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AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 19 September 2018
Time: 7.00pm
Venue: Committee Room, Swale House, East Street, Sittingbourne, Kent, ME10 3HT

Membership:

Councillors Andy Booth, Roger Clark, Adrian Crowther, Mick Galvin, Nicholas Hampshire, Harrison, Nigel Kay (Chairman), Peter Marchington (Vice-Chairman) and Ken Pugh.

Quorum = 3

Pages

1. Emergency Evacuation Procedure

The Chairman will advise the meeting of the evacuation procedures to follow in the event of an emergency. This is particularly important for visitors and members of the public who will be unfamiliar with the building and procedures.

The Chairman will inform the meeting whether there is a planned evacuation drill due to take place, what the alarm sounds like (i.e. ringing bells), where the closest emergency exit route is, and where the second closest emergency exit route is, in the event that the closest exit or route is blocked.

The Chairman will inform the meeting that:

(a) in the event of the alarm sounding, everybody must leave the building via the nearest safe available exit and gather at the Assembly points at the far side of the Car Park. Nobody must leave the assembly point until everybody can be accounted for and nobody must return to the building until the Chairman has informed them that it is safe to do so; and

(b) the lifts must not be used in the event of an evacuation.

Any officers present at the meeting will aid with the evacuation.

It is important that the Chairman is informed of any person attending who is disabled or unable to use the stairs, so that suitable arrangements may be made in the event of an emergency.

2. Apologies for Absence and Confirmation of Substitutes

3. Minutes

To approve the Minutes of the Meeting held on 30 July 2018 (Minute Nos. 170 - 178) as a correct record.

4. Declarations of Interest

Councillors should not act or take decisions in order to gain financial or other material benefits for themselves or their spouse, civil partner or person with whom they are living with as a spouse or civil partner. They must declare and resolve any interests and relationships.

The Chairman will ask Members if they have any interests to declare in respect of items on this agenda, under the following headings:

(a) Disclosable Pecuniary Interests (DPI) under the Localism Act 2011. The nature as well as the existence of any such interest must be declared. After declaring a DPI, the Member must leave the meeting and not take part in the discussion or vote. This applies even if there is provision for public speaking.

(b) Disclosable Non Pecuniary (DNPI) under the Code of Conduct adopted by the Council in May 2012. The nature as well as the existence of any such interest must be declared. After declaring a DNPI interest, the Member may stay, speak and vote on the matter.

(c) Where it is possible that a fair-minded and informed observer, having considered the facts would conclude that there was a real possibility that the Member might be predetermined or biased the Member should declare their predetermination or bias and then leave the room while that item is considered.

Advice to Members: If any Councillor has any doubt about the existence or nature of any DPI or DNPI which he/she may have in any item on this agenda, he/she should seek advice from the Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.

5. Work Plan (including professional updates) 1 - 4

6. Member training and development

7. Annual Treasury Management Review 5 - 18

8. Annual Audit Letter 19 - 28

9. Update 29 - 40

Issued on Tuesday, 11 September 2018

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Chief Executive, Swale Borough Council,
Swale House, East Street, Sittingbourne, Kent, ME10 3HT

Audit Committee	
Meeting Date	19 September 2018
Report Title	Committee Work Plan
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance & Performance
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Rich Clarke, Head of Audit Partnership/Nick Vickers, Chief Financial Officer
Lead Officer	Rich Clarke Head of Audit Partnership/Nick Vickers Chief Financial Officer
Classification	**Open**
Recommendations	To note the annual work plan.

1 Purpose of Report and Executive Summary

1.1 This report is to present an updated 12 month work plan.

2 Background

2.1 The Chairman requested an updated approach to this report and the format was agreed at the last meeting of the Committee.

3 Proposals

3.1 The Annual Work Plan is noted.

4 Alternative Options

4.1 None.

5 Consultation Undertaken or Proposed

5.1 None.

6 Implications

Issue	Implications
Corporate Plan	Supports the priority of being a Council to be Proud Of.

Financial, Resource and Property	No direct implications.
Legal, Statutory and Procurement	No direct implications.
Crime and Disorder	No direct implications.
Environment and Sustainability	No direct implications.
Health and Wellbeing	No direct implications.
Risk Management and Health and Safety	No direct implications.
Equality and Diversity	No direct implications.
Privacy and Data Protection	No direct implications.

