as a basis for ensuring a consistent offer across the borough.</p> <p>Update 13/1/21 THEP building on systematic programme to support schools' remote learning in the short term and catch-up learning in the longer term. More systematic approach to address the remaining digital gap for home learning. Partnership approach to seek to identify hidden harms proactively. FSM entitled children supported with a local voucher scheme. Revised risk assessments by schools to enable in-school learning for all those entitled to attend.</p> <p>Christine McInnes</p> <p><u>Required Control Measure</u></p> <p>Target Date: 31/03/2021</p>	3	3	9	James Thomas			

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
LPGSE001 2	The Council may fail to deliver the strategic plan's priorities and outcomes and/or meet its responsibilities generally to the community.	COVID-19 virus pandemic including local outbreaks leading to a significant reduction in staffing and financial resources and the diversion of remaining staff/resources to deliver essential/critical services and/or new operational activity such as test and trace.	Failure to meet commitments, achieve strategic objectives and discharge responsibilities to the community.	Strategic Plan Review A revised strategic plan was agreed by Cabinet in July 2020 which included updated high level actions and priorities designed to move the Council forward. Business planning and target setting has been completed to support delivery of the revised strategic plan.	3	4	12	Budget Management and Resource Monitoring Continual focus on budget management. Closely tracking delivery of savings and identifying alternatives if proposals become undeliverable. Regular budget reporting to CLT, Portfolio Leads, MAB and Cabinet Allister Bannin <u>Required Control Measure</u> Target Date: 31/03/2022 Performance Monitoring and Reporting Quarterly performance reporting to DLT's, CLT, MAB, Cabinet and Overview and Scrutiny. Regular portfolio review meetings held ensuring the Mayor and relevant Cabinet Members review progress and discuss challenges. Annual review of strategic plan for 2021-2022. DLT's monitoring their directorate level delivery plans. Afazul Hoque <u>Required Control Measure</u> Target Date: 31/03/2022	3	3	9	Will Tuckley			
RS0060	There is a risk of deteriorating health and wellbeing in the Council's workforce.	Prolonged impact of the pandemic including ill health (from contracting Covid-19) bereavements, isolation, poor mental health, significantly increased workloads necessitating long working hours, reduced resources, remote and different ways of working and a potential	Increases in stress and sickness Financial and physical impact on organisation and workforce. Inability to retain staff. Large backlogs of work. Delays in service delivery.		4	3	12	Health and Wellbeing Support Employee Assistance Programme promoted and available to all staff which provides confidential information, advice and support 24/7. Introducing a Network of trained Mental Health First Aiders. Staff can access the Tower Hamlets Well-being Zone for tips and advice. Financial support is available if	3	2	6	Amanda Harcus			

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT	
					L	I	Total	L	I	Total			
		for 'burn out'.						needed. Regular team meetings held with frequent updates and 'check ins' for staff. Wellbeing staff surveys and action plans. 1:1's held regularly with staff. Management encouraging regular breaks. Amanda Harcus <u>Required Control Measure</u> Target Date: 31/12/2021					
RSB0023	Statement of Accounts qualified opinion received. Objections to the accounts. Previous years accounts being re-audited.	External audit of the statement of accounts and the subsequent findings/outcome.	Qualified opinion on statement of accounts. Reputational damage to the Council.		3	4	12	Improvement Plan An extensive improvement plan is in place and being actively delivered and monitored. Progress will be reported to CLT and the Audit Committee. Ahsan Khan <u>Required Control Measure</u> Target Date: 31/07/2021	2	2	4	Kevin Bartle	A Dynamic Outcomes-Based Council Using Digital Innovation And Partnership Working To

Detailed Risk Report (incl Control Measure Target Date)

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
PMP0008	There is a risk that 229 Bethnal Green Road (The Professional Development Centre) will not achieve its full development potential.	<p>Difficulties / delays arising from current service arrangements on-site</p> <p>Difficulties / delays arising from the current use of the Gym and Disabled Adaptations demo unit</p> <p>Incomplete Architects Brief</p> <p>Misinterpreted Client Brief</p>	<p>Inefficient use of Council Assets</p> <p>On-going costs not meeting budget setting targets</p> <p>Respirational risk to the Council</p>	<p>Commission a concept site feasibility</p> <p>To appoint an Architect to provide a range of best use site options with the best possible capital and revenue yield</p> <p>Issue comprehensive brief</p> <p>To ensure that the architects brief clearly sets out objectives and expectations</p> <p>Monitor Architects output</p> <p>To ensure the a stepped approvals process whilst the brief is in progress</p> <p>Monitor Feasibility outputs</p> <p>Outputs to be monitored through a number of agreed check points</p>	4	4	16	2	2	4	John Mitchell	A Borough That Our Residents Are Proud Of And Love To Live In.
PLC0021	No buildings insurance for Chater House	<p>Failure to manage the building</p> <p>Failure to inspect and maintain</p> <p>Shop tenants unidentified</p>	<p>Financial Loss over £12M</p> <p>Reputational loss</p>	<p>Tenant Audit Programme to be implemented</p> <p>Programme to include regular review of tenants fire and safety management - Fire risks, electrical safety, property owners liability guidance, housekeeping, maintenance</p> <p>Protection of unoccupied units</p> <p>Inspection to take place, utilities disconnected, combustible materials removed</p> <p>Cooking extractions cleaned</p> <p>Tenants to be made aware of the risk and their obligations to have cooking extractions cleaned to minimise fire risk.</p> <p>Gas Cylinders removed</p> <p>Tenants to be advised. Use of gas cylinders to cease as this is a fire</p>	3	5	15	1	5	5	Vicky Clark	

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Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk L I Total	Required Control Measures	Target Risk L I Total	Responsibility	CPT
				hazard.					
PMP0007	There is a risk that uncoordinated processes within Capital Programme delivery and Client Teams will lead to delays in achieving outputs as set by the Strategic Plan and Mayors priorities covering housing and mixed site developments.	<p>Incomplete business plans and briefs RIBA stage 1</p> <p>Duplication of resourcing through RIBA stages 2 - 4.</p> <p>Direct approaches to procurement with no Business Case, Client Brief or PID in place / delays in design sign off.</p> <p>Communications plans not in place</p> <p>The use of non-standard project and programme documentation</p>	<p>Delays in the delivery of the Council's Housing and mixed site Non Housing development programme.</p> <p>Negative effect on resource allocation leading to high burn programming</p> <p>Failure to deliver Capital Projects on time</p> <p>Reputational risk to the council</p>	<p>MAP Medium Priority Recommendation</p> <p>Collect process data and examine for future use</p> <p>MAP Medium Priority Recommendation</p> <p>Design toolbox</p> <p>Write Handbook with Hyperlinks</p> <p>Scope and launch Intranet Channel</p> <p>Build revised file sharing</p> <p>Complete and sign off governance</p> <p>Sign off</p> <p>Publish</p> <p>MAP Medium Priority Recommendation</p> <p>Build project plan for published material and action following client group consultation and revisions to current monitoring and reporting protocols.</p>	4 3 12	<p>Monitoring compliance</p> <p>Embed processes through continued use of new governance framework</p> <p>Continue to monitor adoption of guidance through improved use of templates and the shaerd filing protocol</p> <p>John Mitchell</p> <p><u>Required Control Measure</u></p> <p>Target Date: 31/03/2021</p> <p>Links with Corporate Calital Programme Finance</p> <p>Revise protocols and ensure that these are applied. It is essential to have consistent finance data to enable the capital programme to be effectively monitored by the Capital PMO through dashboard monitoring. The Agresso Upgrade is vital to mitigate this risk.</p> <p>John Mitchell</p> <p><u>Required Control Measure</u></p> <p>Target Date: 01/02/2021</p> <p>Outcome of internal audit on Capital Programme Governance (May 2020)</p> <p>Deliver the recommendations of the Audit as set out in the action plan.</p> <p>John Mitchell</p> <p><u>Required Control Measure</u></p> <p>Target Date: 31/03/2021</p>	2 2 4	John Mitchell	A Borough That Our Residents Are Proud Of And Love To Live In.

