



## Audit and Standards Advisory Committee

**Thursday 26 July 2018 at 6.00 pm**

Boardrooms 7&8 - Brent Civic Centre, Engineers Way,  
Wembley HA9 0FJ

### Membership:

#### Members

David Ewart (Chair)

#### Councillors:

A Choudry (Vice-Chair)  
Kansagra  
Lo  
Mashari  
Nerva

#### Substitute Members

#### Councillors:

S Butt, Kabir, Long and Stephens

#### Councillors:

Colwill and Maurice

#### Independent Members:

Margaret Bruce  
Robert Cawley  
Sheila Darr  
Karen McArthur

#### Independent Advisor:

Eugene Sullivan

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**The press and public are welcome to attend this meeting.**

## **Notes for Members - Declarations of Interest:**

If a Member is aware they have a Disclosable Pecuniary Interest\* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent and must leave the room without participating in discussion of the item.

If a Member is aware they have a Personal Interest\*\* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent.

If the Personal Interest is also significant enough to affect your judgement of a public interest and either it affects a financial position or relates to a regulatory matter then after disclosing the interest to the meeting the Member must leave the room without participating in discussion of the item, except that they may first make representations, answer questions or give evidence relating to the matter, provided that the public are allowed to attend the meeting for those purposes.

### **\*Disclosable Pecuniary Interests:**

- (a) **Employment, etc.** - Any employment, office, trade, profession or vocation carried on for profit gain.
- (b) **Sponsorship** - Any payment or other financial benefit in respect of expenses in carrying out duties as a member, or of election; including from a trade union.
- (c) **Contracts** - Any current contract for goods, services or works, between the Councillors or their partner (or a body in which one has a beneficial interest) and the council.
- (d) **Land** - Any beneficial interest in land which is within the council's area.
- (e) **Licences**- Any licence to occupy land in the council's area for a month or longer.
- (f) **Corporate tenancies** - Any tenancy between the council and a body in which the Councillor or their partner have a beneficial interest.
- (g) **Securities** - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

### **\*\*Personal Interests:**

The business relates to or affects:

- (a) Anybody of which you are a member or in a position of general control or management, and:
  - To which you are appointed by the council;
  - which exercises functions of a public nature;
  - which is directed is to charitable purposes;
  - whose principal purposes include the influence of public opinion or policy (including a political party or trade union).
- (b) The interests a of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;

or

A decision in relation to that business might reasonably be regarded as affecting the well-being or financial position of:

- You yourself;
- a member of your family or your friend or any person with whom you have a close association or any person or body who is the subject of a registrable personal interest.

# Agenda

Introductions, if appropriate.

Item	Page
<b>1 Apologies for absence and clarification of alternate members</b>	
<b>2 Declarations of Interest</b> Members are invited to declare at this stage of the meeting, the nature and existence of any relevant disclosable pecuniary or personal interests in the items on this agenda and to specify the item(s) to which they relate.	
<b>3 Deputations (if any)</b> To hear any deputations received from members of the public in accordance with Standing Order 67.	
<b>4 Minutes of the previous meeting</b> <ul style="list-style-type: none"><li>➤ To approve the minutes of the Audit Advisory Committee meeting held on 20 March 2018 as a correct record.</li><li>➤ To approve the minutes of the Standards Committee meeting held on 27 March 2018 as a correct record.</li></ul>	1 - 18
<b>5 Matters arising (if any)</b> To consider any matters arising from the minutes of the previous meeting.	

## Standards Items

<b>6 Standards Update</b>	19 - 24
The report updates the Audit and Standards Advisory Committee on gifts and hospitality registered by Members and a recent High Court case on standards.	

## Audit Items

<b>7 Emergency Preparedness Update</b>	25 - 28
Following the Emergency Preparedness Task Group Report by Councillor Ketan Sheth and presented to Audit Advisory Committee in January 2018, it was resolved that an Emergency Preparedness item be added to the Committee's forward plan to be discussed in July 2018.	

This report briefly outlines the progress made against the

recommendations in the report, details the type and number of incidents in Brent since the writing of the report and provides some information around initiatives and programmes of work under way to enhance our resilience and response arrangements.

- 8 Report on i4B Holdings Ltd and First Wave Housing Ltd** 29 - 90
- The Audit and Standards Advisory Committee has been provided with a report from i4B, with a cover report from the Council as i4B's shareholder. At its last meeting the Committee requested that a more rounded view of risks was presented, with a clearer delineation between those risks being managed by the Council and those being managed by i4B.
- 9 Brent Council Borrowing Strategy 2018/19 - 2020/21** 91 - 118
- The Audit and Standards Advisory Committee is asked to consider the borrowing strategy set out in Appendix A.
- 10 2017/18 Treasury Management Outturn Report** 119 - 132
- The report updates members on Treasury Management activity and confirms that the Council has complied with its Prudential Indicators for 2017/18.
- 11 Internal Audit Annual Report 2017/18** 133 - 148
- This is the annual report from the Head of Audit and Investigations. It includes an opinion on the overall adequacy and effectiveness of the Council's internal controls and presents a summary of the Internal Audit work undertaken during the year.
- 12 Counter Fraud Annual Report 2017/18** 149 - 160
- This report provides an update on the counter fraud work for the period 1 January 2018 to 31 March 2018 (Quarter 4) including key activity for the year end.
- 13 Brent Council Annual Governance Statement 2017/18** 161 - 178
- The report sets out the draft Annual Governance Statement (AGS) for 2017/18 as required by the Accounts and Audit Regulations 2015.
- 14 Risk Management Framework Review** 179 - 186
- The report provides the conclusions of a Risk Management Framework Review and feedback on a new approach that has been piloted with two departments. The final part of this report provides a draft implementation plan to embed and enhance Brent's Risk Management culture and provide ongoing assurance on the currency and validity of the Corporate Risk Register.

**15 External Audit Progress Report**

*To follow.*

**16 Statement of Accounts & External Auditor's Report**

187 - 190

The Audit and Standards Committee has responsibility for considering issues raised by the external auditors as part of the process of approving the annual statement of accounts.

*The appendices to this report are to be published as a supplement.*

**17 Draft Statement of Accounts**

*To follow.*

**18 Forward Plan and Agenda for the Next Meeting**

191 - 192

To note the Committee's Forward Plan and agree a draft agenda for the next meeting, which would be reviewed and finalised by the Chief Finance Officer, the Head of Audit and the Chair of the Committee one month after the date of the current meeting.

**19 Any other urgent business**

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 60.

**Date of the next meeting: Wednesday 17 October 2018**



Please remember to **SWITCH OFF** your mobile phone during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.

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## MINUTES OF THE AUDIT ADVISORY COMMITTEE Held on Tuesday 20 March 2018 at 6.30 pm

**PRESENT:** Mr Ewart (Chair), Mr Sullivan (Independent Member, via Skype), and Councillors A Choudry (Vice-Chair), Long, Nerva and Krupa Sheth

**Also Present:** Councillor S Choudhary

Everyone introduced themselves. The Committee welcomed Tim Semken and Huda Al-Sadi who had joined Brent Council as Principal Auditors.

### 1. **Apologies for Absence and Clarification of Alternate Members**

Apologies for absence were received from Councillors Davidson and Perrin (with Councillor Long substituting).

KPMG, the Council's external auditor, was represented by Mr Steve Lucas as Mr Andy Sayers had sent his apologies.

Mr Sullivan participated in the meeting remotely due to illness.

### 2. **Declarations of Interest**

David Ewart declared that he had worked together with Martin Smith, Chair of i4B Holdings Limited, at the London Borough of Ealing.

### 3. **Deputations**

There were no deputations.

### 4. **Order of Business**

**RESOLVED** that the order of business be amended as set up below.

### 5. **Update on the operation of i4B Holdings Ltd**

Martin Smith (Chair of i4B Holdings Limited) introduced the report which provided an update on the performance, future plans and governance arrangements of the Council's wholly owned company – i4B Holdings Ltd. Mr Smith noted that the paper reflected the discussion that had taken place at the Audit Advisory Committee meeting in September 2017 and its emphasis was on the evolution of the company and its control environment.

The Committee heard that the first i4B property had been let in November 2017 and, at present, approximately 50 families were living in i4B accommodation, with another 20 properties being available. As of 1 March 2018, 170 of the 251 properties purchased and in conveyancing were located in Brent or Greater London which represented a higher proportion (61%) than originally planned (40%). Mr Smith noted

that time between identifying a property and letting it had decreased, but it remained longer than assumed in the initial modelling. He informed Members that on 12 February 2018 Brent Council's Cabinet had approved i4B's second Business Plan which continued the current programme and included a number of options which were under consideration by the Board of the Company as potential future opportunities (page 60 of the Agenda pack). Furthermore, an accountability regime had been put in place and it provided a framework for the Council, the Cabinet and the Board to hold the company to account. In parallel, monthly client meetings had been set up between i4B and the Council to monitor the service level agreement (SLA) performance and to allow the company to monitor Council performance against the SLA.

In relation to risk management, Mr Smith noted that very few of the individual risks included in the company's risk register (pages 61-63 of the Agenda pack) would be fatal to i4B's operation. However, if a number of risks occurred together, this could be detrimental. Referring to internal audits, Mr Smith highlighted that the company would routinely share final reports with the Council. He said that the Board was satisfied with the results of the first two internal audits – Governance, Risk and Financial Management; and Benefits Realisation, Management Information and Reporting, both of which had achieved 'reasonable assurance'. The recommendations of these audits would be applied to the other housing company which was wholly owned by the Council – First Wave Housing. A report on First Wave Housing, including agreed audit arrangements, would be presented at the next meeting of the Audit Advisory Committee. Michael Bradley (the Council's Head of Audit and Investigations) informed the Committee that work on the audit of Fraud Risk Management would begin in April 2018.

Members of the Committee welcomed the report and asked questions that related to benchmarking the company's performance against similar companies set up by other local authorities. Mr Smith said that while there was not a structured way to compare various entities systematically, Board members had been communicating with their counterparts informally. The principal risk associated with such companies was related to the ability to deliver affordable housing, while maintaining financial viability. In relation to the speed of mobilisation, Members heard that i4B was at the top of the range. Referring to risk scores, Mr Smith pointed out that it would be correct to assume that relative scores were more meaningful than absolute ones as scores could depend on specific circumstances for each borough. He acknowledged that while the company had a framework for assessing risk, it had to be more systematic in documenting risk, making it clear if a risk had been accepted or if it would not be tolerated. The Chair noted that it could be necessary to examine some of the risks in detail.

In relation to landlord licensing, the effect of the Welfare Reform on rent collection rates and acquisition costs, the Committee heard that properties let by i4B were subject to landlord licensing both within Brent and in other boroughs. The rent collection rate had been one of the key risks included in the risk register and the reason for this had been the Welfare Reform. The i4B business model was sensitive to rent collection as small fluctuations in the rate would have a significant impact on the company's operations. Mr Smith explained that it was too early to provide performance statistics, however, First Wave Housing, which had lower quality properties let under similar tenancy agreements, achieved a rate of 98% which demonstrated that the operating model is capable of working well. The average



purchase price was slightly above target (£356,180 compared to £345,000) which could be explained by the increase in house prices and the higher numbers of purchased properties in the Borough than expected. Furthermore, there had been a discussion whether the company had to focus on buying properties in good condition at a higher cost or whether it could spend less on properties which required refurbishment.

A Councillor who was in attendance at the meeting noted that prices in some areas had dropped, while prices in London would not increase at the same rate as they used to. They enquired whether it could be possible to purchase properties in areas in which prices were expected to increase so risk could be minimised. Mr Smith explained that i4B applied a number of criteria, including quality and standard of accommodation and transport links, before deciding whether a property would be suitable for Brent residents. He commented that two criteria which had been applied when purchasing the first properties of the company's portfolio were achieving a yield as close to 5% as possible and geographical proximity to Brent. However, the further away a property was from the Borough, the higher the yield was so it was important to achieve a balance between these two factors. As the company put greater emphasis on acquiring properties in the Borough, these criteria had been adjusted. In addition, the company had worked with property consultants to identify places that could offer the best long-term opportunity in terms of property prices. i4B did not deviate from its purchasing criteria and would not acquire property simply to meet its acquisition target.

Commenting on the company's cash flow position, Mr Smith said that the i4B's financial model was based on significant acquisition costs during the first two years of operation. The Council's Cabinet had agreed to provide the company with the cash to enable the purchases in the initial stages of operation and if the assumptions made in relation to rental income, cost of acquisition and inflation remained the same, the company was expected to have a positive balance in Year 3 or Year 4 as the properties that had been let would generate long-term revenue. Carolyn Downs (the Council's Chief Executive) said that she shared the concern about the company's cash flow, but she remained optimistic about First Wave Housing's ability to generate profits.