7 Appendices

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

- Appendix I: Annual Work Plan

8 Background Papers

None

Appendix I

Annual Work Plan

	Lead Officer
19 September	
Work Plan (including professional updates)	Chief Financial Officer
Member training & development	All
Annual Treasury Management Review	Chief Financial Officer
Annual Audit Letter	External Auditor
Update	External Auditor
28 November	
Work Plan (including professional updates)	Chief Financial Officer
Member training & development	All
Six Month Treasury Management Review	Chief Financial Officer
Fraud and Compliance	Revenues and Benefits
Internal Audit Charter	Head of Audit Partnership
Update	External Auditor
13 March	
Work Plan (including professional updates)	Chief Financial Officer
Internal Audit Plan 2019/20	Head of Audit Partnership
Strategic Risk Register and Action	Head of Audit Partnership
Certification of Claims and Returns	External Auditor
2019/20 Audit Plan – External Audit	External Auditor
July	

Work Plan (including professional updates)	Chief Financial Officer
Annual Statement of Accounts	Chief Financial Officer
Audit Findings Report	External Auditor
External Audit Fee Letter	External Auditor
Internal Audit Annual Report 2018/19	Head of Audit Partnership
Audit Committee Annual Report	Head of Audit Partnership

Audit Committee	
Meeting Date	19 September 2018
Report Title	**Annual Treasury Management Report 2017/18**
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance & Performance
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Nick Vickers, Chief Financial Officer
Lead Officer	Phil Wilson, Financial Services Manager
Key Decision	No
Classification	Open

Recommendations	1. Approve the Treasury Management stewardship report for 2017/18.
	2. Approve the Prudential and Treasury Management Indicators within the report.

1. Purpose of Report and Executive Summary

1.1 The Council's Treasury Management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of Treasury Management activities at least twice a year.

1.2 CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code will be incorporated into the 2019/20 Treasury Management Strategy and subsequent monitoring. The 2019/20 Budget Report to Cabinet will include a Capital Strategy to meet the requirements of the revised Codes.

1.3 In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP) and this will be incorporated into the MRP Policy which forms part of the Budget Report to Cabinet.

1.4 Treasury Management is defined as "the management of the local Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks". No Treasury Management activity is without risk; the effective identification and management of risk are integral to the Council's Treasury Management objectives.

1.5 Towards the end of 2017/18 operational responsibility for the daily treasury management duties was passed to the Investments Section of the Kent County Council Finance Department in order to cover a maternity leave. KCC Finance in undertaking this work have to comply with this Council's Treasury Management Strategy. Overall responsibility for Treasury Management remains with the Council.

1.6 This report:

- is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
- details the implications of treasury decisions and transactions;
- gives details of the outturn position on Treasury Management transactions in 2017/18; and
- confirms compliance with Treasury limits and Prudential Indicators.

1.7 This report will be submitted to Council on 10 October 2018.

2. Background

Borrowing Requirement and Debt Management

2.1 The overall borrowing position is summarised below:

	Balance on 31/3/2017	Movement in Year	Balance on 31/3/2018
	£'000	£'000	£'000
Capital Financing Requirement	4,530	+7,981	12,511
Other Long Term Liabilities (cost of leases for equipment)	(384)	+244	(140)
Borrowing Capital Financing Requirement	**4,146**	**+8,225**	**12,371**

2.2 Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2.3 The reason for the increase in the CFR in 2017/18 is due to the capital expenditure on the construction of the Princes Street Retail Park and other works undertaken as part of the Sittingbourne Town Centre regeneration project and which were financed from internal borrowing. The CFR will be reduced in the future by contributions from rental income.

2.4 The Council undertook no external borrowing in the year.

Investment Activity

2.5 The Council holds significant investment funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18, the Council held average daily cash balances of £36m, which is a decrease of £2m on the previous year despite the level of expenditure on Sittingbourne Town Centre.

2.6 The Council's budgeted investment income for 2017/18 was £110,480 and the actual income received was £261,270, of which £138,340 was from the Council's long-term investment in the CCLA Property Fund, £76,220 was from the Council's short-term investments and £46,710 was from the Council's cash and cash equivalent investments. The CCLA Property Fund investment has been a highly successful one for the Council as UK Commercial Property has continued to perform well.

2.7 The table below summarises the Council's investment portfolio at 31 March 2018. All investments made were in line with the Council's approved credit rating criteria at the time of placing the investment, and still met those criteria at 31 March 2018.