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Required Control Measures			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total	L	I	Total		
DRDH0001	The Council is unable to secure sufficient affordable self-contained accommodation for households in immediate need	<p>1. Growth in wider demand for private rented housing reduces supply available for temporary accommodation or lifts prices to unaffordable, unsustainable levels.</p> <p>2. Pressures from welfare reform and private rented sector rent increases result in increased homelessness demand.</p> <p>3. Government introduces restrictions on borrowing, use of RTB receipts or Council investment powers that prevent or undermine the acquisitions programme for use as temporary accommodation.</p>	<p>1. Rise in homelessness and the temporary accommodation population</p> <p>2. Eviction of private sector tenants reliant on Housing Benefit</p> <p>3. Turmoil in the rental market</p> <p>4. Greater use of B&B (at extra financial cost) and out of borough homeless temporary accommodation</p> <p>5. Negative impact on initiatives to tackle overcrowding (offering private sector tenancies to overcrowded public sector tenants)</p> <p>6. Subsidy shortfall of £3 million per annum</p>		2	5	10	<p>buy back acquisition programme to date we have acquired 400 ex RTB or ex social homes for TA. The acquisitions programme continues, Abul Kalam</p> <p><u>Required Control Measure</u> Target Date: 08/04/2021 Creative use of FHSG</p> <p>Using grant to convert buildings for residential use in the borough. July 2020 delayed due to Covidbut still progressing, main contractor procured. 401 Mile End Road - capital funding and FHSG Some FHSG being used for the PLACE modular homes Abul Kalam</p> <p><u>Required Control Measure</u> Target Date: 08/04/2021 Joining the London wide procurment called Capital Letters</p> <p>1 negotiator already assigned, another not required at present but this could change in 2021 as we will require more properties from CL</p> <p>Housing options will be recruiting an additional 2 officers to work in-house from April 21 as part of the Medium Term Financial Strategy Abul Kalam</p> <p><u>Required Control Measure</u> Target Date: 08/04/2021</p>	2	4	8	Rupert Brandon	People Are Aspirational, Independent And Have Equal Access To Opportunities.		

Risk Ref	Risks	Triggers	Consequences	Existing Control Measures	Current Risk			Target Risk			Responsibility	CPT
					L	I	Total	L	I	Total		
PLC0020	Risk to public safety caused by dangerous or unsafe structures.	There are only three staff available to respond to dangerous call outs and service level will be adversely affected if one or more of these staff are absent due to Covid-19.	Unsafe structures may not be secured as quickly creating a risk to safety.	<p>PPE Supplied</p> <p>Team have dealt effectively with a number of Dangerous structure call outs during the year – including the Bow Crane incident.</p> <p>While the team are well – one of the three staff who undertake dangerous structures call outs is currently self- isolating, so we continue to rely on an agency member of staff for this service.</p>	2	4	8	1	4	4	Ann Sutcliffe	

Agenda Item 4.6

Audit Committee 28 January 2021 and Council 4 March 2021	 TOWER HAMLETS
Report of: Kevin Bartle, Interim Corporate Director Resources	Classification: Unrestricted
Treasury Management Strategy Statement, Investment Strategy Report and Capital Strategy Report for 2021-22	

Lead Member	Councillor Candida Ronald, Cabinet Member for Resources and the Voluntary Sector
Originating Officer(s)	Hitesh Jolapara, Interim Divisional Director of Finance, Procurement and Audit
Wards affected	All wards
Key Decision?	Yes
Forward Plan Notice Published	November 2020
Reason for Key Decision	This report is a statutory requirement and forms part of the 2021-22 budget approval by Council.
Strategic Plan Priority / Outcome	1. People are aspirational, independent and have equal access to opportunities; 2. A borough that our residents are proud of and love to live in; 3. A dynamic outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough.

Executive Summary

- 1) This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance on Treasury Management.
- 2) The Council is required by legislation and guidance to produce three strategy statements in relation to its treasury management arrangements. The three statements are:
 - a) Treasury Management Strategy Statement which sets out the Council's strategy for the management of the Council's treasury investments and debt portfolio, including potential new borrowing, for the financial year and

establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities.

- b)** Investment Strategy which sets out the Council's service and commercial investments, its policies for managing existing investments and the governance/decision-making arrangements for new investments.
 - c)** Capital Strategy Report which sets out an overview of how the Council's capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. The Capital Strategy Report incorporates the Minimum Revenue Provision (MRP) Policy Statement.
- 3)** This report also covers the requirements of the 2017 Prudential Code, including setting of Prudential Indicators for 2021-22, which ensure that the Council's capital investment decisions remain affordable, sustainable and prudent. The Prudential Code also requires the production and approval of an annual Capital Strategy.
 - 4)** The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA TM Code) which requires the Authority to approve a treasury management strategy statement before the start of each financial year.
 - 5)** The Ministry of Housing, Communities and Local Government (MHCLG) issued revised Guidance on Local Authority Investments in February 2018 that requires the Authority to approve an investment strategy before the start of each financial year.
 - 6)** Clear delegated responsibility for overseeing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions is required. For this Council the delegated body is the Audit Committee. Officers will report details of the Council's treasury management activity to the Audit Committee through presentation of a mid-year and outturn report.
 - 7)** The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged as required for members of the Audit Committee who are charged with reviewing and monitoring the Council's treasury management policies. The training of treasury management officers is also periodically reviewed and enhanced as appropriate.

Recommendations:

It is recommended to Council to:

- 1) Approve and adopt the following policy and strategies:
 - 1.1) The Treasury Management Strategy Statement contained in Appendix A;
 - 1.2) The Investment Strategy Report contained in Appendix B;
 - 1.3) The Capital Strategy Report, which includes the Minimum Revenue Provision (MRP) Policy Statement, contained in Appendix C;
 - 1.4) The Prudential and Treasury Management indicators contained in Appendix D; and
 - 1.5) The Treasury Management Policy Statement as set out in Appendix E.

1 REASONS FOR THE DECISIONS

- 1.1 The Council has adopted the relevant CIPFA Treasury Management and Prudential Codes and has regard to the MHCLG Investment Guidance (which came into force on 1st April 2018), as required to comply with the Local Government Act 2003. The guidance prescribes the production of three strategy documents, to be approved by the Council before the start of the financial year to which they relate.
- 1.2 The Prudential Code for Capital Finance in Local Authorities (2017) produced by CIPFA guides the Council in the production of a framework designed to ensure that the Council's capital expenditure and financing plans are prudent, sustainable and affordable.
- 1.3 The Treasury Management in the Public Services: Code of Practice (2017) produced by CIPFA guides the Council in setting a risk management framework for the management of its surplus cash and new and existing borrowing.
- 1.4 The MHCLG Investment Guidance guides the Council in setting a decision-making, governance and risk management policy for its service and commercial investments.
- 1.5 The three strategy documents that the Council should produce are:
 - Treasury Management Strategy, including prudential indicators
 - Investment Strategy
 - Capital Strategy

2 ALTERNATIVE OPTIONS

- 2.1 The Council is bound by legislation to have regard to the CIPFA Codes and MHCLG Investment Guidance. If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that the Council's capital investment plans are affordable, sustainable and prudent, and its treasury management activity is managed within an adequate risk control framework.