Ms Downs commented on a recent shareholder meeting between the Council and the Board where the latter had raised some of the challenges they experienced, including the length of time properties had spent in conveyancing. Ms Downs noted that a number of measures had been put in place to address the issue and streamline the process. Conveyancing had been brought back in house and time spent on this step of the process had been brought back to the original timescale. Addressing Members' concerns in relation to the average time of 90 days for property refurbishment and letting from the point of purchase, Ms Downs said that a dedicated officer would be recruited to take ownership and ensure that properties get through to the system in a timely manner. In relation to the standard of repairs, Ms Downs highlighted that the specification would be adjusted to match the standard applied to the Council's social housing stock. A Member of the Committee asked whether prospective tenants and local social enterprises were engaged in refurbishment as this could benefit both residents and businesses. Ms Downs acknowledged that this was a good idea that would facilitate the letting process, and might appropriately be considered by the Housing Scrutiny Committee, and said that while i4B had not been in position to engage residents, local companies could be approached to refurbish

properties that did not require extensive work. Phil Porter (a former Board member and the Council's Strategic Director of Community Wellbeing) added that social value was an important part of the contracts i4B entered into – for example, one of the large contractors working for i4B had recently launched a programme that supported local residents for six months, maximising their skills and enabling them to get into work.

In response to Members' questions about the i4B Second Business Plan, Conrad Hall (the Council's Chief Finance Officer) explained that the Plan was a document which outlined what the company could and could not do and covered potential future activities. Moreover, some actions required approval by Brent's Cabinet as the shareholder retained decision-making over certain issues. It was noted that the ideas included in the Business Plan were subject to additional work and some of them may not materialise.

Members of the Committee enquired if i4B had considered properties which potential for expansion as the Borough experienced a shortage of large houses and whether adjustments for people with disabilities and their families had been made. Mr Smith said that the former had not been a specific criteria considered by the company as the initial aim had been to mobilise i4B in a timely manner, but it could be taken into account. In relation to the latter, specific adaptations to the people who would live in the properties had been made.

The Chair noted that 15 days of audit work had been allocated to looking at the i4B Audit Plans from the Council's perspective as a shareholder. He encouraged Members to inform Mr Bradley of any specific items they thought could be included in the audit work on i4B.

The Independent Member commented that the relationship between the Council and i4B had been very complicated – members of the i4B Board included a Councillor, a Council's Strategic Director and a Council's Director; the Council was a shareholder in the company; it supplied services to the company under a SLA; and the purpose of the company was to meet the Council's objectives related to reducing homelessness and providing affordable housing. These arrangements created a risk that the company and the Council could be treated as one by the law. Referring to i4B's Risk Analysis and Risk Register (pages 87-91 of the Agenda pack), the Independent Member said there were 11 risks which were more likely to occur than not, with eight of them likely to have serious consequences for the operation of the company. They commented that it was not specified which body would deliver the risk mitigation and how risks affected the Council – for instance, a risk register from the Council's perspective had not been presented to the Committee and information how the Council was monitoring its exposure to risk had not been provided. Furthermore, the mitigation of some risks required additional investment by the Local Authority in the company, but it was not clear whether the Council had the necessary resources. This view was accepted by Ms Downs who acknowledged the need for greater clarity and suggested that a report from the Council's perspective to be presented at the next meeting of the Audit Advisory Committee.

**RESOLVED** that:

- (i) The Contents of the Update on the operation of i4B Holdings Ltd report, be noted;
- (ii) The Committee noted:

- The update on Company performance;
  - i4B's future plans as set out in its second Business Plan;
  - Key risks and mitigations;
  - i4B's completed internal audit reports and future audit arrangements;
  - The update on First Wave Housing provided in section 8 of the report;
- (iii) A report on the operation of i4B Holdings Ltd from the Council's perspective be provided at the next meeting of the Committee;
- (iv) A report on First Wave Housing, including agreed audit arrangements, be presented at the next meeting of the Committee; and
- (v) Members be encouraged to inform Mr Bradley of any specific items they thought could be included in the audit work on i4B.

## 6. **Minutes of the Previous Meeting**

It was **RESOLVED** that the minutes of the previous meeting, held on 10 January 2018, be approved as an accurate record.

## 7. **Matters Arising**

It was noted that Emergency Preparedness would be discussed at the next meeting of the Audit Advisory Committee in July 2018.

## 8. **External Audit Progress Report**

Steve Lucas (Senior Manager, KPMG - External Audit) introduced the report which provided the Committee with external audit updates since January 2018 and the work planned before the next meeting in July 2018. He noted that KPMG had received information from the Council regarding the objection relating to the Lender Option Borrower Option (LOBO) loans. The Local Authority had 14 LOBOs, some of which were dating back to 2002 or 2003 so it was understandable that some information related to decisions that had been made more than 15 years ago could be missing. However, Mr Lucas assured the Committee that KPMG had sufficient information to work on the objection.

Mr Lucas said that KPMG had completed their interim audit visit and had met with the Chief Executive, the Strategic Director of Resources and the Chief Finance Officer to discuss strategic issues and any impact on KPMG's value for money and financial statements work. Furthermore, emerging issues had been discussed with officers to agree accounting treatments in advance.

**RESOLVED** that the contents of the External Audit Progress Report, be noted.

## 9. **External Audit Report on grants and returns 2016/17**

Steve Lucas (Senior Manager, KPMG - External Audit) presented the paper which summarised the results of the work KPMG had carried out on the Council's 2016/17 grant claims and returns. Under the Public Sector Audit Appointments arrangements KPMG had certified one claim relating to the Housing Benefit (HB) Subsidy. In addition, reports had been issued on the Teachers' Pension Return and the Pooling of Housing Capital Receipts Return. Mr Lucas directed Members' attention to page 23 of the Agenda pack which contained detailed information about the Housing Benefit Claim. He emphasised that a number of errors in the calculation of HB had been identified and the accuracy of recording self-employed income had not improved since recommendations had been made last year – 73 errors had been found in 124 cases, with multiple errors in some of them. While in some cases, these errors had led to under- and overpayments, in others the amount of HB had not changed. Nevertheless, if the error rate increased significantly, this would have a negative financial impact on the Council.

Althea Loderick (the Council's Strategic Director of Resources) said that management comments had been provided on page 26 of the Agenda pack and emphasised that the Service had been taking the matter seriously. She said that she had spoken to the Heads of Service and they had acknowledged the previous findings. A new approach to self-assessment forms had been adopted and staff had been trained accordingly. Furthermore, quality control assurance tests completed in December 2017 and January 2018 on new self-employed claims had shown that the error rate had dropped to 6%. The Independent Member commented that management seemed to be addressing the problem by trying to reduce the human error factor. They noted that the error rate was not as high as it seemed once it is the put into context and the total amount of transactions was taken into account.

Ms Loderick added that Brent Customer Services had looked into options to standardise approaches and one of the improvement measures identified included reducing the types of entries, i.e. forms had been standardised to ensure that information was not missed which had helped to improve efficiency and reduce errors.

### **RESOLVED that:**

- (i) The contents of the External Audit Report on grants and returns 2016/17, be noted; and
- (ii) A written update on the implementation of the action plan created by the Housing Benefit Team to address the findings of the report be provided at the next meeting of the Committee.

## 10. **Review of the Use of the Regulation of Investigatory Powers Act (RIPA) Powers in 2017**

Debra Norman (the Council's Director of Legal and HR Services) introduced the report which explained the Council's use and conduct of covert surveillance techniques when investigating serious criminal offences relying on the powers made available to local authorities in Part II of the Regulation of Investigatory Powers Act 2000 (RIPA). Members heard that RIPA provided a framework which authorised

Council officers to use surveillance techniques to investigate cases and gather evidence that could be used for prosecutions. Ms Norman said that the Council's most recent inspection in November 2016 judged the Local Authority's RIPA policy as "excellent" and no formal recommendations had been made. However, two main issues had been raised - first, the need for the Council to review its Closed Circuit Television (CCTV) protocol so that before the Police and other law enforcement bodies were allowed to use its public CCTV systems for directed surveillance purposes, the Council was reassured that a RIPA authorisation had been obtained. Second, the Council had been advised to raise Council-wide awareness about the use of social media and the internet to obtain information about others and the likely privacy and RIPA implications. Both of these suggestions had been implemented and were kept under review.

Ms Norman noted that the RIPA powers had not been used since 2016/17 when a single authorisation had been granted. This was due to a change in regulations and the fact that no case had required the Council to undertake surveillance that required a RIPA authorisation. In relation to a question whether an investigation of fly-tipping would require a RIPA authorisation, Ms Norman explained that a RIPA authorisation was only required for covert surveillance and was only a possibility in investigations of offences punishable with at least six months imprisonment.

The Independent Member commented that it would be beneficial for the Committee to continue receiving annual updates, containing information about any incidents that had required the use of a RIPA authorisation and cases where the Local Authority had not met the regulatory expectations.

**RESOLVED** that:

- (i) The contents of the Review of the Use of the Regulation of Investigatory Powers Act (RIPA) Powers in 2017 report, be noted;
- (ii) An update on the use of the RIPA Powers in 2018 be provided to the meeting of the Committee in 12 months.

## 11. **Public Sector Internal Audit Standards (PSIAS) Action Plan**

Michael Bradley (the Council's Head of Audit & Investigations) presented the report which informed Members of the progress on implementing the Action Plan that had been produced after the self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS). Mr Bradley said that one of the outstanding actions was to complete an external assessment of the Internal Audit service against the PSIAS. Members heard that the process was independently coordinated by the London Borough of Croydon. However, due to the low numbers of peer reviewers available, Brent was still awaiting a reviewer authority to be allocated. Conrad Hall (the Council's Chief Finance Officer) emphasised that the arrangement ensured the independence of the peer review, hence it was a preferred option to approaching boroughs directly.

In relation to Action number 6 (Induction Training), Mr Bradley said that two new Principal Auditors had started in March 2018 and an induction plan had been in place.

**RESOLVED** that:

- (i) The contents of the Public Sector Internal Audit Standards (PSIAS) Action Plan, be noted; and
- (ii) An update on the preparations for external assessment of the Internal Audit service against the PSIAS be provided at the next meeting of the Committee.

## 12. **Internal Audit & Counter Fraud Progress Report (Quarter 3)**

Michael Bradley (the Council's Head of Audit & Investigations) provided an update against the Annual Audit Plan for 2017/18. Mr Bradley directed the Committee's attention to page 150 of the Agenda pack which contained information about the 16 audits from the 2017/18 Plan which had been completed to draft or final stage. He noted that Table 2 (page 151 of the Agenda pack) contained a list of audits that had been deferred or removed, along with the reason for this. He acknowledged that some audits had been removed due to temporary lack of capacity and at management request and reminded the Committee that the Plan was an evolving document reflecting the current needs and priorities of the organisation. Furthermore, five audits from 2016/17 had been followed up since the last meeting of the Committee.

Members enquired about the extent of audit and counter fraud work at schools and the reasons why audits related to education had been removed from the Audit Plan. Mr Bradley explained the work would not include academies. He noted that he did not consider School Place Sufficiency to be an area of high risk and its removal from the Plan had been agreed with the relevant Operational Director and could be reversed if necessary. Conrad Hall (the Council's Chief Finance Officer) added that the Local Authority did not have the power to audit academies which had their own internal auditors. This led to a discussion about responsibility in the event of a failure of an academy and Mr Hall said that children would not be without a school place as the funding came from the same source - the Department for Education (DfE), irrespective of the provision. Therefore, DfE would pass the funding to the Local Authority which, on its turn, would transfer it to the School. Another consequence of a potential failure would be to distinguish the Council's obligations to carry out assessment of needs and to ensure that there was sufficiency of places. As the Special Education Needs and Disabilities (SEND) provision was concerned, officers noted that the risk to Brent to ensure that children with SEND could be educated in the schools which currently existed could be explored in the future.

In relation to fraud, Mr Bradley said that there had been 12 new referrals received during the last quarter and a total of 26 referrals had been made since the beginning of the financial year. This included protected whistleblowing disclosures and a range of case types. There had been four cases where fraud / irregularity that had been identified involving discrepancies with payroll, irregular bank card transactions and a breach of information security. Mr Bradley directed Members' attention to Table 6 (page 155 of the Agenda pack) which provided information about internal fraud since 2015/16.

Responding to questions about Tenancy and Social Housing Fraud, Mr Bradley said that there could be a temporary dip in recoveries in the final quarter due to a slow-down in referrals as well as the temporary disruption which had been caused by a

service restructure. However, Mr Bradley pointed out that the quality of referrals had improved and spoke about a case where a Council tenant's Right to Buy application had been stopped with an actual discount saving of £103,900. He referred Members to the table on page 161 of the Agenda pack which provided a summary of savings in the year to date and showed that other types of fraud, such as tenancy fraud and insurance claims, were significant as well.