Counterparty (MMF = Money Market Funds)	**Long-Term Rating**	**Balance Invested at 31 March 2018 £'000**
Lloyds Bank (fixed term for 1 year)	Aa3	3,000
HSBC Bank (90 day notice)	Aa3	3,000
Sub Total Short-Term Investments		**6,000**
Invesco MMF	Aaam	3,000
BNP Paribas MMF	Aaa-mf	3,000
Black Rock MMF	Aaa-mf	1,815
Amundi MMF	Aaam	3,000
Sub Total Cash & Cash Equivalents		**10,815**
CCLA Property Fund	unrated	3,000
Sub Total Long-Term Investments		**3,000**
Total		**19,815**

2.8 The ratings above are from Moody's credit rating agency. A description of the grading is provided below:

- Aaa-mf, Aaam: Funds have very strong ability to meet the dual objectives of providing liquidity and preserving capital.
- Aa3: Investments are judged to be of a high quality and are subject to very low credit risk.

2.9 The reduction is short-term investments in 2017/18 is due to the financing of the Council's capital programme.

2.10 The deposits for the year are summarised below:

Investments	Balance on 31/03/17	Investments Made	Maturities	Balance on 31/03/18	Average Rate
	£'000	**£'000**	**£'000**	**£'000**	**%**
Short Term Investments and Cash and Cash Equivalents	26,512	164,517	(174,214)	16,815	0.36
Long Term Investments	3,000	0	0	3,000	4.71
TOTAL INVESTMENTS	**29,512**	**164,517**	**(174,214)**	**19,815**	
Increase/ (Decrease) in Investments				(9,697)	

The £3m long-term investment shown in the table above is the Council's investment in the CCLA Property Fund.

2.11 The Council's investment strategy has two overriding principles:

- minimising the cost to the revenue budget - given the continued reductions in local government financing there is no scope within the revenue budget to meet debt charge costs. If the Council incurred debt charge costs then, unless the investment generated sufficient income to cover these costs, the Council may have to reduce services to fund the costs. In the case of the Sittingbourne Town Centre investment all the capital financing costs will be funded from rental income; and

- strategic impact - if the Council is going to invest in property it needs to support the Council's wider objectives around regeneration of the Council and creating new employment. This means there needs to be additionality in-terms of the wider economic benefits e.g. higher Business Rates.

2.12 In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, overnight deposits and the use of call accounts.

2.13 The Council sought to optimise returns commensurate with its objectives of security and liquidity. Short-term money market rates remained at very low levels as did rates for short-term bank deposits.

2.15 The criteria applied by the Chief Financial Officer for the approval of a counter party for deposits are:

- Credit rating - a minimum long-term of A-;
- Credit default swaps;
- Share price;
- Reputational issues;
- Exposure to other parts of the same banking group; and
- Country exposure.

2.16 The investments permissible by the 2017/18 Treasury Strategy were:

Investment	Limit	Used in 2017/18?
Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited	Yes
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m	Barclays, HSBC, Nationwide, Lloyds Banking Group, Santander UK
Svenska Handelsbanken unsecured deposits	£3m	Yes
Leeds Building Society unsecured deposits	£1.5m	Yes
Close Brothers unsecured deposits	£1.5m	Yes
Major overseas banks unsecured deposits (to be determined based upon Arlingclose advice) Netherlands: Bank Nederlande Gemeeten, Rabobank Singapore: OCBC, UOB, DBS Sweden: Nordea Bank Denmark: Danske Bank USA: JP Morgan Chase Australia: Australian and New Zealand Banking Group, Commonwealth Bank of Australia, National Australian Bank Ltd, Westpac Banking Corp Canada: Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank	£1.5m limit per bank, £3m country limit	No
Short Term Money Market Funds	£3m each	Yes
Cash Plus Funds and Short Dated Bond Funds	£3m each	No
Multi Asset Income Funds	£3m each	No

Investment	Limit	Used in 2017/18?
CCLA LAMIT Local Authority Property Fund	£3m	Yes
Supranational Bonds	£3m in aggregate	No
Corporate Bond Funds and Corporate Bonds	£3m in aggregate	No
Covered Bonds	£9m in aggregate with £3m limit per bank	No
Absolute return funds	£3m in aggregate	No
Equity income funds	£3m in aggregate	No

2.17 The maximum permitted duration for deposits is 13 months. The Chief Financial Officer in consultation with the Cabinet Member for Finance & Performance may consider longer duration. Bonds can be purchased with a maximum duration of five years. The fixed term deposit for a year with Lloyds was the longest duration of any of the Council's investments.