3 DETAILS OF THE REPORT

Background to Treasury Management

- 3.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, with adequate liquidity primarily, before considering investment return. A portion of the investment balance is invested on a long-term basis to preserve purchasing power and generate higher returns to support the revenue budget.
- 3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses.
- 3.3 CIPFA defines treasury management as:
"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 3.4 The Treasury Management Strategy Statement report forms part of an annual cycle of Committee and Council reports. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.
- I. **A treasury management strategy statement** (Appendix A)
 - II. **A mid-year treasury management report** – This will update members on year to date performance against the prudential and treasury indicators, amending indicators as necessary, and whether any policies require revision.

III. **A treasury outturn report** – This provides details of annual actual performance against the prudential and treasury indicators.

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

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

3.7 **The 2020-21 Strategy and Current Investment Position and Performance**

The Strategy for 2020-21 was approved by Full Council on 19th February 2020 and the Audit Committee received a Treasury Management mid-year review on 12th November 2020 which stated that:

- a) The investment income budget for 2020-21 was £2.3m and is broadly on target.
- b) From a benchmarking exercise, a total return of 0.1% was achieved for the reporting period, which was 0.01% below the average for similar Local Authorities return and 0.45% higher than the average return for all Local Authorities; and
- c) The Prudential Indicators and Treasury Management indicators have been fully complied with.

Treasury Management Strategy

3.8 The Treasury Management Strategy Statement contained in Appendix A sets out the Council's proposed borrowing strategy, in the context of the U.K.'s economic outlook, credit outlook and interest rate forecast as well as the local context of the requirement to borrow. Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

3.9 The Council is undertaking a review of its borrowing strategy as set out in the TMSS, following the Capital Programme Review and the revised strategy will be reported to the Audit Committee.

3.10 The Authority had previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of

issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. On 25 November 2020, the government responded to the PWLB consultation by cutting the rate for all new Standard Rate loans from 1.80% to 1% (100 bps). PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

- 3.11 Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 3.12 Any decisions will be reported to the appropriate decision making body at the next available opportunity. Please note that the borrowing of monies purely to lend on and make a return is unlawful and the Council will not engage in such activity.
- 3.13 Where spend is financed through the creation of debt, the Council is required to pay off an element of the accumulated capital spend each year. The payment is made through a revenue charge (the minimum revenue provision - MRP) made against the Council's expenditure, although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). The MRP policy is set out in the capital strategy which is contained in Appendix C.
- 3.14 The Council has chosen to adopt a Voluntary Revenue Provision (VRP) to be charged to the HRA. This is in line with risks under consideration, the impact, and potential impact, on the Council's overall fiscal sustainability.
- 3.15 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Both the CIPFA Code and the CLG 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. 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. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 3.16 The investment strategy has been developed using the principle that the Council will also achieve optimum return on its investments commensurate with proper levels of security and liquidity. The Council's strategy is that given the risk and very low returns from short-term unsecured bank investments, the Authority will explore new opportunities for further diversification into more secure and/or higher yielding asset classes during 2021-22. The majority of

the Authority's surplus cash remains invested in short-term unsecured bank deposits, money market funds and local authority deposits.

- 3.17 The proposed structure for selecting counterparties is set out in the TMSS. This methodology has been proposed by Arlingclose Limited and after review, is being proposed to the Council for adoption. The Council has not listed all of the counterparties that meet these criteria in an appendix, as these counterparties will naturally change over time. The Council, in conjunction with its treasury management advisor, Arlingclose, will use Fitch, Moodys and Standard and Poor's ratings to derive its credit criteria. The Council's treasury advisor alerts officers to changes in ratings of all agencies.
- 3.18 The Corporate Director Resources, has delegated responsibility to add or withdraw institutions from the counterparty list when circumstances change, either as advised by Arlingclose Limited (the Council's advisors) or from another reliable market source.

Investment Strategy Report 2021-22

- 3.19 The Investment Strategy Report is contained in Appendix B. This strategy meets the requirement of the Guidance issued by Government in January 2018 and sets out the Council's Strategy in relation to supporting local public services by lending to or buying shares in other organisations and earning investment income other than investment returns in cash balance (commercial investments).

Capital Strategy Report for 2021-22

- 3.20 This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.
- 3.21 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are, therefore, subject to both a national regulatory framework and to local policy framework, summarised in this report.

- 3.22 The Capital Strategy Report is contained in Appendix C. The report sets out how the Capital Financing Requirement (CFR) for both the General Fund (GF) and the Housing Revenue Account (HRA) will change through to 2023-24, along with the Authorised Limit and the Operational Limit of borrowing and Prudential Indicators (PIs). Any shortfall of resources results in a borrowing need.

Other Treasury Management Issues

- 3.23 In order to meet statutory requirements, clear delegated responsibility for overseeing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions rests with the Audit Committee. Officers will report details of the Council's treasury management activity to the Audit Committee through presentation of a mid-year and outturn report. The responsibilities and delegated decision-making path are set out in Appendices F and G.
- 3.24 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny, for whom training will be arranged as required. The training needs of treasury management officers are periodically reviewed and form part of the annual learning and development plan for individual officers.

4 EQUALITIES IMPLICATIONS

- 4.1 The Equality Act 2010 requires the Council in the exercise of its functions to have due regard to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.
- 4.2 Capital investment will contribute to achievement of the corporate objectives, including all those relating to equalities. Establishing the statutory policy statements required facilitates the capital investments and ensures that it is prudent.

5 OTHER STATUTORY IMPLICATIONS

- a. 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.
 - Data Protection / Privacy Impact Assessment.
- b. **Best Value Implications:** The Treasury Management Strategy, Investment Strategy, Capital 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. Assessment of value for money is achieved through monitoring against benchmarks and operating within budget.
- c. **Risk Management:** There is inevitably a degree of risk inherent in all treasury activity. 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. Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council. 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 Arlingclose who specialise in Local Authority treasury issues.

6 COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 This report contains the three strategy statements in relation to the Council's treasury management arrangements. As this report is totally financial in nature the comments of the Chief Finance Officer have been incorporated throughout this report.

7 COMMENTS OF LEGAL SERVICES

- 7.1 The Local Government Act 2003 ('the 2003 Act') provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.
- 7.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and

Cross-Sectoral Guidance Notes” (“the Treasury Management Code”) in carrying out capital finance functions under the 2003 Act. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

- 7.3 It is a key principle of the Treasury Management Code that an authority should put in place “comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities”. Treasury management activities cover the management of the Council’s investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to adopt the strategies and policies proposed in the report.
- 7.4 The report proposes that the treasury management strategy will incorporate prudential indicators. The 2003 Regulations also requires the Council to have regard to the CIPFA publication “Prudential Code for Capital Finance in Local Authorities” (“the Prudential Code”) when carrying out its duty under the Act to determine an affordable borrowing limit. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for determination by the Council. If after having regard to the Prudential Code the Council wished not to follow it, there would need to be some good reason for such deviation.
- 7.5 The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority’s borrowing, investments or capital expenditure, or for determining the authority’s minimum revenue provision, is a matter that should not be the sole responsibility of the authority’s executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Council.
- 7.6 The report sets out the recommendations of the Corporate Director Resources in relation to the Council’s minimum revenue provision, treasury management strategy and its annual investment strategy. The Corporate Director Resources has responsibility for overseeing the proper administration of the Council’s financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.
- 7.7 When considering its approach to the treasury management matters set out in the report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don’t (the public sector equality duty).

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

Appendix A - Treasury Management Strategy Statement

Appendix B - Investment Strategy Report

Appendix C - Capital Strategy Report

Appendix D - Prudential and Treasury Indicators

Appendix E - Treasury Management Policy Statement

Appendix F - Treasury Management Scheme of Delegation

Appendix G - Treasury Management Reporting Arrangement

Appendix H - Glossary

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- None

Officer contact details for documents:

Allister Bannin, Head of Strategic and Corporate Finance, 020 7364 3930

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1. Introduction

- 1.1 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk is therefore central to the Authority's prudent financial management.
- 1.2 Treasury risk management in the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.
- 1.3 Investments held for service purposes or for commercial profit are considered in the Investment Strategy Report included with this TMSS report.
- 1.4 This TMSS forms part of the authority's overall budget strategy and financial management framework.