Members heard that a new approach to Blue Badge fraud had been taken, with quarterly events taking place. The Investigations Team led on a successful Blue Badge proactive exercise, carried out in January 2018 in collaboration with partners such as the Enviro-crime and Private Housing enforcement teams and the Police. The operation had been successful and its key highlights were listed on pages 162 and 163 of the Agenda pack.

The Chair noted that the limited assurance Asset Management report had been dealt with and encouraged Mr Bradley to report back to the Committee if he was not satisfied with the response he had received.

**RESOLVED** that Internal Audit & Counter Fraud Progress Report (Quarter 3), be noted.

13. **Draft 2018/19 Internal Audit Plan**

Michael Bradley (the Council's Head of Audit & Investigations) presented the paper which set out the draft Internal Plan for 2018/19 and the basis on which the Plan had been prepared. He reminded Members that all local authorities were required to make proper provision for Internal Audit in line with the 1972 Local Government Act and the Accounts and Audit Regulations 2003. Mr Bradley said that Councillors had been encouraged to contribute to the Plan and make suggestions for themes to be added.

As suggested by the Chair, the Committee reviewed the draft Plan page by page and noted that the total number of days allocated was 885, which having in mind that the capacity of the Service was to provide 840 days of audit work, meant that the Plan had been oversubscribed by 45 days.

The Chair encouraged Members to refer any items related to i4B Holdings Ltd and First Wave Hosing to Mr Bradley.

**RESOLVED that:**

- (i) The contents of the Draft 2018/19 Internal Audit Annual Plan, be noted; and
- (ii) The contents of the Draft 2018/19 Internal Audit Annual Plan be approved as set out in Appendix 1 to the cover report.

14. **Dates of Committee meetings in 2018/19**

Conrad Hall (the Council's Chief Finance Officer) said that training for prospective Members of the Audit and the Audit Advisory Committees would be organised following the Annual Council Meeting in May 2018. In addition, a dedicated Member Learning and Development Session on the Council's accounts would be organised prior to their formal approval by the Audit Committee in July 2018.

Mr Hall noted that Grant Thornton had been appointed as the Council's new external auditor. The appointment would come into force on 1 April 2018 and it would cover all transactions after that date. KPMG would remain Brent's external auditor until work on the 2017/18 accounts, including any potential objections to them, had been completed.

The Chair informed Members that he had met with the Partner and the Senior Manager at Grant Thornton and they would be attending the next meeting of the Committee.

**RESOLVED** that the proposed dates for meetings of the Audit Advisory Committee be noted, subject to approval at the Annual Council Meeting on 14 May 2018.

15. **Audit Advisory Committee Forward Plan**

The Chair encouraged Members to notify the Head of Audit and Investigation and the Chief Finance Officer if they wanted to propose an item to be added to the Forward Plan or the agenda for a specific meeting. A Member commented that it would be beneficial if the Committee could consider examining areas where the Local Authority had overall, but not operational responsibility for the delivery of services.

**RESOLVED** that the contents of the Audit Advisory Committee Forward Plan, be noted.

16. **Any Other Urgent Business**

None.

The Chair expressed his gratitude to Elected Members and officers for supporting the work of the Committee throughout the 2017/18 Municipal Year.

The meeting was declared closed at 8.24 pm

DAVID EWART  
Chair





## LONDON BOROUGH OF BRENT

### MINUTES OF THE STANDARDS COMMITTEE Tuesday 27 March 2018 at 6.00 pm

**PRESENT:** Councillors Dixon (Chair and substitute for Councillor Allie), Ahmed, Krupa Sheth and Moher (as substitute for Councillor Kabir).

**Independent Co-opted Members:** Sheila Darr, Margaret Bruce.

**Independent Persons:** Nigel Shock and Keir Hopley

#### 1. **Election of Chair for the Meeting**

**RESOLVED** that in the absence of the Chair and Vice-Chair, Councillor Liz Dixon (attending as a substitute on behalf of Councillor Allie) be elected as Chair of the Committee for the duration of the meeting.

#### 2. **Apologies for Absence and Clarification of Alternate Members**

Apologies for absence were received from Councillors James Allie (Chair) with Councillor Liz Dixon substituting and Sandra Kabir (Vice-Chair) with Councillor Ruth Moher substituting.

In addition apologies for absence were received from Robert Cawley & Karen McArthur as Independent co-opted Members and from Mandip Johal (Independent Person).

#### 3. **Declarations of Interest**

There were no declarations of interest.

#### 4. **Minutes of the Previous Meeting**

**RESOLVED** that the minutes of the previous meeting of the Committee held on Monday 27 November 2017 be approved as an accurate record of the meeting.

#### 5. **Matters Arising (if any)**

No matters were identified for consideration.

#### 6. **Annual Report to the Standards Committee**

Looqman Desai (Senior Solicitor, Governance) introduced the Monitoring Officers Annual Report to the Standards Committee which provided an update on Member conduct issues along with a summary of the work undertaken by the Committee and Monitoring Officer in 2017.

In addition the Committee received an update on the launch of the Committee on Standards in Public Life (CSPL) review of local government standards with the Committee being asked to review a draft response to the accompanying consultation.

## **6.1 Review of Committee's work during 2017**

The Committee noted the review of the work undertaken at its three meetings during the course of the 2017/18 Municipal Year which had been focussed on reviewing matters of policy, procedures, gifts and hospitality and a code of conduct complaint.

## **6.2 Complaints against Members**

The Committee noted:

- 6.2.1 that four complaints against Members had been dealt with during 2017;
- 6.2.2 the outcome of each complaint and action taken in response, as detailed within section 3.5 – 3.9 of the report with no significant reporting issues having been identified.

## **6.3 Review of Gifts and Hospitality**

The Committee noted:

- 6.3.1 The list of gifts and hospitality registered by Members from January 2017 to 19 March 2018 as detailed within Appendix 1 of the report;
- 6.3.2 That in response to Members request at the previous meeting a review of the practice followed within other London Boroughs in relation to recording the value of gifts and hospitality had been undertaken. The results had been detailed within section 3.12 of the report, with a majority of other authorities recording the value (or approximate value) of the gift or hospitality received by the Member.
- 6.3.3 Whilst Brent's Members Code of Conduct did not specifically require Members to record the value of gifts or hospitality received they were strongly advised to do so as good practice and in the interests of transparency and accountability. In order to ensure a more consistent approach however, the Monitoring Officer was recommending an amendment to the Members Code of Conduct requiring that Members register the value (or approximate value) of any gifts or hospitality received.

Comments were then sought on the update provided with the following issues raised:

- The support expressed by the Independent co-opted Members and Independent Persons for the recommended change in the Members Code of Conduct relating to the registration of gifts and hospitality. The introduction of

a requirement to register the value or approximate value was seen as a more transparent approach;

- Confirmation was provided that whilst it was for individual Members to decide what value to register for each specific gift or hospitality, where this was not immediately clear e.g. tickets for certain events with no face value, Officers would be able to assist and advise with approximate values also being acceptable.

As a result of the update provided it was therefore **RESOLVED** to support the recommended change being sought to the Members Code of Conduct requiring that Members include as part of any registration of gifts or hospitality received the value (or approximate value) of them.

#### **6.4 Training & Monitoring Officer Advice Notes (MOANs)**

6.4 The Committee noted the summary of training provided to all Members and Independent co-opted Members along with details of the Monitoring Officer Advice Notes issued during 2017.

#### **6.5 Consultation by the Committee on Standards in Public Life (CSPL) on review of local government standards**

Looqman Desai provided the Committee with an update on the launch of a consultation exercise being undertaken by the CSPL to support their review of local government standards. Members were advised that the consultation had been based on a number of questions on which draft responses had been prepared, as detailed in Appendix 2 of the report, and on which the Committee's views were now being sought.

The following were identified as key issues within the consultation response for Members consideration:

6.5.1 The need to address the lack of statutory provision for non-pecuniary interests which had meant different requirements being placed on Members in relation to pecuniary and non-pecuniary interests making the code of conduct more complex and difficult to understand.

Members supported the concerns highlighted and **RESOLVED** to support the inclusion of a recommendation within the response that in the interests of consistency and greater assurance the statutory rules should make comprehensive provision for both pecuniary and non-pecuniary interests.

6.5.2 Whilst Brent's Code of Conduct required members to notify the Monitoring Officer of any change to a registered or new interest within 28 days of becoming aware of it, the statutory rules did not require Members to update their register of disclosable pecuniary interests until that interest had actually arisen at a meeting. It was therefore felt that a statutory obligation to require this within 28 days of the Member becoming aware (as already the case in Brent) would achieve greater robustness and consistency. The Committee also **RESOLVED** to support this as a recommendation for inclusion within the final response.

6.5.3 The concerns raised regarding the adequacy of the sanctions currently available to address serious and/or persistent misconduct. These concerns were fully supported by the Committee. Whilst wanting to maintain the more flexible and less prescriptive nature of the current standards regime which was recognised as an improvement on the previous Standards Board arrangements, Members were keen to see consideration given to the reinstatement of the full range of sanctions previously available including suspension and disqualification and forfeiting of certain allowances for the most serious and/or persistent misconduct. It was therefore **RESOLVED** that this also should be highlighted as an issue within the final response.

6.5.4 The need for careful review of any requirement on members to have to publish their full home address (unless considered sensitive). Whilst noting that issues relating to intimidation were rare the Committee were aware and supportive of the response towards the CSPLs recommendation seeking to remove a similar requirement for candidates in local elections having to include their home address on ballot papers. It was therefore felt that the requirement on councillors to have to publish their full address would run counter to any change in law being proposed in relation to elections.

Members did, however, recognise that there would be some circumstances in which a partial disclosure may be justified and necessary in the interests of transparency, especially in relation to planning and other regulatory matters. It was therefore suggested that a partial disclosure of the first part and the numerical pre-fix of the second part of a post code may be a more proportionate approach rather than the publication of a full address, which the Committee **RESOLVED** to recommend as a proposal for inclusion in the final response.

As an additional issue highlighted at the meeting, Looqman Desai advised the Committee that the review had identified the potential to address the long and complex structure of the current Members' Code of Conduct by simplifying it and making it easier to follow and understand. Members were again supportive of the code being simplified as far as was possible within the existing statutory framework, subject to the final changes being approved by Full Council.

As a result of the discussion it was therefore **RESOLVED**:

- (1) to approve the proposed response to the CSPL public stakeholder consultation on local government standards, subject to the comments and additional recommendations detailed in 6.5 above.
- (2) to approve the Monitoring Officer seeking to simplify the Members' Code of Conduct with the propose changes being recommended to the Annual Council meeting in May 2018 for final consideration and formal approval.

## 7. **Any Other Urgent Business**

Councillor Dixon (as Chair) advised that although having submitted her apologies this would be Mandip Johal's final meeting as an Independent Person given that her term of office was due to expire in May 18.

The Committee took the opportunity to formally thank her for the support provided to both Members and the Monitoring Officer during her term of office and also wished all retiring Members well in advance of the local elections in May 18.

**8. Date of the Next Meeting**

It was noted that future arrangements for the Committee would need to be confirmed following the Annual Council meeting on 14 May 2018.

The meeting closed at 6:36pm

L DIXON  
Chair

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 <p><b>Brent</b></p>	<p><b>Audit and Standards Advisory Committee</b></p> <p>26 July 2018</p>
	<p><b>Report from the Director of Legal and HR Services</b></p>
<p><b>Standards Update</b></p>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Not applicable
<b>Open or Part/Fully Exempt:</b> (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
<b>No. of Appendices:</b>	One: • Gifts and Hospitality- March 2018 to June 2018
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> (Name, Title, Contact Details)	<p>Debra Norman Director of Legal and HR Services Email: <a href="mailto:debra.norman@brent.gov.uk">debra.norman@brent.gov.uk</a> Tel: 020 8937 1578</p> <p>Looqman Desai Senior Solicitor, Governance Email: <a href="mailto:looqman.desai@brent.gov.uk">looqman.desai@brent.gov.uk</a> Tel: 020 8937 1366</p>

## 1.0 Purpose of the Report

1.1 This report updates the Audit and Standards Advisory Committee on gifts and hospitality registered by Members and a recent High Court case on standards.