External Context

2.18 The Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate by 0.25% in November 2017 to 0.5%. It was significant in that it was the first rate hike in ten years. The February Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. On 2 August 2018, the Bank of England raised the base rate from 0.5% to 0.75%. These increases have not been reflected in higher returns on the Council's bank deposits. The consensus is that whilst Bank Rate will rise it will be slow and not to pre-2008 levels.

2.19 In March, following Arlingclose's advice, the Council removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for 2018/19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Council's lending list.

2.20 The Council has seen a dramatic change over the last eight years in how it is funded. The Revenue Support Grant will disappear completely in 2020/21, and in its place the Council has become reliant on income sources that are related in full or in some part to issues over which it has control. This sets the pattern for how councils will be funded in the future and the Council will continue down the path of financial self-sufficiency.

Compliance with Prudential Indicators

2.21 The Council has complied with its Prudential Indicators for 2017/18 which were set as part of the Treasury Management Strategy agreed by Council in February 2017.

2.22 In Appendix I the outturn position for the year against each Prudential Indicator is set out.

Treasury Advisers

2.23 Arlingclose has been the Council's treasury advisers since May 2009. Following a tendering process, Arlingclose were reappointed in 2015. Officers of the Council meet with them regularly and high quality and timely information is received from them.

MIFID II

2.24 As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3 January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved. The Council has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

3. Proposal

3.1 Members are asked to approve the report.

4. Alternative Proposals

4.1 No alternative proposals have been considered and compliance with the CIPFA Code is mandatory.

5. Consultation Undertaken

5.1 Arlingclose have been consulted.

6. Implications

Issue	**Implications**
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report
Legal, Statutory and Procurement	Need to comply with CLG guidance on treasury management.
Crime and Disorder	Not relevant to this report
Environment and Sustainability	Not relevant to this report
Health and Wellbeing	Not relevant to this report
Risk Management and Health and Safety	Not relevant to this report
Equality and Diversity	Not relevant to this report
Privacy and Data Protection	Not relevant to this report

7. Appendices

7.1 Appendix I: Treasury Management and Prudential Indicators

8. Background Papers

None

Treasury Management and Prudential Indicators for 2017/18

1. Introduction

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

This report compares the approved indicators with the outturn position for 2017/18. Actual figures have been taken from or prepared on a basis consistent with, the Council's Statement of Accounts

Capital Expenditure: The Council's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	**2017/18 Estimate**	**2017/18 Actual**	**Difference**
	£'000	**£'000**	**£'000**
Total Capital Expenditure	**12,086**	**11,491**	**(595)**
Capital Receipts	529	70	(459)
Grants and other contributions	3,885	2,904	(981)
Reserves	389	241	(148)
Internal Borrowing	7,283	8,276	993
Total Financing	**12,086**	**11,491**	**(595)**

Treasury Management and Prudential Indicators for 2017/18

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31/03/18 Estimate	31/03/18 Actual	Difference
	£'000	£'000	£'000
Total CFR	13,069	12,511	(558)
Less: Other Long Term Liabilities	(200)	(140)	60
Borrowing CFR	**12,869**	**12,371**	**(498)**
Less: External Borrowing	0	0	0
Cumulative Maximum External Borrowing Requirement	**12,869**	**12,371**	**(498)**

External borrowing: as at 31 March 2018 the Council did not have any external borrowing.

Operational Boundary for External Debt: The Operational Boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary and Total Debt	31/03/18 Boundary	31/03/18 Actual Debt	Complied
	£'000	£'000	
Borrowing	55,000	0	✓
Other long-term liabilities	41	140	x
Total Operational Boundary	**55,041**	**140**	✓

Treasury Management and Prudential Indicators for 2017/18

Authorised Limit for External Debt: The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the Operational Boundary for unusual cash movements.

Authorised Limit and Total Debt	31/03/18 Boundary	31/03/18 Actual Debt	Complied
	£'000	£'000	
Borrowing	60,000	**0**	✓
Other long-term liabilities	2,000	**140**	✓
Total Authorised Limit	**62,000**	**140**	✓

The Chief Financial Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2017/18.

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31/03/18 Estimate	31/03/18 Actual	Difference
	%	%	%
General Fund Total	2.88	0.04	(2.84)

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2012.