2 External Context

Economic background: The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines as well as the new trading arrangements with the European Union (EU) will remain major influences on the Authority's treasury management strategy for 2021-22.

- 2.1 The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but with no mention of the potential future use of negative interest rates. According to the latest forecasts, the Bank expects the UK economy to shrink by 2% in Q4 2020 before growing by 7.25% in 2021.
- 2.2 UK Consumer Price Inflation (CPI) for November 2020 was 0.3% down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to

75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market.

- 2.3 GDP rebounded by 16.0% in the Q3 2020 having fallen by 18.8% in Q2; the annual rate rose to -8.6% from -20.8%. All sectors grew quarter-on-quarter, especially in construction. Monthly GDP estimates have shown the economic recovery slowing down and remains well below its pre-pandemic peak. Looking ahead, the BoE's November Monetary Policy Report forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023, but this did not include the impact of the new lockdown.
- 2.4 The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.
- 2.5 Former vice-president Joe Biden won the 2020 US presidential election. Mr Biden is making tackling coronavirus his immediate priority and will also be reversing several executive orders signed by his predecessor and take the US back into the Paris climate accord and the World Health Organisation.
- 2.6 **Credit outlook:** Credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainty around COVID-19 related loan defaults led to banks making huge provisions (billions) for potential losses in the first half of 2020, thereby drastically reducing profits, reported impairments for Q3 were much reduced in some institutions. Bank profitability is therefore likely to be significantly lower than in previous years.
- 2.7 Looking forward, the potential for bank losses to be greater than expected when government and central bank support starts to be removed remains a risk. The credit ratings for many UK institutions were downgraded following downgrades to the sovereign rating.
- 2.8 **Interest rate forecast:** The Authority's treasury management advisor Arlingclose is forecasting that Bank Base Rate will remain at 0.10% until at least the end of 2024. The risks to this forecast are deemed weighted to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out.

2.9 Gilt yields are expected to remain very low in the medium-term while short-term yields are likely to remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20 year to rise to around 0.60% and 0.90% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

2.10 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A1.

3 Local Context

For the purpose of setting the Council's budget and MTFs, it has been assumed that new treasury investments in 2021-22 will be made at an average rate range of 0.01% - 0.20%, and that new long-term loans will be borrowed at an average rate of 2%.

As at 31st December 2020, the Authority held £72.289m of borrowing and £234m of treasury investments. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance Sheet Summary

Line	£m	2019-20 Actual £m	2020-21 Estimate £m	2021-22 Forecast £m	2022-23 Forecast £m	2023-24 Forecast £m
1	General Fund CFR	303.597	338.423	401.563	433.151	451.718
2	HRA CFR	108.394	138.286	220.555	249.871	244.375
3	Total CFR (Line 1+2)	411.991	476.709	622.118	683.022	696.093
4	Less: Other debt liabilities *	(58.651)	(55.838)	(52.469)	(48.593)	(44.067)
5	Borrowing CFR (Line 3-4)	353.340	420.871	569.649	634.429	652.026
6	Less: External Borrowing **	(72.289)	(71.534)	(69.872)	(68.709)	(68.709)
7	Internal Borrowing / (Over Borrowing) (Line 5-6)	281.051	349.337	499.777	565.720	583.317
8	Less: Usable reserves	(492.800)	(458.200)	(334.700)	(268.000)	(268.000)
9	Less: Working capital	(46.001)	(91.400)	(71.400)	(71.400)	(71.400)
10	(Investments)/New Borrowing (Line 7-8-9)	(257.750)	(200.263)	93.677	226.320	243.917
11	Net Investments (Line 10-6)	(185.461)	(128.729)	163.549	295.029	312.626

* leases and PFI liabilities that form part of the Authority's total debt

** shows only loans to which the Authority is committed

3.1 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 Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Actual internal borrowing at 31 March 2020 was £281m and forecast internal borrowing at 31 March 2021 is £349m.

3.2 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2020-21.

3.3 The table below shows the Council's existing investment and debt portfolio at 31 December 2020.

Existing Investment & Debt Portfolio Position

£m	31.12.2020 Actual Portfolio £m	31.12.2020 Average Rate %
External Borrowings:		
• Public Works Loans Board	54.8	2.72
• Other Loans	17.5	4.34
Total External Borrowings	72.3	3.12
Other Long-Term Liabilities:		
• Private Finance Initiative	31.5	
• Leases	27.2	
Total Other Long-Term Liabilities	58.7	
Total Gross External Debt	117.3	
Treasury Investments:		
• Banks & Building Societies (unsecured)	15.0	0.15
• Government (including local authorities)	107.0	0.36
• Money Market Funds	36.0	0.01
• Cash-Plus Funds	20.0	0.20
• Strategic Pooled Funds	56.0	2.50
Total Treasury Investments	234.0	1.01
Net Debt	116.7	

4 **Borrowing Strategy**

- 4.1 The Authority currently holds £72.289m of loans, as part of its strategy for funding previous years' capital programmes. The Authority may borrow to pre-fund future years' requirements by borrowing in advance of need, providing this does not exceed the authorised limit for borrowing of £652m (2023-24).
- 4.2 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £75m at each year-end. This amount includes the Council's strategic investment portfolio of £55m, which is not planned to be liquidated over this period, and a liquidity balance of £20m, to maintain sufficient liquidity.

Table 2: Liability benchmark

	31.3.20 Actual £m	31.3.21 Estimate £m	31.3.22 Forecast £m	31.3.23 Forecast £m	31.3.24 Forecast £m
Borrowing CFR	353.340	420.871	569.649	634.429	652.026
Less: Usable reserves	(492.800)	(458.200)	(334.700)	(268.000)	(268.000)
Less: Working capital	(46.001)	(91.400)	(71.400)	(71.400)	(71.400)
Plus: Minimum investments (Strategic Pooled Funds)	75.000	75.000	75.000	75.000	75.000
Liability benchmark	(110.461)	(53.729)	238.549	370.029	387.626

The liability benchmark suggests the Council will require a minimum level of borrowing in 2021-22 of £239m, to maintain the minimum investment level of £75m at year end. The actual level of borrowing at year end depends on whether the Council's spending plans proceed as planned and on the actual timing of borrowing.

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

4.4 **Strategy:** The Authority's other objective when borrowing is to achieve a low but certain cost of finance whilst retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.05% - 0.20%) and long-term fixed rate loans where the future cost is known but higher (PWLB certainty rates currently range from 0.67% to 1.71%). There are several factors that the Council needs to consider when setting its borrowing strategy.

4.5 As shown in the table below, the Council is planning to significantly increase its capital expenditure over the next 3 years; the provisional capital programme is £627m over the next 3 financial years (2021-22 to 2023-24). This plan is for the programme to be partly funded by borrowing of £150m in the General Fund for 2021-22 to 2023-24 and £120m in the HRA for the same period. The plan is for the rest of the programme to be funded by other sources including payments from developers (CIL and Section 106), capital receipts and revenue contributions (the HRA). However, in previous years, the capital programme has had major slippage, including the current year.

Table demonstrating Capital Expenditure

Capital Expenditure	2019-20	2020-21	2021-22	2022-23	2023-24
	Actual £m	Estimate £m	Forecast £m	Forecast £m	Forecast £m
Non-HRA	128.144	119.390	199.192	128.691	67.588
HRA	57.121	77.401	151.601	79.494	-
Total	185.265	196.791	350.793	208.185	67.588

4.6 The above increasing capital programme is taking place at a time when interest rates are historically low and indeed the Bank of England interest rate may well be cut further to zero or negative; rates have been at historical lows for almost a decade. Interest rates reached a peak of 13.875% in the 1990s, then fell to 6% in 2000, and ranged between 6% - 3.75% from 2000 – 2007, before being cut to 0.5% in 2009. Rates have fallen from 0.75% to 0.10% since then.