## 2.0 Recommendation

2.1 That the Committee notes the contents of this report.

### 3.0 Detail

#### ***Gifts and hospitality update***

- 3.1 Members are required to register gifts and hospitality received in an official capacity worth an estimated value of at least £50. This includes a series of gifts and hospitality from the same person that add up to an estimated value of at least £50 in a municipal year.
- 3.2 Gifts and hospitality received by Members are published on the Council's website and open to inspection at Brent Civic Centre. A list of gifts and hospitality registered by Members from January 2017 to 19 March 2018 were reported to Members of the Standards Committee on 27 March 2018. This was the Committee's final meeting.
- 3.3 The gifts and hospitality registered by Members from 20 March to 30 June 2018 are set out in **Appendix 1**.
- 3.4 Members are advised that recent changes to the Members' Code of Conduct introducing the requirement to record the value or approximately value of gifts and hospitality (among other details) did not come into effect until 14 May 2018. The new rules therefore did not apply when all the gifts and hospitality set out in Appendix 1 were registered.

#### ***Recent High Court case on standards***

- 3.5 The case of **R (Harvey) v Ledbury Town Council [2018]** concerned the Town Council's decision to impose sanctions on a councillor under its staff grievance procedures, banning her from serving on any committees and from communicating with any staff, following complaints of bullying and harassment.
- 3.6 The High Court decided that councils cannot run a grievance procedure alongside, or as an alternative to, a standards procedure under the Localism Act 2011, and that complaints regarding a Member's conduct have to be dealt with under the Council's standards arrangements.
- 3.7 The Court noted that the involvement of the independent person in the formal Members' complaint process is an important safeguard which cannot be bypassed. However, as this and a 2017 standards case confirmed, a non-formal investigatory or mediation stage, or even a pause for some other relevant step to be taken (e.g. criminal proceedings), prior to a formal standards investigation is an option available to councils in appropriate cases.
- 3.8 The case also highlights the importance of ensuring Member complaints are dealt with fairly (procedurally and substantively) and with an open mind, that the rules of natural justice are followed, that a Member's right to freedom of expression is properly weighed in the balance and that any interference can be justified as necessary and proportionate.



3.9. The outcome of this case puts beyond any doubt that when the current statutory standards regime was introduced, it marked a shift from the past. Councils can no longer rely on incidental or implied powers under the Local Government Act 1972 to investigate complaints or supplement the very limited sanctions available under the Localism Act 2011 by dealing with complaints under staff grievance procedures.

**4.0 Financial Implications**

4.1 None.

**5.0 Legal Implications**

5.1 These are contained within the report.

**6.0 Equality Implications**

6.1 None.

**7.0 Consultation with Ward Members and Stakeholders**

7.1 Not applicable.

**Report sign off:**

**DEBRA NORMAN**

Director of Legal and HR Services.


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**Gifts and Hospitalitys (March 2018 - June 2018)**

Councillor	Date of gift	Gift received	Value	From
Butt	27/03/18	Four tickets for England v Italy (match date 27/03/18) at Wembley Stadium. Tickets given away to local residents. Match attended with Cllr Krupa Sheth to promote a new work experience programme supporting young care leavers into employment in the events and hospitality industry so specified as nil value.	Value approx. £55 per ticket.	Received from the Football Association.
	21/04/18	Two tickets for Emirates FA Cup Semi Final 2018	Nil value declared	Received from Anthony Angol - Wembley Public Affairs Manager, the FA Group
	19/05/18	Four tickets for FA Cup Final at Wembley Stadium	Valued at £80 each	Received from the the Football Association.
	26/05/18	Two tickets for Sky Bet Championship Play-off Final at the Wembley Suite	Valued at £80 each.	Received from Terrapin Communications.
Carr*	28/03/18	Two tickets for England v Italy (match date 27/03/18) at Wembley Stadium	Value approx. £55 per ticket.	Received from the Football Association.
Choudhary	26/03/18	Two tickets for England v Italy (match date 27/03/18) at Wembley Stadium	Value approx. £55 per ticket.	Received from the Football Association.
Colwill	27/03/18	Two tickets for England v Italy (match date 27/03/18) at Wembley Stadium	Value approx. £55 per ticket.	Received from the Football Association.
Davidson*	26/03/18	Four tickets for England v Italy (match date 27/03/18) at Wembley Stadium	Value approx. £55 per ticket.	Received from the Football Association.
Ezeajughi	26/03/18	Four tickets for England v Italy (match date 27/03/18) at Wembley Stadium	Value approx. £55 per ticket.	Received from the Football Association.
Farah	27/03/18	Four tickets for England v Italy(match date 27/03/18) at Wembley Stadium	Value approx. £55 per ticket.	Received from the Football Association.
Mahmood	23/03/18	Two tickets for England v Italy (match daete 27/03) at Wembley Stadium	Value approx. £55 per ticket.	Received from the Football Association.
Ketan Sheth	19/04/18	Three tickets for England v Italy (match date 27/03/18) at Wembley Stadium	Value approx. £55 per ticket.	Received from the Football Association.
M Patel	27/03/18	Two tickets for England v Italy on 27/03/18 at Wembley Stadium (donated to residents)	Value approx. £55 per ticket.	Received from the Football Association.
Maurice	23/03/18	Three tickets for England v Italy (match date 27/03/18)at Wembley Stadium	Value approx. £55 per ticket.	Received from the Football Association.

\* Please note that Councillors Carr and Davidson are no longer Members of the London Borough of Brent

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 <b>Brent</b>	<b>Audit and Standards Advisory Committee</b> 26 July 2018
	<b>Report from the Chief Executive</b>
<b>Emergency Preparedness Update</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	N/A
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Daryl Jooste Civil Contingencies Manager Email: <a href="mailto:daryl.jooste@brent.gov.uk">daryl.jooste@brent.gov.uk</a> Tel: 020 8937 5415

## 1.0 Purpose of the Report

1.1 Following the Emergency Preparedness Task Group Report by Councillor Ketan Sheth and presented to Audit Advisory Committee in January 2018, it was resolved that an Emergency Preparedness item be added to the Committee's forward plan to be discussed in July 2018.

1.2 This report briefly outlines the progress made against the recommendations in the report, details the type and number of incidents in Brent since the writing of the report and provides some information around initiatives and programmes of work under way to enhance our resilience and response arrangements.

## 2.0 Recommendation

2.1 The Audit and Standards Advisory Committee is asked to note the contents of the report.

## 3.0 Progress against the recommendations made in the Task and Group report

3.1 **On call rotas** - 15 senior managers have been trained as incident Silver, and an on-call rota has been in place since 20 November 2017. Subsequent training via the Emergency Planning college is being arranged to enhance their skills and knowledge.

- 3.2. **Training** – The Emergency Planning College have delivered a member's awareness session on the role of Cllrs during a Civil Emergency and are due to deliver Silver training as described above
- 3.3 **Member Training** - As described above
- 3.4 **Plan review, ownership and exercising** – A rolling schedule of training is prepared. Latest exercise was the Emergency Rest Centre Exercise on the 17th May at New Millennium Day Centre.
- 3.5 **Emergency Shelter & Accommodation** – In terms of emergency shelter, a piece of work has been undertaken to identify gaps in coverage of emergency shelters and as a result of this, 10 new venues have been added to our list of potential emergency shelters. Some were researched by the EP team and approached directly and others were identified by working with members and the Brent Multi-Faith forum to provide leads which were then followed up on. In terms of emergency accommodation, five hotel chains have been identified as preferred providers, and officers have met individually with their General Managers to discuss our requirements. All are keen to assist, not only with accommodation, but also any other facilities or services that are required, such as temporary emergency shelter, food and drink etc. We used this arrangement for the first time on the 13th July to accommodate 4 persons who had been made homeless by flooding
- 3.6 **Wembley Park Partnerships** – Emergency Planning is a member of the Wembley Park Security Group, an initiative to enhance awareness, collaboration and cooperation amongst businesses on the estate. The focus is operational and centres on security, crime and counter-terrorism.

#### **4.0 Incidents**

- 4.1 There have been 20 incidents since Jan 2018 that have warranted an attendance by Emergency Planning response staff. Of those, 15 caused the Silver (senior manager) level to be notified and all but 2 of those notifications were for information only (the 2 exceptions were not for anything more than “sense-checking” a plan of action or requesting authority to proceed with the intended actions). This demonstrates that Brent's operational arrangements are adequate in dealing with the types of incidents faced to date and align with the UK's Response Doctrine principle of subsidiarity. Gold (Chief Executive/Strategic Director) level was informed in most cases for information and exercised their Gold Functions in one instance (for approval of expenditure, setting of strategy and direction of resource). Again, this aligns well with the subsidiarity principle.

#### **5.0 Initiatives**

- 5.1 We are in the process of recruiting an additional 10 new Emergency Response Officers. These staff volunteer to join the scheme and 2 are placed on call each week to provide the immediate 24/7 response to any incident in the borough under the supervision of the Emergency Duty Officer (also on call 24/7). This will take our total number of trained Emergency Response Officers to around 26.

5.2 We are also developing a host of digital tools to make data collection and reporting during an emergency simpler and automated as far as possible. This will allow staff to spend more time assisting the affected person instead of filling in and managing paperwork. This piece of work has been enabled by the council's Digitisation Strategy and closely supported by colleagues from IT. In speaking with emergency planning colleagues from other boroughs, Brent will be one of the first boroughs to have this capability.

5.3 A London-wide programme of standardisation is under way. The work focuses on Rest Centres, Control Centres and Local Authority Liaison Officers as these are the roles and facilities most commonly activated during an emergency. The intent is to ensure that each borough is doing exactly the same training and working to the same plans as each other so that if mutual aid from another borough is required, the requesting borough does not have to spend time orientating the staff to "their way" of doing things.

## **6.0 Financial Implications**

6.1 None.

## **7.0 Legal Implications**

7.1 None.

## **8.0 Equality Implications**

8.1 None.

## **9.0 Consultation with Ward Members and Stakeholders**


9.0 Not applicable.

**Report sign off:**

**CAROLYN DOWNS**  
Chief Executive

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 <b>Brent</b>	<b>Audit and Standards Advisory Committee</b> 26 July 2018
<b>Report on i4B Holdings Ltd and First Wave Housing Ltd</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	Four: <ul style="list-style-type: none"> <li>• i4B’s Risk Register</li> <li>• Brent Council Strategic Risk Register</li> <li>• Fraud Risk Review Final Report</li> <li>• Internal Audit Responses Action Plan</li> </ul>
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Peter Gadsdon Director of Performance, Policy and Partnerships Email: <a href="mailto:peter.gadsdon@brent.gov.uk">peter.gadsdon@brent.gov.uk</a> Tel: 020 8937 6095

## 1.0 Purpose of the Report

- 1.1 Historically, when considering matters related to i4B Holdings Ltd (i4B), the Audit and Standards Advisory Committee (“ASAC” or “The Committee”) has been provided with a report from i4B, with a cover report from the Council as i4B’s shareholder. At its last meeting the Committee requested that a more rounded view of risks was presented, with a clearer delineation between those risks being managed by the Council and those being managed by i4B. This report aims to address this concern.
- 1.2 Similarly, it would be incomplete to consider the benefits of i4B in isolation, without also considering both the financial, and social benefit that the Council gains from i4B’s operations, so this paper also aims to summarise those in totality.

- 1.3 The paper also highlights recent audit activity undertaken in relation to i4B, and progress towards implementing previous audit recommendations.
- 1.4 Additionally, the paper includes an update on First Wave Housing Limited's (First Wave) planned programme of internal audits

## **2.0 Recommendations**

- 2.1 The ASAC is asked to note:
  - 2.1.1 The recent appointment of a fifth Board member to the i4B and First Wave boards.
  - 2.1.2 The updates to the i4B risk register and summary of key risks
  - 2.1.3 The summary of financial and non-financial benefits of i4B's operations
  - 2.1.4 The update on recent i4B audit activity, and progress towards implementing previous audit recommendations
  - 2.1.5 An update on First Wave Housing Limited's planned programme of internal audits

## **3.0 Board Member Appointment**

- 3.1 Akintoye Durowaju was appointed as the fifth board member for i4B and First Wave through a competitive and transparent recruitment process that involved representatives from the Shareholder and the Companies.

## **4.0 Company Risk Management**

- 4.1 Following a recommendation from the *Governance, Risk & Financial Management* audit, i4B has created a standalone risk register (appendix 1) that is a live document, and is reviewed regularly by i4B officers and the i4B board.
- 4.2 The risk register includes mitigation strategies that are reflective of the controls that the company has put in place to prevent the company's risks from materialising into issues. Risks are reviewed every quarter by i4B officers and an update is provided at the following board meeting, where the Board is asked to review the key risks, note any movements on the register, and agree the closure of identified risks.
- 4.3 Following discussion by the Board, the risk register has been updated to include post-mitigation scoring to measure the impact of the controls and mitigation taken against company risks. A risk status column has also been included in order that risks can be "closed" when no longer relevant, whilst maintaining an auditable record of the risk and any mitigation that was in place.