Treasury Management and Prudential Indicators for 2017/18

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net interest payable was:

Interest Rate Exposures	31/03/18 Actual	2017/18 Limit	Complied
	%	%	
Interest on fixed rate investments	-21	-100	✓
Interest on variable rate investments	-79	-100	✓

As the Council has no borrowing, these calculations have resulted in a negative figure.

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

	31/03/18 Actual	Upper Limit	Lower Limit	Complied
	%	%	%	
Under 12 months	0	100	0	✓
12 months and within 24 months	0	100	0	✓
24 months and within 5 years	0	100	0	✓
5 years and within 10 years	0	100	0	✓
10 years and above	0	100	0	✓

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

	2017/18
	£'000
Actual principal invested beyond year end	3,000
Limit on principal invested beyond year end	10,000
Complied	✓

Treasury Management and Prudential Indicators for 2017/18

Investment Benchmarking

Average Actual Return on investments 2017/18	Original Estimate Return on Investments 2017/18	Average Bank Rate 2017/18	Average 7 day LIBID Rate 2017/18
0.72%	0.31%	0.35%	0.31%

(The London Interbank Bid Rate (LIBID) is a bid rate; the rate at which a bank is willing to borrow from other banks)

Annual Audit Letter

Year ending 31 March 2018

Swale Borough Council

August 2018

Contents

Your key Grant Thornton team members are:

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Swale Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 30 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council 's financial statements (section two); and
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council’s financial statements we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

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Materiality	We determined materiality for the audit of the Council's financial statements to be £1,711,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on the 2017/18 claim is in progress and will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our 2017/18 certification report.
Certificate	We certify that we have completed the audit of the accounts of Swale Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP

August 2018

Audit of the Accounts

Our audit approach

Materiality
In our audit of the Council's financial statements we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £1,711,000, which is 2**%** of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We concluded that for local authorities the disclosure on senior officer remuneration is potentially an area where there is added political sensitivity, and for this area we set a lower materiality level of £25,000.

We set a lower threshold of £86,000 above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the Annual Governance Statement, and the Narrative Report published alongside the Statement of Accounts to check that they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property plant and equipment The Council regularly revalues its land and buildings assets. The valuation of Property Plant and Equipment (PPE) assets represents a significant estimate by management in the financial statements. We designed our work to address the risk that PPE revaluation measurements were materially misstated.	As part of our audit work we have: • reviewed management's processes and assumptions for the calculation of the estimate, including review of the instructions issued to the Council's external valuer; • considered the competence, expertise and objectivity of the external valuer; • reviewed the external valuer's approach and assumptions; and • tested that revaluations were correctly entered into the Council's accounting records.	In the course of our work officers identified that a building on one of the Council's leisure sites had been incorrectly omitted from the initial valuation. A calculation error was also identified in the workings of the external valuer. As a result of these errors the valuation of PPE assets was understated by £363,000. We concluded that the issue was not material for our opinion. The accounts were not amended. We performed additional work to review the valuations for similar assets included in the Council's accounts. We did not identify any issues material to our opinion. We recommended that in future years the Council maintains up to date measurements of building and land areas for its large leisure assets and uses this information to support the valuation process. We did not identify any other issues in relation to this risk.
Valuation of pension fund net liability The Council's financial statements include a net liability in respect of the Local Government Pension Scheme. This represents a significant estimate in the financial statements. We designed our work to address the risk that the pension fund net liability was materially misstated.	As part of our audit work we have: • identified and evaluated the controls put in place to ensure that the pension fund net liability was not materially misstated; • evaluated the competence, expertise and objectivity of the actuary who carried out the pension fund valuation; • performed work to confirm the reasonableness of the assumptions made by the actuary; • checked that the information on pensions included in the financial statements was consistent with the actuary's report; and • obtained assurance from the auditor of Kent County Council regarding the operation of controls in the pension scheme it administers on behalf of the Council.	We did not identify any issues in relation to this risk.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, meeting the national deadline.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 30 July 2018.

We noted that the value of property plant and equipment assets in the financial statements had been understated by £363,000 but concluded that the issue was not material for our opinion. We did not identify any other errors which required an adjustment to the Council's primary financial statements.

The Council successfully published its 2017/18 draft accounts ahead of the new accelerated deadline of 31 May 2018. The accounts were again prepared to a high standard and supported by very strong working paper trails.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with our knowledge and with the Council's financial statements.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Swale Borough Council in accordance with the requirements of the Code of Audit Practice.