4.7 The Authority had previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of

funding in line with the CIPFA Code. On 25 November 2020, the government responded to the PWLB consultation by cutting the rate for all new Standard Rate loans from 1.80% to 1% (100 bps). PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

4.8 Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.9 The Authority may additionally borrow short-term loans to cover unplanned cash flow shortages. The Council is developing its borrowing strategy. Rates are currently low and the Council wants to be prepared for the point at which rates move unfavourably.

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

- HM Treasury's PWLB Lending Facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the London Borough of Tower Hamlets Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

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

4.12 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

- 4.13 **Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).
- 4.14 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5 **Investment Strategy**

- 5.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £180 million and £340 million.
- 5.2 **Objectives:** The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 5.3 **Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
- 5.4 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to explore opportunities to further diversify into more secure and/or higher yielding asset classes during 2021-22. Most of the Authority's surplus cash remains invested in short-term unsecured bank deposits, money market funds and local authority deposits.

5.5 **Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority’s “business model” for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.6 **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in Table 3 below, subject to the limits shown.

Table 3: Recommended investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities (<i>subject to checks on their balance sheet position depending on duration</i>)	25 years	£30m	Unlimited
Secured investments *	25 years	£30m	Unlimited
Banks (unsecured) *	13 months	£15m	Unlimited
Building societies (unsecured) *	13 months	£15m	£30m
Registered providers (unsecured) *	5 years	£15m	£75m
Money market funds *	n/a	£30m	Unlimited
Strategic pooled funds*	n/a	£30m	£150m
Real estate investment trusts	n/a	£30m	£75m
Other investments *	5 years	£15m	£30m

This table must be read in conjunction with the notes below

**There are currently no plans to invest further in strategic pooled funds*

Minimum Credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is not lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. This is monitored on a regular basis in liaison with our Advisors.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality following an external credit assessment.

- 5.7 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
- 5.8 **Secured Investments:** These are investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
- 5.9 **Banks and Building Societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- 5.10 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.
- 5.11 **Money Market Funds (MMFs): Pooled funds that offer same-day or short notice liquidity and very low or no price volatility** by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will exercise due care by diversifying its liquid investments various providers, to ensure access to cash at all time. It is worth noting that in the event rates become negative during this current pandemic and with the Brexit outcome, MMFs will become Variable Net Asset Values and / or accumulating funds.

- 5.12 **Strategic Pooled Funds:** Bond, equity and property funds that offer enhanced returns over the longer-term but are more volatile in the short-term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.
- 5.13 **Real Estate Investment Trusts (REITS):** Shares in companies that invest mainly in real estate and pay most of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.
- 5.14 **Other Investments:** This category covers treasury investments not listed above, for example, unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.
- 5.15 **Operational Bank Accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services to any UK bank with credit ratings not lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2m if it falls below the minimum bank credit rating referred to in 5.6. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.
- 5.16 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit-rating downgraded so that it fails to meet the approved investment criteria:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 5.17 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") which may make it fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is

announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.19 Investment limits: In order that no more than approximately 25% of available reserves for credit losses will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £30 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

5.20 Limits are also placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table demonstrating Additional Investment limits

	Cash Limit
Any group of pooled funds under the same management	£75m per manager
Negotiable instruments held in a broker’s nominee account	£75m per broker
Foreign countries	£30m per country

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

The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6 Treasury Management Indicators

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

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

Credit risk indicator	Target	Minimum
Portfolio average credit rating	A	A-

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

Liquidity risk indicator	Target
Total cash available within 3 months	£20m

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

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£2m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£2m

6.5 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

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

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and above	100%	0%

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

6.8 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Authority'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 will be:

Price risk indicator	2021-22	2022-23	2023-24
Limit on principal invested beyond year end	£150m	£125m	£100m

7 **Related Matters**

7.1 The CIPFA Code requires the Authority to include the following in its treasury management strategy.

7.2 **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty

over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

- 7.3 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 7.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 7.5 In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.
- 7.6 **Housing Revenue Account:** On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to two pools. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.
- 7.7 **Markets in Financial Instruments Directive (MiFID):** The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

8 Financial Implications

- 8.1 The budget for investment income in 2021-22 is £1.6m, based on prudent assumptions made for the returns on the Council's various treasury investments including the pooled

fund portfolio and term deposits and cash rates. The budget for debt interest payable in 2021-22 is £2.359m which includes growth of £0.109m being agreed as part of the Council's 2021-24 Medium Term Financial Strategy. If actual levels of investments and borrowing, or actual interest rates, differ from that forecast, performance against budget will be correspondingly different.

9 Other Options Considered

9.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A1 – Arlingclose Economic & Interest Rate Forecast December 2021

Underlying assumptions:

- The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.
- Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.
- Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.
- The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.
- Brexit, whatever the outcome of current negotiations, will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically - generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.
- Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, the development of vaccines or if the UK leaves the EU without a deal.

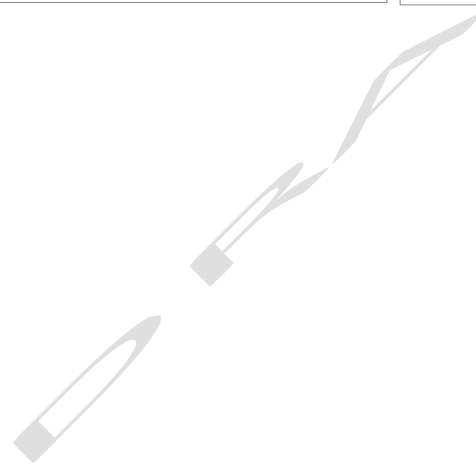
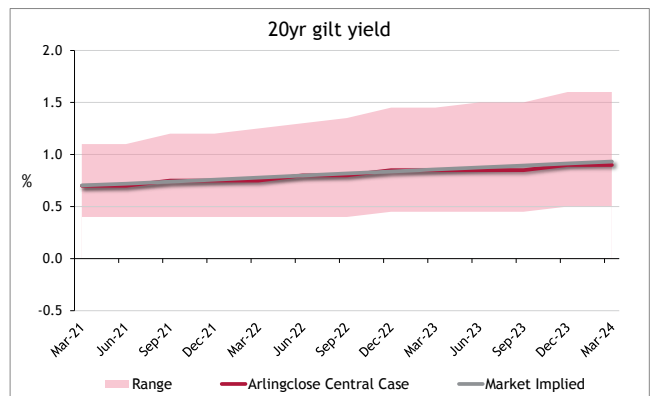
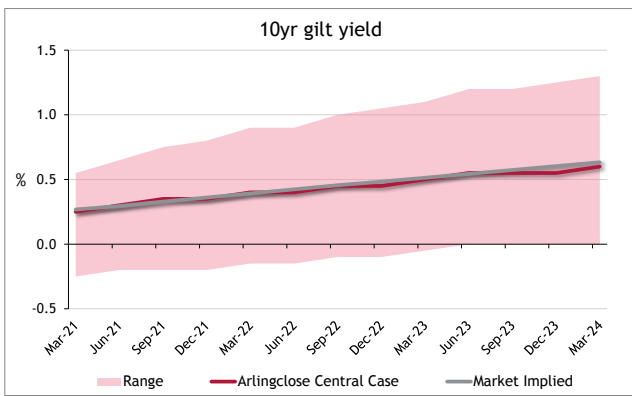
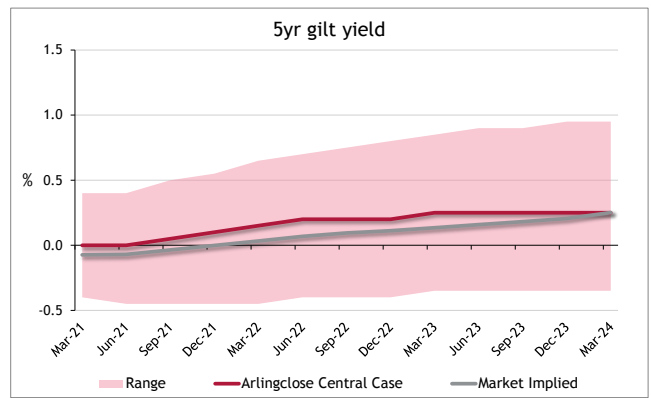
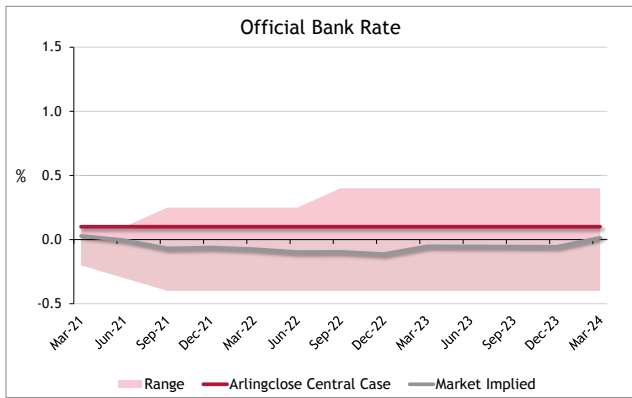
Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.

- Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out, especially with likely emergency action in response to a no-deal Brexit.
- Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain in the near term, and indeed appear heightened in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period comes ends.

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month money market r.													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
1yr money market rate													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
5yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
10yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
Downside risk	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
50yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%



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1. Introduction

- 1.1 The Authority invests its money for two broad purposes:
- it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments), and
 - to support local public services by lending to or buying shares in other organisations (service investments).
- 1.2 This investment strategy meets the requirements of the statutory guidance issued by the government in January 2018.

2. Treasury Management Investments

- 2.1 The Authority typically receives its income in cash (e.g. from taxes, grants and fees & charges) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £200m and £100m during the 2021-22 financial year.
- 2.2 These investments support the objectives of the Authority through effective treasury management activities to manage financial risk and protect the real terms value of the Council's cash assets.

3. Service Investments: Loans

- 3.1 The Council may lend money to its subsidiaries and associates, local charities and its employees to support local public services and stimulate local economic growth, in line with the latest CIPFA and MHCLG regulations and guidance.
- 3.2 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table demonstrating loans for service purposes

Category of borrower	Actuals at 31.03.2020			2021-22
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Subsidiaries & associates	-	-	-	50.0
Local charities	1.3	-	1.3	2.0
Employees	0.5	-	0.5	0.7
TOTAL	1.8	-	1.8	52.7

3.3 There are no loan agreements with subsidiaries and associates. Loans to local charities relate to Oxford House and Davenant Centre. Employee loans relate to car loans, bicycle loans and train season tickets.

3.4 The Authority assesses the risk of loss before entering and whilst holding service loans. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments. The Council is expecting full repayment on the loans to charities and employees.

4. Service Investments: Shares

4.1 The Council invests in the shares of its subsidiaries to support the provision of housing in the local community, local public services and stimulate local economic growth. The Council has nominal value shares in several companies; Capital Letters, PLACE Ltd, Tower Hamlets Local Education Partnership Ltd, Mulberry Housing, Seahorse Homes Ltd and Tower Hamlets Homes. The Council is an 'A' shareholder in Capital Letters, along with 12 other London Boroughs. The Council is one of 5 London Boroughs with shareholdings in PLACE Ltd.

- 4.2 One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table demonstrating shares held for service purposes

Category of company	Actuals at 31.03.2020			2021-22
	Amounts invested £m	Gains or losses £m	Value in accounts £m	Approved Limit £m
Subsidiaries	-	-	-	6.0
Suppliers	-	-	-	-
TOTAL	-	-	-	6.0

- 4.3 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares. The investments in Seahorse Homes Ltd will be turned into property-backed assets that have a long-term track record of value appreciation, although there may be short-term value falls. Legal and independent advice was obtained before the company was created.
- 4.4 **Liquidity:** Proposed investments and loans are longer term in nature. These investments will, therefore, not be used for short-term cash flow purposes. The maximum value of the investments is less than 20% of the Council's current investment portfolio.
- 4.5 **Non-specified Investments:** Shares are the only non-treasury investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

5. Loan Commitments and Financial Guarantees

- 5.1 Loan commitments and financial guarantees are not strictly counted as investments since no money has exchanged hands yet, however these carry similar risks to the Authority and are included here for completeness.

5.2 Between 1998 and 2010, the Council has historically provided financial guarantees on properties transferred to social landlords. No liabilities have been payable on these guarantees.

6. Capacity, Skills and Culture

6.1 A training plan is being produced for the training of elected members and Council officers attend regular training during the year.

6.2 To ensure corporate governance, the Audit Committee is presented with mid-year and outturn reports to enable the review of treasury management activities.

7. Investment Indicators

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

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

Table demonstrating total investment exposure

Total investment exposure	31.03.2020 Actual £m	31.03.2021 Forecast £m	31.03.2022 Forecast £m
Treasury management investments	257.8	200.0	137.5
Service investments: Loans	1.5	2.0	2.0
Service investments: Shares	-	-	-
TOTAL INVESTMENTS	259.3	202.0	139.5
Commitments to lend	-	-	-
Guarantees issued on loans	-	-	-
TOTAL EXPOSURE	259.3	202.0	139.5

- 7.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate individual assets with individual liabilities, this guidance is difficult to comply with. Some investments could be described as being funded by borrowing with the remainder of the Authority's investments being funded by usable reserves and income received in advance of expenditure.
- 7.4 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year in which they are incurred.

Table demonstrating investment rate of return (net of all costs)

Investments net rate of return	2019-20 Actual	2020-21 Forecast	2021-22 Forecast
Treasury management investments	1.40%	1.00%	1.16%
Service investments: Loans	-	-	-
Service investments: Shares	-	-	-
Commercial investments: Property	-	-	-
ALL INVESTMENTS	1.40%	1.00%	1.16%

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1. Introduction

- 1.1 This capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of some of these technical areas.
- 1.2 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.
- 1.3 Financing capital expenditure is where the Authority spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Authority has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.
- 1.4 In 2021-22, the Authority is planning capital expenditure of £351m as summarised below:

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

Capital Expenditure	2019-20	2020-21	2021-22	2022-23	2023-24
	Actual	Estimate	Forecast	Forecast	Forecast
Non-HRA	128.144	119.390	199.192	128.691	67.588
HRA	57.121	77.401	151.601	79.494	-
Total	185.265	196.791	350.793	208.185	67.588

The main General Fund capital projects include work on the new Town Hall, work on Liveable Streets, Carriageway, footway and street lighting improvements.