- 4.4 Following discussions it was agreed that two of the company’s risks are borne by Brent Council and should be added to the council’s risk register (appendix 2). The i4B board requested that the risks transferred to the council’s risk register are also recorded within the company’s register.

Table 1 – Company risks transferred to the council risk register

<b>i4B Risk Number</b>	<b>Risk</b>
1	The appeals court cannot distinguish between i4B as a private sector landlord and the council as a landlord
7	The proportion of equity held by LB Brent in relation to the total loan exceeds target

- 4.5 Risks with a pre-mitigation “likelihood” rating of 5, indicate that a risk has become a live issue. The Board agreed that live issues are maintained on the risk register to allow full oversight of the company’s risks and issues, and to allow easy de-escalation when an issue has been resolved, but where there remains a risk that it may happen again.
- 4.6 The Board agreed in June 2018 that three of the Company’s risks have become live issues and this has been reflected on the risk register. See table 2

Risk Number	Live issues	Business Plan Measure	June Performance	How the issue is being managed
3	There is a risk that the average property purchase price exceeds budget and the portfolio of properties does not achieve the target Gross Yield margin	Avg. purchase price: £333,333 Gross Yield: 5%	Avg. purchase price: £360,407 Gross Yield: 4.91%	The company has considered with the council the demand for properties by bedroom size and location and have sought to maximise the gross yield within these parameters
4	There is a risk that business plan rent collection rates are not achieved and bad debt will exceed business plan assumptions. There is a risk that the introduction of universal credit will adversely affect rent collection	98.5%	65.97%	<p>The Board is investing in additional monitoring of rent and arrears performance of housing management subcontractors. It is funding (through the SLA) a weekly monitoring of rent performance data of subcontractors to check contractors' data, identify variations and request information from subcontractors on actions being taken.</p> <p>Most of i4B's rental income is paid through housing benefits. The council collects around 98.5% of the rent due on temporary accommodation properties, which was the basis for the business plan measure, where many of the tenants have been in the properties for extended periods and whose housing benefits claims are therefore relatively stable. In i4B all of the tenancies are, at this stage in the business plan, relatively new and so any delays in setting up housing benefit claims will impact disproportionately on this important measure. Provided that claims are promptly put into payment performance should move towards the target measure relatively quickly, but until this has been demonstrated to be taking place in practice it is essential that significant management focus is maintained on this measure.</p> <p>Following a workshop between Brent Housing Management and i4B officers, an income collection action plan has been created to address some of the issues in rent collection from i4B tenants.</p> <p>The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS customers. The introduction of new products and some new build properties with higher yields may mitigate a slightly lower rent collection rate.</p> <p>i4B will be reviewing its tenancy sign-up process ahead of the implementation of universal credit.</p>
15	The pipeline of properties is slower than the SLA target	300 by 30 <sup>th</sup> September 2018	145	i4B intends to supplement the purchase of individual street properties by considering the purchase of small blocks of flats and by working with the Council and developers to deliver new build properties / block purchase properties.

Table 2 - i4B's live issues and the actions implemented to manage them

4.7 i4B would like to draw the attention of the ASAC to the following company risk which has a higher risk score than two of the company’s live issues outlined in table 2 due to its pre-mitigation impact rating.

- Risk 19 - The nominations process exceeds SLA target

4.8 The SLA currently has a target of 7 days from refurbishment handover to the property being let. i4B is currently reviewing its KPIs as they were set prior to the company commencing operations and targets did not reflect realistic timeframes. It is likely that the SLA target for Risk 19 will change following this review.

## 5.0 Financial Benefits

5.1 i4B is forecasting to break even by 2019/20 and turn a profit in the following years. Challenges in rent collection and a slower rate of acquisition of properties have contributed to the company being forecast to break even later than originally anticipated.

	<b>31<sup>st</sup> March 2018 £000s</b>	<b>31<sup>st</sup> March 2019 £000s</b>	<b>31<sup>st</sup> March 2020 £000s</b>	<b>31<sup>st</sup> March 2021</b>
<b>Original business plan forecast net profit/(loss) before tax</b>	(863)	91	517	536
<b>Current actual/forecast net profit/(loss) before tax</b>	(1,545)	(927)	16	369

5.2 Even while i4B makes a loss, the Council benefits financially from i4B through  
 (i) avoided costs of temporary accommodation and  
 (ii) charges relating to the loan provided to i4B.

5.3 The table below outlines the provisional council cost savings as a result of 104 lettings to i4B. There is an ongoing exercise to refine the figures, and once confirmed i4B will report back to the ASAC again at a future meeting.

Property size	Year 1 savings per unit as a result of avoiding the use of emergency accommodation (B&B, Hostel, Hotel Annex)	Year 2 savings as a result of avoiding the use of stage 2 accommodation (HALs, etc) (£25 pw per unit)	Total savings to the council per unit let to i4B	Number of customers discharged into i4B homes	Sub Total	Known exceptional savings relating to households housed by i4B*	Total estimated annual saving to council
1-bed (inc studio)	£1,886	£1,300	£3,186	0 (let at 2 bed rate)	£0	£0	£0
2-bed	£1,804	£1,300	£3,104	41	£127,264	£0	£127,264
3-bed	£4,466	£1,300	£5,766	42	£242,172	£0	£242,172
4-bed	£4,539	£1,300	£5,839	19	£110,941	£0	£110,941
5-bed	£16,066	£1,300	£17,366	1	£17,366	50000*	£67,366
6-bed	£33,627	£1,300	£34,927	1	£34,927	50000*	£84,927
Total Annex/B&B population	N/A	N/A	N/A	104	£532,670	£0	<b>£632,670</b>

5.4 The Council provides a loan to cover i4B's initial investment. The loan includes three types of charges to i4B:

- (i) an ongoing interest charge,
- (ii) a one-off arrangement fee every time a loan is drawn down and
- (iii) a reducing non-utilisation charge until the whole loan is drawn down.

5.5

	<b>i4B payment</b>	<b>Description</b>	<b>Financial benefit to the Council in 2017/18</b>	<b>Ongoing annual benefit to the Council on £80m borrowing</b>
1	Interest rate on the Council loan	The Council charges i4B a 0.3% higher interest rate than the rate at which the Council can borrow	£17,000	£240,000
2	Arrangement fee	A one-off arrangement fee of 1%	£452,000	0
3	Loan non-utilisation charge	A charge for balances not drawn down by i4B, to reflect the fact that the Council will have made provision for the whole amount to be available	£278,000	0
<b>Financial benefit to the Council from loan</b>			<b>£747,000</b>	<b>£240,000</b>

In addition, i4B pays the Council for services provided through the Service Level Agreement (SLA). The Council does not currently seek to make a profit from the SLA.

5.6 Since i4B is entirely owned by the Council, strong financial performance could bring additional financial benefits to the Council through a dividend payment. However, this direct financial payment, as opposed to the offset to Council costs achieved to date as set out above, is unlikely to be realised for some time as even on the original business plan assumptions the company was not forecast to make an accumulated profit until at least 2021.

5.7 Future property prices cannot be forecast with certainty, but if the long-term trend was for an average increase in value of 1% real (after inflation) p.a. then the increase in asset price would be £0.8 million p.a. Of course, this could only be realised by selling the assets, which is not currently envisaged, but it is nonetheless a relevant factor as it provides a degree of risk mitigation. Property prices may fall as well as rise in any given year, but the long-term trend in London and the surrounding areas has been consistently upwards.



## 6.0 Non-financial benefits of the Company

- 6.1 i4B was established to reduce homelessness, provide affordable, good quality homes, and invest to deliver regeneration and financial benefits for its sole shareholder, Brent Council.
- 6.2 Brent Council has one of the highest numbers of households in Temporary Accommodation (TA) in England. In quarter two of 2017/18, the council reported having 2,542 households living in TA, the fourth highest of all housing authorities in England.
- 6.3 As of June 2018, 123 Brent families, including 210 children, have been housed in i4B properties.

Table 3 - break down of families directed to i4B properties

Previous Accommodation	Number of Families	Number of Children
Direct to i4B	7	10
Women's Refuge	1	1
Homelessness Preventions	1	1
TA Stage 1 – B&B	100	173
TA Stage 2 – Leased	14	25
Total	123	210

- 6.4 All i4B properties are refurbished to a high standard and Brent Council's lettings team undertake a thorough matching process when considering tenants for i4B properties. Where possible families are matched with a property in-borough in the first instance. As of June 2018, 19 families have refused the offer of an i4B property which has resulted in the Council discharging its duty to house them.
- 6.5 Case studies of families housed in i4B properties

### 6.6 Family A:

A mother approached Brent Council as homeless and fleeing domestic violence. As the mother was affected by the overall benefit cap, she was aware that she would not be able to afford to live in London. When Brent Council officers were profiling the family, it became apparent that the mother's parents lived near an out-of-borough i4B property. The mother was pleased to accept the offer of a property which was close to her parents and support network, with good schools for her children and good transport links.

### 6.7 Family B:

A mother accepted an offer of an i4B property for herself and her daughter who has mobility issues. The property is on the ground floor, next to a train station, providing the family with easy access to transport. The property is close to the

mother's parents, who are able to assist her with support with her daughter.

## 6.8 Family C:

A couple with 3 children were made homeless due to their previous landlord selling the property they were living in. The family were immediately placed in emergency accommodation. The eldest child went to school out-of-borough and the family wanted to move to be closer to her school. Brent Council matched them to an out-of-borough i4B property within a 10 minute drive to the school. The family were very pleased with the offer, especially because the property was close to a park, allowing the family to enjoy access to green space and the benefits this provides.

## 7.0 Internal Audit Update

7.1 In November 2017, i4B agreed a programme of four internal audits for 2017/18:

Table 4 – i4B internal audits

<b>Audit</b>	<b>Status</b>
Governance, Risk & Financial Management	Complete Report provided to ASAC in March 2018
Benefits Realisation, Management Information and Reporting	Complete Report provided to ASAC March 2018
Fraud Risk Assessment	Complete
Financial Model Review	Date of Audit TBC

7.2 At the March meeting of the ASAC i4B provided an update on the findings from the *Governance, Risk & Financial Management* and the *Benefits Realisation, Management Information and Reporting* audits. Section 8 outlines the activity that has been taken since the last report to the committee.

7.3 The *Fraud Risk Assessment* Audit was completed in April 2018 and there remains one outstanding audit, the *Financial Model Review*. The remaining audit was originally scheduled to be completed in June 2018 and has been deferred slightly following the departure of the Council's Commercial Head of Finance. A new Head of Finance is in post and the revised date of the audit will be confirmed in August 2018.

### 7.3.1 Fraud Risk Assessment Audit Findings:

7.3.2 A fraud risk workshop was delivered by the internal auditors in April 2018. This was attended by the i4B management team and a representative from the Board of Directors, Peter Gadsdon. A facilitated discussion was held on the current and future risks to the Company and a report was presented to the

Board with the findings (appendix 3).

7.3.3 There was one risk finding from the review, which was rated as medium:

*i4B may not have a holistic overview of the key fraud risks that they are facing or are likely to face in the future, resulting in losses to fraud as a result of risks not being appropriately treated.*

7.3.4 The audit recommended that the company use the findings from the *Fraud Risk Review* to perform a fraud risk assessment of the company. It was agreed by the i4B Board that the company will undertake an anti-fraud risk workshop. This will be done following the anti-fraud measures audit planned for First Wave Housing so that work can be aligned on fraud risk across both companies.

7.3.5 The board also agreed that i4B will review Brent Council's fraud and ethics policies with the aim of adopting these for i4B, and that the company will add an additional clause to the SLA agreement when it is next updated to strengthen the company's overview of fraud risk

## 8.0 Update on recommendations from outstanding audits

8.1 i4B has created an action plan (appendix 4) to track the company's progress against the agreed actions from the internal audits completed to date. The action plan is reviewed at the monthly i4B management meetings and approval is sought from the Board when necessary.

8.2 i4B would like to draw the Audit and Standards Advisory Committee to the following actions that have been completed:

Action log Ref.	Action	Update
A4	Produce a Director's Code of Conduct	A Code of Conduct has been drafted and submitted to the Board for consideration. All board members will be asked to sign a copy of the conduct.
A6	Establish the company's Scheme of Delegation as a standalone document	i4B has created a standalone document to outline company delegations. This was approved by the Board in June and will be reviewed annually.
A5	Create a company Escalation Policy	The Escalation Policy was considered at the June Board meeting and following minor amendments, has been resubmitted to the Board for approval.
B3	Implementation of a Microsoft Dynamics System for i4B properties and processes	There is ongoing work to create a case management system for i4B properties and processes. This will improve Brent Council end-to-end processes through the SLA agreement and improve the accuracy and transparency of data collected. The expected go live date of phase one is September 2018.

8.3 There is ongoing work to review the company's policies and procedures. As part of this review a number of new company policies have been identified and i4B officers are meeting regularly to progress these.