We issued our certificate on 31 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability The Council continues to face significant financial pressures associated with reductions in government funding. A strong financial planning framework is key to the Council maintaining a sustainable financial position and delivering its key objectives. We reviewed the Council's medium term financial plan and the supporting information trails.	The Council has a history of sound financial management. In recent years it has achieved regular annual underspends against revenue budget, including an underspend of £829,000 for 2017/18. The Council's most recent financial forecast indicates that it is again anticipating an underspend against budget in 2018/19. The Council continues to have a robust financial planning framework. It has taken action in previous years both to achieve financial savings and develop new income streams, and this is reflected in its medium term financial planning framework, which shows an improving financial position over future years in part due to increasing rental income from the Spirit of Sittingbourne regeneration project. The MTFP is updated annually and closely aligned with the budget-setting process. A review of supporting trails shows that it is based on a comprehensive consideration of the relevant income and expenditure streams. In the short term the Council continues to face significant financial pressures, with the need to manage both reductions in central government funding and increasing cost pressures in a number of service areas, including homelessness. It has made a limited contribution of £316,000 from reserves to support the 2018/19 budget. Historically the Council has benefited from significant growth in business rates income, and it is also likely to benefit substantially from membership of the Kent business rates pilot. It recognises that uncertainty over the future framework for business rates funding is an issue for financial planning. However, it has established a reserve to help manage any volatility in the levels of future income from business rates.	We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit. There were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

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Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	60,739	60,739	60,739
Housing Benefit Grant Certification	23,626	TBC	18,611
Total fees	**84,365**	**TBC**	**79,350**

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for non-audit services

Service	Fees £
Audit related services - None	Nil
Non-Audit related services - None	Nil

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Audit Progress Report and Sector Update

Swale Borough Council
Year ending 31 March 2019

September 2018

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Agenda Item 9

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Members of the Audit Committee can find further useful material on our website, www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector and where you can download copies of our publications.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at September 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure, was issued on the 31 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our Annual Audit Letter summarising the outcomes of our audit is included as a separate item on today's agenda.

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year. We will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Our fee letter confirms the audit fee for 2018/19.	July 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report summarises the outcomes from our work on the financial statements and to support our value for money conclusion.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statements, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter The annual audit letter communicates the key issues arising from our 2018/19 work.	September 2019	Not yet due

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Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

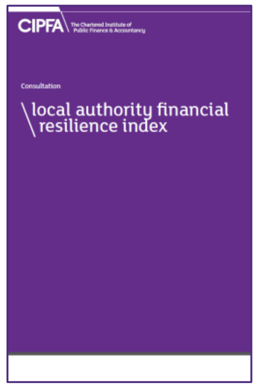
- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent wo which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services, However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report https://www.ifs.org.uk/uploads/publications/comms/R148.pdf.

The Vibrant Economy Index
A new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.grantthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy.**

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'
- *Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)*
- *Explore the app and take the quiz*
- *Go to the Vibrant Ideas section to share your picture and story or idea*

Supply Chain Insights tool helps support supply chain assurance in public services

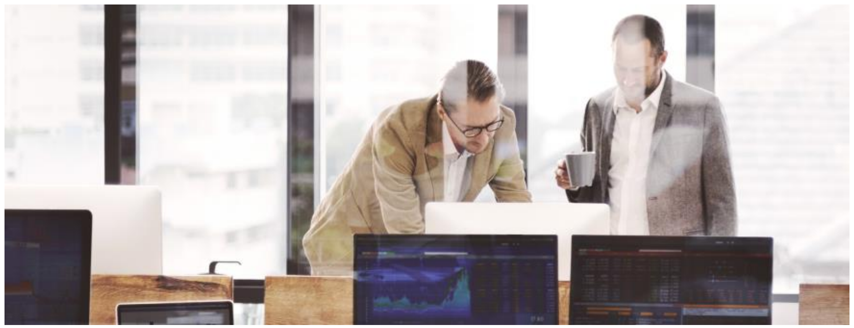
Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - organisation and category
  - service provider
  - date at a monthly level
- benchmark your spend against your peers
- identify:
  - organisations buying similar services
  - differences in pricing
  - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Links

Grant Thornton website links

https://www.grantthornton.co.uk/

http://www.grantthornton.co.uk/industries/publicsector

National Audit Office link

https://www.nao.org.uk/report/the-health-and-social-care-interface/

Ministry of Housing, Communities and Local Government links

https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

https://www.ifs.org.uk/uploads/publications/comms/R148.pdf

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