- 1.5 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.
- 1.6 **Governance:** Following an officer process, taking account of service priorities, recommendations are made to the Mayor's Advisory Board. The final capital programme is then presented to Cabinet in January and to Council in February/March each year.
- 1.7 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £millions

	2019-20 Actual	2020-21 Estimate	2021-22 Budget	2022-23 Budget	2023-24 Budget
External sources	54.257	52.671	109.497	81.722	29.746
Own resources	63.511	67.526	82.444	49.235	3.942
Debt	67.497	76.594	158.853	77.228	33.900
TOTAL	185.265	196.791	350.793	208.186	67.588

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

Table 3: Replacement of debt finance in £millions

	2019-20 Actual	2020-21 Estimate	2021-22 Budget	2022-23 Budget	2023-24 Budget
Planned MRP payments	11.000	11.875	13.444	16.324	20.830

- 1.9 When the Council funds capital expenditure by borrowing it must put aside enough money from its revenue budget each year to repay that borrowing in later years. The amount charged to the revenue budget for the repayment of borrowing is known as Minimum Revenue Provision (MRP),

although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

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

Minimum Revenue Provision (MRP) Policy Statement

- 1.11 The Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods. This statement is consistent with that approved by the Council for 2019-20:

1.11.1 For supported capital expenditure MRP will be determined in accordance with the former regulations that applied on 31st March 2008, incorporating an "Adjustment A" of £17.5m. (*MHCLG Guidance Option 1 – the Regulatory Method*)

1.11.2 For unsupported capital expenditure MRP will be charged over the expected useful life of the relevant asset in equal instalments, starting in the year after that in which the asset becomes operational. There are two areas where asset lives are bound by regulation. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years. (*MHCLG Guidance Option 3 – the Asset Life Method*)

1.11.3 For assets acquired by leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability (*per MHCLG Guidance*).

1.11.4 For loans to third parties that are required to be capitalised and are to be repaid in annual or more frequent instalments of principal, the Council will not make MRP but will instead apply the capital receipts arising from the principal repayments to finance this expenditure. In years where there is no principal repayment MRP will be charged

based on the estimated life of the relevant asset. While this is not one of the options in the MHCLG Guidance, it is thought to be a prudent approach since it ensures that the capital expenditure incurred is fully financed.

1.11.5 Under the MHCLG Guidance MRP is not required to be charged in respect of assets held within the Housing Revenue Account (HRA). Following removal of the HRA debt cap by central government the Council has determined to make a Voluntary Revenue Provision (VRP) on new HRA debt funded capital expenditure. VRP is charged over the expected useful life of the relevant assets in equal instalments, starting in the year after that in which the assets become operational.

1.12 The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP capital receipts used to replace debt. The CFR is expected to increase by £145m during 2021-22. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

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

	2019-20 Actual	2020-21 Estimate	2021-22 Budget	2022-23 Budget	2023-24 Budget
General Fund services	303.597	338.423	401.563	433.151	451.718
Council housing (HRA)	108.394	138.286	220.555	249.871	244.375
TOTAL CFR	411.991	476.709	622.118	683.022	696.093

1.13 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021-22. Repayments of capital grants, loans and investments also generate capital receipts. The Council is only anticipating to receive HRA capital right to buy receipts from 2021 onwards as shown in the table below:

Table 5: Capital receipts receivable in £ millions

	2019-20 Actual	2020-21 Estimate	2021-22 Budget	2022-23 Budget	2023-24 Budget
Asset sales	45.024	6.000	6.000	6.000	6.000
Loans repaid	-	-	-	-	-
TOTAL	45.024	6.000	6.000	6.000	6.000

2 Treasury Management

- 2.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 2.2 As at 31 December 2020, the Authority had £72m of borrowings at an average interest rate of 3.12% and £234m of treasury investments at an average rate of 1.01%.
- 2.3 **Borrowing strategy:** The Authority's main objectives when borrowing, are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.065% - 0.20%) and long-term fixed rate loans where the future cost is known but higher (PWLB certainty rates currently range from 0.67% to 1.71%). There are several factors that the Council needs to consider when setting its borrowing strategy.
- 2.4 The Council is significantly increasing its capital expenditure over the next 3 years; the provisional capital programme is £627m over the next 3 financial years. This programme is partly funded by borrowing of £150m in the General Fund for 2021-24 and £120m in the HRA for the same period. The rest of the programme is being funded by other sources including payments from developers (CIL and Section 106), capital receipts and revenue contributions

(the HRA). However, in previous years the capital programme has had major slippage, including in the currently year.

- 2.5 The above increasing capital programme is taking place at a time when interest rates are historically low and indeed the Bank of England may well cut the interest rate further to zero or negative; rates have been at historical lows for almost a decade. Interest rates reached a peak of 13.875% in the 1990s, then fell to 6% in 2000, and ranged between 6% - 3.75% from 2000 – 2007, before being cut to 0.5% in 2009. Rates have fallen further to 0.1% since then.
- 2.6 It is proposed that the Council reviews both expenditure plans and the risks associated with interest rates over the next 3 months on an ongoing basis and develops a detailed strategy with regards to long-term borrowing. This will involve the use of “trigger points” i.e. specific rates at which the Corporate Director Resources will actively consider taking out external debt in order to reduce the risk of a sharp, sudden and unexpected increase in rates.
- 2.7 Projected levels of the Authority’s total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement. As the Council is undertaking a review, for the purposes of these figures it is assumed that no further external debt is taken out.

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

	2019-20 Actual	2020-21 Estimate	2021-22 Budget	2022-23 Budget	2023-24 Budget
Debt (incl. PFI & leases)	195.634	201.153	277.825	190.654	142.150
Capital Financing Requirement	411.991	476.709	622.118	683.022	696.093

- 2.8 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. Table 6 above demonstrates that the Authority expects to comply with this in the medium term.
- 2.9 **Affordable borrowing limit:** The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower

“operational boundary” is also set as a warning level should debt approach the limit.

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

	2020-21 Limit	2021-22 Limit	2022-23 Limit	2023-24 Limit
Authorised limit – borrowing	450.871	599.649	664.429	682.026
Authorised limit – PFI and leases	55.838	52.469	48.593	44.067
	506.709	652.118	713.022	726.093
Authorised limit – total external debt				
Operational boundary – borrowing	420.871	569.649	634.429	652.026
Operational boundary – PFI and leases	55.838	52.469	48.593	44.067
Operational boundary – total external debt	476.709	622.118	683.022	696.093

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

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

2.12 **Risk Management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

2.13 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director Resources and staff, who must act in line with the treasury management strategy approved by Council. The Audit Committee is presented with mid-year and outturn reports on treasury management activities. The Audit Committee is responsible for scrutinising treasury management decisions.

3 Investments for Service Purposes

3.1 The Authority makes investments to assist local public services, including making loans to its subsidiaries & associates, local charities and its employees to support local public services and to stimulate economic growth. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to protect the real term value of the Council's financial assets.

3.2 Total investment for service purposes are currently valued at £1.80m with the largest being loans to Oxford House and the Davenant Centre.

3.3 **Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Corporate Director Resources and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

4 Liabilities

4.1 In addition to debt of £201m detailed above, the Authority is committed to making future payments to cover its pension fund deficit (valued at £424m). The Authority is also at risk of having to pay for any defaults on loans by housing associations in connection with residential properties transferred to them by the Council, and the pension liabilities of Tower Hamlets Homes should the ALMO not be able to meet its pension obligations. As at 31 March 2020, the Tower Hamlets Homes pension fund had an IAS19 surplus of £5.2m. The Council has not put aside any money for these potential liabilities.

4.2 **Governance:** Decisions on incurring new discretionary liabilities are taken by service managers in consultation with the Corporate Director Resources.

5 Revenue Budget Implications

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

Table 8: Prudential Indicator: Proportion of financing costs to net revenue stream

	2019-20 Actual	2020-21 Estimate	2021-22 Budget	2022-23 Budget	2023-24 Budget
Financing costs (£m)	8.7	17.1	19.7	26.8	32.1
Proportion of net revenue stream	2.06%	3.82%	4.30%	6.02%	7.04%

5.2 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Corporate Director Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable because a detailed independent assessment has been made of the costs of borrowing in future years.

6 Knowledge and Skills

6.1 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Interim Corporate Director Resources is a qualified accountant with over 30 years’ experience and the Council pays for junior staff to study towards relevant professional qualifications including CIPFA.