## 9.0 First Wave Housing Limited

9.1 First Wave was previously part of Brent Housing Partnership (BHP) and was set up as a council wholly owned company in October 2017. The board membership for First Wave is the same as i4B.

9.2 First Wave has 329 tenanted properties, of which 170 are at LHA rates, 89 are at social rent rate, 25 are at intermediate rent and 45 are at market rent. The annual rent roll is £4.2million. There are also 2 commercial properties within the portfolio.

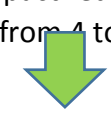
9.3 Given the similarities between First Wave and i4B, it was agreed that where applicable, the findings from audits for i4B would be implemented for First Wave.


9.4 A meeting took place between Brent Council's Head of Audit and representatives from PwC in which a background briefing on First Wave was given and a schedule of internal audit arrangements were developed. This was consider by the First Wave board in March 2018 and a programme of internal audit arrangements was agreed.



9.5 The following internal audits have been agreed:

Table 4 – schedule of planned internal audits for First Wave

<b>Audit</b>	<b>Scheduled Date</b>	<b>Expected Update to the ASAC</b>
Fraud Risk Assessment	w/c 13 August 2018	17 October 2018
Responsive Repairs Process	w/c 8 October 2018	TBC


Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
1	The appeals court cannot distinguish between i4B as a private sector landlord and the council as a landlord	The i4B business model is based on the wholly owned council company being a private landlord. The company must retain its autonomy in granting and ending of tenancies. As a private landlord, the company will use its assured shorthold tenancy as the primary tenancy offered to tenants. The Directors must retain at the forefront of their minds the requirement to 'act in the interest of the company'. The council as shareholder and funder must act in accordance with these roles. The potential consequences of this risk materialising is the company is seen to be one and the same as the council and therefore required to act in accordance with legislation relevant to a council landlords. The risk is that the company would have to provide the same rights as those which apply to secure council tenants and set rents in accordance with legislation and guidance as applies to councils.	Brent Council	Financial & Reputational	3	5	15		The company will use its assured shorthold tenancy agreement when letting PRS properties. Licences and other forms of tenancy terms will be exceptional. The company will make all decisions in relation to granting and ending tenancies and may delegate some responsibility to its management agents through approval of procedural documents. The management agents will act in the name of the company when progressing legal/court action. The Board will approve court action which could result in a tenant losing their home. i4B's logo will be used on its literature although management agents will also use their own brand when communicating with tenants. The Board, council Members and Senior officers will be briefed on the positive contribution i4B can make towards achieving the council's objectives, and on the role of the Board of Directors and the Role of the Shareholder. i4B will work with Brent council's press office to ensure press releases avoid inappropriate descriptions.					Closed	26/06/18: Risk transferred to Brent Council's Risk Register . Approved at June i4B Board meeting
15	The pipeline of properties is slower than SLA target	The SLA has a target of 13 weeks for properties to be purchased from approval at the PRS panel. The programme assumes 200 properties purchased by 31st March 2018 and 300 by 30th Sept 2018. The potential impact of this risk is on i4B's cash-flow; the company pays for the loan facility when it is not being used although this charge increases once funds are drawn down, and rental income is it's only source of funding.	i4B	Financial & achieving operational objectives	5	3	15		Following an i4B officer meeting in June, it was decided that this risk had materialised into a live issue. The following steps are being taken to manage this issue:  i4B intends to offset properties that cannot be achieved through open market purchase by working with the Council and developers to deliver new build properties / block purchase properties.  Revisions have been proposed to the SLA target for conveyancing.					Open	11/06/18: Risk has materialised into a live issue
19	The nominations process exceeds SLA target	The SLA has a target of 7 days from refurbishment handover to the property being let (tenancy start date). The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase.	i4B	Financial & achieving operational objectives	4	3	12		The Board monitor refurbishment KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's housing needs service. i4B could encourage the council (through the SLA) to introduce additional resources and change processes to reflect the new housing supply opportunity. i4B could work to bespoke some properties through a variation to its refurbishment specification. The programme of purchases could be slowed to keep pace with council demand from customers likely to be requiring emergency accommodation. i4B and the council will review the nominations agreement at its client company monitoring meetings.	4	3	12		Open	11/06/18: The SLA target is likely to be altered in agreement with the board to make it more achievable, and risk will be reviewed again after that point.
4	Business plan rent collection rates are not achieved and bad debt exceeding business plan assumptions. Introduction of universal credit adversely affects rent collection	The business plan assumes a rent collection rate of 98.5% of rent due and 2% bad debt The potential consequences of this risk materialising is the company's income is insufficient to cover its expenditure.	i4B	Financial	5	3	12	Impact reduced from 4 to 3 	Following an i4B officer meeting in June, it was decided that this risk had materialised into a live issue. The following steps are being taken to manage this:  · The Board is investing in additional monitoring of rent and arrears performance of housing management subcontractors. It is funding (through the SLA) a weekly monitoring of rent performance data of subcontractors to check contractors' data, identify variations and request information from subcontractors on actions being taken.  · Following a workshop, an income collection action plan has been created to address some of the issues in rent collection from i4B tenants.  · The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS customers. The introduction of new products and some new build properties with higher yields may mitigate a slightly lower rent collection rate.					Closed	11/06/18: Risk has materialised into a live issue
6	Bad debt exceeds business plan assumptions	The business plan assumes 2% bad debt. The potential consequences of this risk materialising is the company has less income to overcome its expenditure.		Financial	3	4	12		The Board is investing in additional monitoring of rent and arrears performance through the SLA. The council and the company will review the nominations agreement and the application of the sustainable tenancy assessment. The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS customers. The introduction of new products and some new build properties with higher yields may mitigate a slightly lower rent collection rate.					Closed	Combined with risk 4. Approved at June Board meeting

Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
3	Average property price exceeds budget and portfolio of properties does not achieve the target Gross Yield margin	The average property price for PRS phase 1 is £333,333 and the average purchase price for PRS phase 2 is £360,000 (£108m) or £390,000 (£117m). 5% average Gross Yield (true) The potential consequence of this is i4B will be required to raise more capital to achieve unit targets. The ability to borrow more capital would be based on the strength of the company's business and underlying financial strength.	i4B	Financial	5	2	10		Following an i4B officer meeting in June, it was decided that this risk had materialised into a live issue. The following steps are being taken to manage this:  -The company has considered with the council the demand for properties by bedroom size and location and have sought to maximise the gross yield within these parameters  As of May 2018 Gross Yield = 4.87% - improved to 4.91% in June As of May 2018 Avg. property price = £362,036 - improved to £360k in June.					Open	11/06/18: Risk has materialised into a live issue
14	The balance of Leasehold / freehold units exceeds the target, resulting in additional leasehold costs	The business plan assumes a 60%/40% split in favour of Leasehold properties. The potential consequences of this risk materialising is i4B's expenditure would increase payments to the freeholder in relation to service charges and ground rent.	i4B	Financial	4	2	8	Impact reduced from 3 to 2 	Supply / demand issues make it impossible / unaffordable to purchase the target mix of leasehold / freehold properties. The company could prioritise purchases of block, multiple dwellings and ex-council dwellings where possible and in so doing either purchase the freehold or work with the council as a responsible freeholder. The purchasing strategy could seek to increase yields. i4B could diversify the portfolio with products which create higher yields. i4B could consider, in consultation with the shareholder, passing on these charges in part or whole to tenants.	4	2	8		Open	11/06/18: Analysis is currently being undertaken to model the financial impact of different types of leasehold properties, so that the board could agree the preferred balance.
20	LBB discharges its duty as a result of the nominee rejecting the offer of accommodation	The business plan does not assume any time (rent) loss from a duty being discharged as a result of a customer refusal. The impact will fall on the company's void loss performance and/or SLA performance in relation to nominations to and letting of properties. The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase. The consequent for the council is that they gain an additional discharge of duty and reduce their revenue costs and are still able to nominate another customer to i4B.		Financial	5	2	10		The Board monitor refurbishment KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's housing needs service. i4B could encourage the council (through the SLA) to introduce additional resources and change processes to reflect the new housing supply opportunity. The programme of purchases could be slowed to keep pace with council demand from customers likely to be requiring emergency accommodation. i4B and the council will review the nominations agreement at its client company monitoring meetings.					Closed	Risk closed as covered by risk 19. Approved at June Board meeting
21	company cash flow (capital and revenue) is insufficient to manage expenditure	i4B has commenced a large acquisition and refurbishment programme. The period between purchase and letting requires significant financial resources. The business plan assumes an average of 90 days for property refurbishment and letting from the point of purchase. i4B's revenue account also requires an element of cash flow support to manage expenditure until it creates a surplus through rent. The potential consequences of this risk materialising is the company becomes insolvent.	i4B	Financial	2	5	10		i4B is monitoring SLA performance to deliver capital works and refurbishments within business plan requirements. i4B is focusing on reducing the amount of time taken during refurbishment and letting to maximise rental income. The council has approved a cash flow facility of up to £3.5m and current modelling indicates this will be sufficient to meet i4B working capital requirements. i4B will monitor cash flow requirements at its monthly meetings and with the shareholder at client/company meetings.	1	5	5		Open	11/06/18: Performance (particularly of rent income / cash flow) will continue to be monitored by the Board through KPI monitoring process.
10	The cost to deliver i4B services exceeds business plan assumptions	There are a number of key assumptions built into the business plan and the setting of the Gross Yield %. These cost assumptions include: housing management services; repair and maintenance; insurance; contracts and service level agreements; major refurbishment programmes; and debt finance arrangements. As the business grows, cost assumptions may change and new costs may be encountered. The potential consequences of this risk materialising is the company's expenditure cannot be met by its income.	i4B	Financial	3	3	9		A review of business plan assumptions will take place bi-annually and will be reported to the Board. Should additional costs be noted, options will be considered to reduce cost through contract management renegotiation, eliminating the cost where the minimal property standard can be amended. It would be possible to reduce the volume of units purchased but seek higher gross yield margins on each property. The company is seeking to introduce additional products with higher yields to blend the overall yield, for example some new build partnerships and some shared ownership. Through growth i4B may be able to spread certain costs between more properties and negotiate better prices from providers. There may also be an opportunity to deliver savings through closer alignment to First wave housing, ultimately combining corporate and other services to create efficiencies.	2	3	6		Open	
17	The location of properties purchased varies from the business plan	The business plan assumes that: phase 1 – 180 properties purchased in Brent & Greater London, 120 in the Home Counties; phase 2 – up to 300 properties purchased in Brent. The potential consequences of this risk materialising is that purchasing more properties in Brent is likely to improve the financial strength of the company as long as the gross yield of 5% is maintained. If more properties are purchased in the home counties the underlying net yield is likely to be reduced and therefore create less income even at 5% gross yield.	i4B	Financial & achieving operational objectives	3	3	9		The decision has been taken to purchase more properties in Brent to mitigate the risk of purchasing properties that cannot be let. The financial impact of this on the business plan is offset by the speed of letting. The company will continue to consider the business model tool at its board meetings to understand the impact of portfolio purchase the pipeline of purchases. i4B could reduce the scale of the programme or seek support from the council to purchase in alternative locations.	3	2	6		Open	