6.2 Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management

advisers and Savills as property consultants. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

DRAFT

PRUDENTIAL AND TREASURY MANAGEMENT INDICATORS FOR 2021-22

Prudential Indicators	2019-20	2020-21	2020-21	2021-22	2022-23	2023-24
	Actual	Original Estimate	Revised Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Capital Expenditure						
General Fund	128.144	180.420	119.390	199.192	128.691	67.588
HRA	57.121	138.761	77.401	151.601	79.494	-
TOTAL	185.265	319.181	196.791	350.793	208.185	67.588
Ratio of Financing Costs to Net Revenue Stream						
General Fund	0.61%	2.83%	3.55%	4.48%	6.45%	7.75%
HRA	7.58%	4.87%	4.82%	3.60%	4.59%	4.71%
	£m	£m	£m	£m	£m	£m
Gross Debt and Capital Financing Requirement						
Gross Debt	195.634	126.691	201.153	277.825	190.654	142.150
Capital Financing Requirement	411.991	580.174	476.709	622.118	683.022	696.093
Over/(Under) Borrowing	(216.357)	(453.483)	(275.556)	(344.293)	(492.368)	(553.943)
Capital Financing Requirement as at 31 March						
General Fund	303.597	388.083	338.423	401.563	433.151	451.718
HRA	108.394	192.091	138.286	220.555	249.871	244.375
TOTAL	411.991	580.174	476.709	622.118	683.022	696.093

Treasury Management Indicators	2019-20	2020-21	2020-21	2021-22	2022-23	2023-24
	Actual	Original Estimate	Revised Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Authorised Limit for External Debt -						
Borrowing & Other long-term liabilities	411.991	580.174	476.709	622.118	683.022	696.093
Headroom	30.000	30.000	30.000	30.000	30.000	30.000
TOTAL	441.991	610.174	506.709	652.118	713.022	726.093
Operational Boundary for External Debt -						
Borrowing	353.340	524.336	420.871	569.649	634.429	652.026
Other long-term liabilities (PFI & Fin Leases)	58.651	55.838	55.838	52.469	48.593	44.067
TOTAL	411.991	580.174	476.709	622.118	683.022	696.093
Gross Borrowing	72.289	71.534	71.534	69.872	68.709	68.709
Upper limit for total principal sums invested for over 364 days (per maturity date)	£150m	£150m	£150m	£150m	£125m	£100m

Maturity structure of new fixed rate borrowing during 2020-21	Upper Limit	Lower Limit
under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	100%	0%
20 years and within 30 years	100%	0%
30 years and within 40 years	100%	0%
40 years and within 50 years	100%	0%

Treasury Management Policy Statement

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

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

Policy on use of an External Treasury Advisor

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

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

Treasury Management Scheme of Delegation

1. Council / Cabinet

- receiving reports from the Audit Committee on treasury management policies, practices and activities
- approval of annual Treasury Management and Investment Strategy
- approval of annual Capital Strategy

2. Cabinet / Section 151 Officer

- approval of/amendments to the organisation's adopted clauses and Treasury Management Policy Statement
- budget consideration and approval
- approval of the division of responsibilities
- approving the selection of external service providers and agreeing terms of appointment

3. Audit Committee

- reviewing the treasury management policies, practices and activities and making recommendations to the responsible body
- receiving the mid-year and annual outturn reports
- receiving and reviewing regular monitoring reports and acting on recommendations

Treasury Management Reporting Arrangement

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

GLOSSARY

Asset Life	How long an asset, e.g. a Council building is likely to last.
Borrowing Portfolio	A list of loans held by the Council.
Borrowing Requirements	The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Capital Financing Requirement (CFR)	Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.
Certificates of Deposits	A certificate of deposit (CD) is similar to a fixed deposit with a bank but is more liquid as it can be sold to another counterparty should the need arise.
Commercial paper	Commercial paper is a discounted security issued by large corporations to obtain funds to meet short-term debt obligations.
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 to raise debt funding.
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.
Consumer Prices Index & Retail Prices Index (CPI & RPI)	The main inflation rate used in the UK is the CPI. The Chancellor of the Exchequer bases the UK inflation target for the Bank of England on the CPI. The CPI inflation target is set at 2%. The CPI differs from the RPI in that CPI excludes housing costs.
Credit Default Swap (CDS)	A derivative providing protection against counterparty

	default.
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 to indicate the financial strength of a counterparty.
Creditworthiness	The strength of a counterparty with regard to its chances of becoming insolvent and therefore defaulting.
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.
Gilts	Gilt-edged securities are bonds issued by the UK government to raise funding from investors to meet the fiscal deficit.
Interest Rate exposure	A measure of the impact movements in interest rates will have on the Council's debt cost and investment income budgets.
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.
Money Market Fund (MMF)	A 'pool' of investments managed by a fund manager that invests in highly liquid short-term financial instruments. The Council can invest in these funds to maintain liquidity and gain the creditworthiness benefits of the diversified structure.
Monetary Policy Committee (MPC)	Committee designated by the Bank of England whose main role is to set monetary policy.
Minimum Revenue Provision (MRP)	This is the amount which must be set aside from the revenue budget each year to cover future repayment of the CFR.
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.
Treasury bills (or T-bills)	Treasury bills (or T-bills) are short-term debt securities issued by the UK government to manage its cash position.
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.



AUDIT COMMITTEE WORK PLAN 2020/21

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Last updated:	20 th January 2021

AUDIT COMMITTEE WORK PLAN 2020/21

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
7TH APRIL 2021			
1. Deloitte	Standing Item •	Jonathan Gooding/Angus Fish	
2. Audit of the Council's Accounts 2018/19 & 2019/20 –	A report of the progress being made toward the completion of the audits of both the 2018/19 and 2019/20 accounts	Kevin Bartle	
3. Internal Audit and Anti-Fraud update 2020/21	An update on the progress against the delivery of the 2020/21 Annual Internal Audit Plan. Highlights any significant issues since the last report to the Audit Committee.	Paul Rock/Bharat Mehta/Tony Qayum	
4. Risk Management Report 2020-21	An update of risks on the Corporate Risk Register and Resources/Governance Risk Register.	Paul Rock	
5. Annual Internal Audit and Counter-Fraud Strategy & Plan	Draft Internal Audit Plan for 2021/22. For review and approval by the Committee.	Paul Rock	
6. Review of Code of Corporate Governance 2020/21	To report on an annual basis. Monitoring Officer. Approval in July 2021 with Annual Accounts.	Janet Fasan/ Mark Norman/ Matthew Mannion	
7. Internal Audit Charter	Annual review and approval of the Internal Audit Charter	Paul Rock	Item deferred from 28/01/21 mtg
8. Anti-Money Laundering Policy Report 2019 -2020	Annual Report updating the Anti-Money Laundering Policy.	Janet Fasan/Rachel Mckoy	Report deferred from 12/11/20 & 28/01/21 mtg
9. RIPA Policy 2020	Regulation of Investigatory Powers Act 2000 (RIPA) relates to covert surveillance. A report updating Members on the policy and use of these powers, in accordance with the code of practice.	Agnes Adrien	Report deferred from 12/11/20 & 28/01/21mtg

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AUDIT COMMITTEE WORK PLAN 2020/21

REPORT TITLE	BRIEF SUMMARY	LEAD OFFICER	OTHER CTTEE MEETINGS
	Reviewed Annually.		
10. Whistleblowing Report 2020-21	To report on an annual basis. Monitoring Officer	Janet Fasan / Mark Norman	
11. Draft Terms of reference for 2021-22	Review. To be approved in July 2021	Farhana Zia/Paul Rock	
12. Annual Self-Assessment and report of the Audit Committee	Self –Assessment – April 2021 Report by the Audit Chair to go to Full Council in July 2021	Cllr Whitehead/ Paul Rock/ Charlotte Webster/ Farhana Zia	
13. Audit Committee Work Plan	Review and agree items on the work plan for the Committee.	Audit Committee Members	Draft work plan for 2021/22

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By virtue of paragraph(s) 1, 2, 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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