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22	Fraud risk	i4B may not have a holistic overview of the key fraud risks that they are facing or are likely to face in the future, resulting in losses to fraud as a result of risks not being appropriately treated.	i4B	Financial and Reputational	3	3	9		The company will undertake an anti-fraud risk workshop. This will be done following the anti-fraud measures audit planned for First Wave Housing (as agreed at the First Wave board meeting on 21 March 2018) in order that work can be aligned on fraud risk across both companies.  i4B will review Brent Council's fraud and ethic policies with the aim of adopting these for i4B and will add an additional clause to the SLA agreement when it is next updated to strengthen the company's overview of fraud risks.	2	3	6		Open	11/06/18: New risk added.
2	Portfolio of properties does not achieve the target Gross Yield margin	5% average Gross Yield (true)  The potential consequences of underachieving against this target is that the company's income will be insufficient to meet its assumed expenditure		Financial	2	4	8		The Board, in consultation with the requirements of the council, has some flexibility to amend the bedroom size and location of property acquisitions to maintain gross yield averages. The business plan could consider increasing the number of properties in high LHA locations such as Brent which would create a larger cash margin per property which would be advantageous to the business plan in managing fixed costs such as insurance and housing management fees. The programme could be spread over more years to prevent artificial house price inflation due to i4B's intense programme. i4B could diversify its products introducing intermediate renting and potentially shared ownership into its portfolio to support the overall strength of the business plan. i4B is seeking to work with the council and Registered Providers to purchase new build homes. With the support of the council, i4B could generate higher yields with some partnerships and introduce new products.  As of May 2018 Gross Yield = 4.87%					Closed	Risk Combined with risk 3. Approved at June i4B Board meeting
12	Inflation increases above business plan assumptions	The business plan assumes 2.5% annual inflation in relation to services. The business plan recognises LHA rent rates are frozen until 2021. The business plan assumes LHA rates will increase at 1% per annum after 2021. The business plan assumes that properties will be purchased within the capital budget agreed and no inflation is assumed within this envelope in relation to property prices, fees, SDLT or works.  The potential consequences of this risk materialising is i4B's costs increase above its income. The company's income is primarily rent at Local Housing Allowance rates which are frozen until 2021.		Financial	2	4	8		A review of business plan assumptions will take place bi-annually and will be reported to the Board. Should additional costs be noted, options will be considered to reduce costs through contract management or renegotiation, eliminating the costs where the minimal property standard can be amended. It would be possible to reduce the volume of units purchased but seek higher gross yield margins on each property. i4B is seeking to introduce additional products with higher yields to blend the overall yield, for example some new build partnerships and some shared ownership. Through growth, i4B may be able to spread certain costs between more properties and negotiate better prices from providers. There may also be an opportunity to deliver savings through closer alignment to First wave housing, ultimately combining corporate and other services to create efficiencies.					Closed	30/05/2018: Risk closed . Approved at June Board meeting
13	LHA rates fall below business plan assumptions	The business plan assumes LHA rates will be frozen until 2021 and then increase at 1% per annum.  The potential consequences of this risk materialising is the company's income will be less than its anticipated expenditure.	i4B	Financial	2	4	8	Impact reduced from 5 to 4 	The 3% increase in LHA rates from 2018 is well ahead of business plan assumptions, and all other factors being equal, would remain so for several years. The company is seeking to diversify its products to introduce new customers with different household income profiles than exiting PRS / LHA customers. The introduction of new products and some new build properties with higher yields may mitigate any future reductions in LHA rates. Ultimately, properties that could not achieve the expected yield because of the LHA cap / inability to let out under different terms, could be sold to release capital, especially over the medium- and long-term when asset appreciation should create surplus capital.	1	4	4		Open	30/05/2018: Impact levels reduced as LHA rates set above business plan assumptions
18	The refurbishment period exceeds SLA target	The SLA has a target of 70 days for the first 100, 64 days for the 2nd 100 and 56 days for the 3rd 100 units.  The potential consequences of this risk materialising is properties are unable to be let and remain void for longer than envisaged. The loan cost will not be met by rental income which will mean cash flow requirements increase and expenditure such as council tax liabilities increase.	i4B	Financial & achieving operational objectives	2	4	8	Likelihood reduced from 5 to 2 	The Board monitor refurbishment KPIs at their monthly Board meeting. Weekly meetings take place at the operational level between i4B and the council's refurbishment service. Quotes for works are provided to i4B prior to properties being purchased. i4B could encourage the council through the SLA to introduce additional refurbishment teams or processes. The programme of purchases could be slowed to keep pace with refurbishment capacity.  Early issues with the Refurbishment process have been addressed and now performance is within the KPI	1	4	4		Open	30/05/2018: Likelihood reduced as current performance within target. See company KPI dashboard.
24	There is a risk that there is a permanent downward adjustment of house prices		i4B	Financial	2	4	8		Difficult to mitigate as limited control of market conditions; continue to monitor closely,	2	4	8			11/06/18: New risk added
5	Void periods exceed business plan	The business plan assumes 1.5% void loss. The business provides an additional allowance of 90 days for refurbishment following the purchase of a property.  The potential consequences of this risk materialising is the company has fewer properties able to receive rent and therefore income would reduce whilst expenditure potentially increases. Additional costs such as council tax costs to the company increase during void periods.	i4B	Financial & achieving operational objectives	2	3	6		i4B has built the requirement to cooperate to ensure void periods are minimised into the contracts with housing management and void contractors. i4B has weekly meetings with the council's housing needs team who are responsible for nominating tenants. i4B is working with the council to ensure purchases are in line with the council's customer profile and sustainable tenancy requirements. i4B will review the nominations agreement at client/company meetings. i4B could approach the shareholder to dispose of properties in locations consistently failing to attract customers.	1	3	3		Open	11/06/18: Likelihood reduced as very low churn - the two properties that have been abandoned have been relet well within timescales.

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16	Property price inflation reduces average yield and increases average purchase prices	The programme assumes 200 properties purchased by 31st March 2018 and 300 by 30th Sept 2018.  The potential consequences of this risk materialising is the acquisition programme would slow down, reducing the realisation of benefits to the council. However, the company would also be weaker with fewer properties as some fixed costs would be spread between fewer properties. The company's loan facility would continue to incur costs to the company.	i4B	Financial & achieving operational objectives	2	3	6		Difficult to mitigate as limited control of market conditions; continue to monitor closely, and diversify activity.	2	3	6		Open	
8.1	There is a risk that i4B is deemed to have failed a statutory H&S obligations as a landlord	The SLA places a requirement on the Council to deliver this function, but is unable to transfer the risk of non-compliance with legislation e.g. H&S, gas safety etc.  Failure to comply H&S requirements increase the opportunity for hazards including the causing of death. The ultimate penalty for failure to abide by statutory H&S requirements is imprisonment of the Chair of the Board.	i4B	Financial & Reputational	1	5	5		Contracts cover compliance requirements including gas servicing. Only suitably qualified people will be employed to deliver works. Monthly monitoring and KPI reports include some key aspects including gas, complaints and customer satisfaction. BHM Property Services are implementing a new Asset register which will improve ability to monitor / plan compliance activities.	1	5	5		Open	30/05/18: Risk 8 has been split into 2 risks to highlight the separate risks associated with i4B's corporate role and role as a landlord
8.2	i4B is deemed to have failed a statutory requirement in it's corporate role	The company must comply with regulatory and best practice requirements around it's own management and governance such as annual accounts, returns to companies house, and other regulatory bodies such as the Housing Ombudsman.  The consequences of other statutory failures may be fines and/or reputational damage to i4B.	i4B	Financial & Reputational	1	5	5	↑	The Board is putting in place suitable policies and procedures in place to ensure regulatory compliance, e.g. escalation policy, schemes of delegation, risk management, internal audit arrangements. Support for company governance is included within the companies' core SLA with the Council.	1	5	5		Open	30/05/18: Risk 8 has been split into 2 risks to highlight the separate risks associated with i4B's corporate role and role as a landlord
11	Interest rates increase impacting on new loans taken out by the Company	30 year loan facility for up to £103.5m at a fixed interest rate of 2.87%.  Short term working capital loan facility for up to £3.5m at a fixed interest rate of 3%.	i4B	Financial	4	1	4		The current facilities are for fixed terms and fixed interest rates therefore i4B is not currently exposed to any interest rate risk. i4B will seek to arrange future loan facilities on the same terms whilst interest rates remain low. Should base rates significantly change, i4B will review and revise its growth and financing strategy appropriately having taken the necessary professional advice.	4	1	4		Open	30/05/2018: Risk wording changed to clarify this risk relates to new loans
23	There is a risk that the demand increases for the types of properties that are financially less viable for i4B (e.g. large family properties in expensive areas in Brent)	The average property price for PRS phase 1 is £333,333 and the average purchase price for PRS phase 2 is £360,000 (£108m) or £390,000 (£117m).  5% average Gross Yield (true)  Changes in demand could cause conflict between the companies' need to deliver on the Council's objectives, and the financial viability of it's business plan	i4B	Financial	1	4	4		Current demand is spread across lots of different property types, so it has been possible to tweak the mix of properties purchased to maintain average yield (e.g. purchasing increased numbers of 2 beds in Brent, which offer better yields than larger properties).  Quarterly meetings have been initiated to monitor future demand and provide an early warning of this risk materialising.	1	4	4		Open	11/06/18: New risk added
7	The proportion of equity held by LB Brent in relation to the total loan exceeds target	The equity held by LB Brent is not to exceed 23% of total loan value.  The potential consequences of this risk materialising is the company breaches the business plan permissions provided by the shareholder.	Brent Council	Financial	1	2	2		The company has developed a business model tool which automatically calculates the proportion of equity held by LB Brent in relation to the total loan. The board has a KPOI which requires it to review the business model a number of times within each year.					Closed	Risk transferred to Brent Council's Risk register. Approved at June Board meeting



Risk Number	Risk	Business plan assumption	Risk Owner	Risk Type	Pre-mitigation Likelihood (out of 5)	Pre-mitigation Impact (out of 5)	Pre-mitigation Risk Score (out of 25)	Comparison to last report	Mitigation	Post-mitigation Likelihood (out of 5)	Post-mitigation Impact (out of 5)	Post-mitigation Risk Score (out of 25)	Comparison to last report	Risk Status	Comment
9	The business plan does not diversify its products	The current business plan is primarily based on a Private Rented Sector (PRS) landlord model with permission to provide some market rent. The potential consequences of this risk materialising is the company may find its income and rent collection rate is more vulnerable to impacts of legislation including changes in housing benefit changes.	i4B	Financial & achieving operational objectives	1	2	2	Likelihood reduced from 2 to 1 	i4B continues to seek to diversify it's product range to provide resilience to changes in the rental market. However, the inherent risk within the business plan has been minimised by the 3% increase in LHA rates.	1	1	1		Open	11/06/18: Likelihood reduced because of external change in LHA rates (decreased pre-mitigation likelihood) impact reduced because i4B continues to actively seek opportunities to diversify it's asset and customer base (post-mitigation impact reduced)

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ID1	Link to Brent 2020	Link to Borough Plan	Risk Description	Potential Impacts	Owner	Raw ri	Raw li	Raw Risk Sc	Controls	Assurance	Net risk	Net like	Net risk scor	Movement Indicator	Further Actions	Deadline	Responsible
SR1	Employment and skills – to respond to the increase in the working age population and lift people out of poverty and welfare dependency.	Better Lives	There are <b>insufficient or inappropriate employment opportunities</b> (because they do not have the right skills or ability to access) for residents of the Borough to enable the working population into work.	Increasing levels of poverty and deprivation across the borough. Widening in inequalities gap. Increase pressure on council and welfare services. Poor health and the resulting impact on life chances of children and their families. Higher unemployment and lack of those with the right skills to match the needs of businesses considering investing in the borough. Increase in numbers of young people not in education, employment or training	Strategic Director of Community and Wellbeing / Strategic Director of Regeneration & Environment Services	3	5	15	Employment Support & Welfare Reform reviews. Regeneration. Strategic Boards set up to address strategy in areas of Civic Enterprises and Business Development. 'The Living Room' initiative, Brent Works - apprenticeship support service.	Employment related KPIs - all ragged as amber as at May 2017. NEET KPI is Green others in the same sub set have no RAG in May 2017.	3	4	12	↔	None		
SR2	Regeneration – to improve the economic, social and environmental conditions in the Borough.	Better Place	Our residents, staff or the visitors to the borough experience <b>harm or injury</b> , either immediate or longer term effect on their health and well-being.	Death or serious injury to residents/visitors / staff. Increase in litigation against the Council. Reputational damage; Severe financial penalties and government intervention.	CMT	6	4	24	Emergency Plans. Health & Safety Strategy. Compulsory Health & Safety training for staff. Insurance cover. Risk Assessment for all staff. Miscellaneous policies and procedures. Work place inspections. Enforcement Activity around Borough. Partnership with other agencies. Borough Plan. Healthy Lifestyles. Housing Strategy.	Health KPIs all ragged as Amber in May 2017. Cohesion indicators are amber, data is not available as at May 2017.	5	3	15	↔	None		
SR3	Business and housing growth – to maximise the tax base to support the delivery of core services.	Better Lives	The <b>provision of business premises and housing</b> within the Borough does not meet the demands of current and potential residents and business owners.	Increasing numbers of people dependent on Council for housing and increase in homelessness and the resulting financial pressures on Council to provide temporary accommodation. Reduction in Council Tax and Business rates revenues.	Strategic Director Regeneration and Environment	5	5	25	Housing of Vulnerable People Review. Housing Strategy and related Policies. Regeneration Strategy. Local Plan.	Performance Reports / planning data. KPI data relating to new homes is not available as at May 2017. Gross rateable value.	5	3	15	↔	None		
SR4	Demand management – to manage the pressure on needs-led budgets such as children's social care, adult social care and homelessness.	Better Lives	We are unable to contain <b>demand for our services</b> , particularly in the most challenging areas (1. Domestic Abuse, 2. Drug and Alcohol Addiction, 3. Mental Health) within the limits of funding available and encourage the community to seek to help themselves whilst tackling the most significant demand pressure areas	Mis-alignment between the needs of the community and Council services. Reputational damage. Increasing levels of crime. Health inequalities. With an aging population (and potentially more people with dementia) leading to increasing need for support or long term stay in hospital. Shortened life expectancy for residents. Health inequalities. Increasing levels of homelessness for those with alcohol/drug problems or MH issues.	Strategic Director of Community and Wellbeing / Strategic Director of Children's Services	6	3	18	Review and redesign of services. Commissioning Activity. Partnership working.	KPIs around crime including domestic violence are ragged red as at May 2017.	5	2	10	↔	None		

ID1	Link to Brent 2020	Link to Borough Plan	Risk Description	Potential Impacts	Owner	Raw ri	Raw li	Raw Risk Sc	Controls	Assurance	Net risk	Net like	Net risk scor	Movement Indicator	Further Actions	Deadline	Responsible
SR5	Raising income – to support the delivery of core services.	All Three Priorities: Better Lives, Better Place and Better Locally	We are unable to <b>maximise the opportunities for generating income</b> in future years.	Inability to support the Council's long term objectives. Service reductions and quality. Only statutory services provided to residents (discretionary and other services cut). Increased burden on council tax payers to pay additional precepts to fund certain services (e.g. social care). Increase in burden on local businesses ( increase in business rates)	Strategic Director of Resources	4	4	16	Dedicated resources focused on income generation opportunities. Medium Term Financial Strategy. Invest to Save programme.	Financial reporting. Audit. Performance reports from Economic Development. External Funding obtained.	3	2	6	↔	None		
SR6	All priorities	All Three Priorities: Better Lives, Better Place and Better Locally	The Council does not respond efficiently or effectively to <b>changes in political and legislative environment</b> and / or fails to meet existing statutory responsibilities	The failure to understand or be aware of the impact of new legislation leave the Council unable to adapt or foresee the impact on service provision. Inability to demonstrate good governance.	CMT	6	4	24	Code of Corporate Governance, Statutory Officers, Constitution & Scheme of Delegation. Legal Services. Roles require qualifications / Membership of Professional Body	OFSTED, CQC, Pensions, Audit. Corporate Governance Group. Annual Governance Statement.	5	3	15	↔			
SR7	All priorities	All Three Priorities: Better Lives, Better Place and Better Locally	The Council does not have the required <b>culture, expertise, technology or skills</b> to meet the future challenges the organisation faces.	Changing jobs market means that the Council is facing increased competition for the best skilled staff compounded by difficulties in recruiting in some areas. Loss of experienced staff and expertise in some areas. Reduction in service quality; reduced ability to develop / implement new initiatives; inability to meet its commitments.	Chief Executive	4	6	24	Governance Framework. Recruitment and retention policy and procedures. Talent Management Strategy. Shared Service arrangements. Flexible working and technology to support.	Service reporting to CMT. Audit. Staff Survey.	4	5	20	↔	Launch Workforce Strategy. Brent IT Strategy.		Director of Legal and HR Services
SR8	All priorities	All Three Priorities: Better Lives, Better Place and Better Locally	The Council expands its provision of services in the <b>commercial market or changes delivery models, forms partnerships</b> without due diligence to ensure the Council's objectives are not compromised.	Reputational damage, reduced outcomes for Brent residents, non compliance with legislation, service continuity is impaired.	CMT	5	3	15	Strategic Boards, Programme Management Discipline. Where shared services or companies set up with must be with clear and accountable governance structures and articles of association	Member oversight through Cabinet, Scrutiny and shared services committee, CMT oversight, Audit Committee, Audit programme, SLA - Service Performance Reports.	4	2	8	↔	All Directors to receive Company Director Training. To be regularly re run for all new Directors		Director Performance, Policy and Partnerships and Head of Transformation
i4B 1			The appeals court cannot distinguish between i4B as a private sector landlord and the council as a landlord	The i4B business model is based on the wholly owned council company being a private landlord. The company must retain its autonomy in granting and ending of tenancies. As a private landlord, the company will use its assured shorthold tenancy as the primary tenancy offered to tenants. The Directors must retain at the forefront of their minds the requirement to 'act in the interest of the company'. The council as shareholder and funder must act in accordance with these roles. The potential consequences of this risk materialising is the company is seen to be one and the same as the council and therefore required to act in accordance with legislation relevant to a council landlords. The risk is that the company would have to provide the same rights as those which apply to secure council tenants and set rents in accordance with legislation and guidance as applies to councils.	Brent Council	3	5	15	The company will use its assured shorthold tenancy agreement when letting PRS properties. Licences and other forms of tenancy terms will be exceptional. The company will make all decisions in relation to granting and ending tenancies and may delegate some responsibility to its management agents through approval of procedural documents. The management agents will act in the name of the company when progressing legal/court action. The Board will approve court action which could result in a tenant losing their home. i4B's logo will be used on its literature although management agents will also use their own brand when communicating with tenants. The Board, council Members and Senior officers will be briefed on the positive contribution i4B can make towards achieving the council's objectives, and on the role of the Board of Directors and the Role of the Shareholder. i4B will work with Brent council's press office to ensure press releases avoid inappropriate descriptions.								



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# ***Internal Audit Report 2017/2018***

## **Fraud Risk Review**

***I4B Holdings Ltd***

*31 May 2018*

*Final draft*

**Page 49**

Click to launch



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## Appendices

- A. Basis of our classifications
- B. Limitations and responsibilities

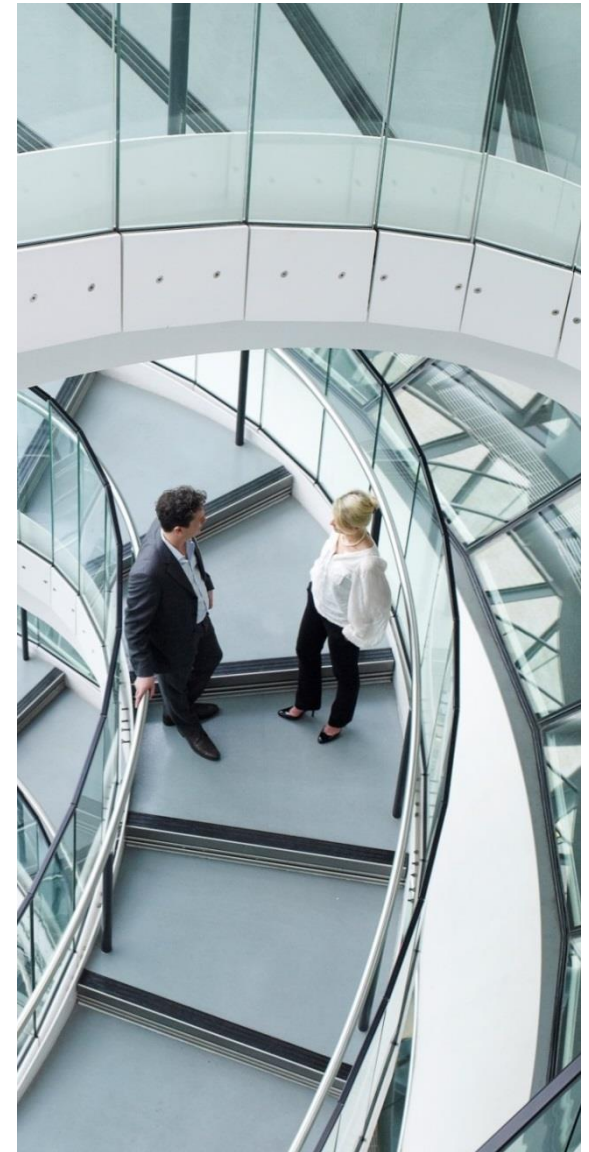
### Distribution list

#### For action:

Martin Smith, I4B Board Chair  
Chris Brown, Programme Manager (i4B Holdings Ltd)  
Sadie East, Head of Transformation (Brent Council)  
Paul Keegan, Interim Head of Commercial Finance (Brent Council)

#### For information:

Councillor George Crane, Director (I4B Holdings Ltd)  
Peter Gadson, Director (I4B Holdings Ltd)  
Gail Tolley, Director (I4B Holdings Ltd)  
Michael Bradley, Head of Internal Audit (Brent Council)  
Aina Uduehi, Audit Manager (Brent Council)  
Michael Cassel - Investigations Manager (Brent Council)





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## ***Executive summary (1 of 2)***

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### ***Introduction***

I4B is a wholly owned subsidiary of Brent Council, incorporated in December 2016. It has been set up to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes. Over the past 12 months Brent Council has purchased a number of residential properties and are in the process of transferring these to I4B. Moving forward I4B will purchase properties directly in order to expand its portfolio.

These activities create inherent internal and external fraud risks for I4B, particularly when large value payments are to be made to purchase properties and external parties are to be engaged to source and manage properties. Fraudulent activity could result in financial losses and reputational damage to I4B. It is therefore important for I4B to take a proactive approach to identifying, assessing and responding to fraud risks and ensure that there are robustly designed controls in place to treat these risks in accordance with risk appetite.

The purpose of this review was to identify through a workshop the key inherent fraud risks facing I4B from internal and external sources based on its current and planned business activities, along with a consideration of the key controls in place that would treat these risks and suggestions for next steps. This will enable management to understand the key fraud risk they face and consequently assess whether controls are appropriately designed and fit-for-purpose in advance of I4B expanding its portfolio and the level of its operations.

### ***Fraud risk workshop***

A fraud risk workshop was delivered on 12 April 2018 to I4B. This was attended by:

- James Cook - Head of Commercial Finance (Brent Council)
- Chris Brown - Programme Manager (i4B Holdings Ltd)
- Sadie East – Head of Transformation (Brent Council)
- Peter Gadsdon - Director of Performance, Policy and Partnerships (Brent Council)
- Michael Cassel - Investigations Manager (Brent Council)
- Charlotte Moore - National Management Trainee (Brent Council)

During the workshop, a facilitated discussion was held on the current and future fraud risks facing I4B, which all attendees contributed to. Controls in relation to current fraud risks were also discussed.

## Executive summary (2 of 2)

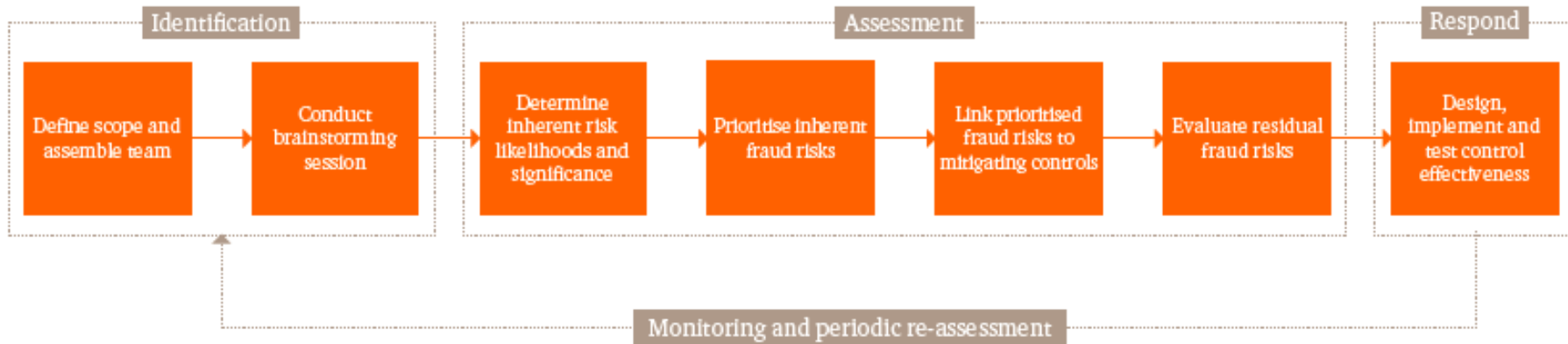
### Fraud risk identification

A listing of the fraud risks identified and discussed during the workshop are set out on the following pages. These are grouped by:

- Fraud risks arising from current business activities, i.e. purchase of built properties, rental of properties to tenants nominated by the Council, and property management. Potential mitigating controls are also captured based on information provided by delegates at the workshop. No assessment has been performed by audit to confirm that the controls are in place and operating effectively, or whether they are adequate to mitigate the stated fraud risks
- Fraud risks arising from future business activities as set out in the current I4B business plan, i.e. strategic investments, purchase of land, and joint venture partnerships to develop properties.

### Next steps

The identified fraud risks identified during the workshop are designed to form an initial starting point for I4B to understand their fraud risk profile. It is important that I4B take this forward and adopt a pro-active approach in managing the fraud risks that they face to minimise the risk of financial and reputational losses going forward. This can be achieved by developing and embed an ongoing fraud risk assessment process. A fraud risk assessment allows organisations to obtain an overall view of all the fraud risks that they face and assess, based on actual controls, whether residual risks are consistent with the organisation’s risk appetite. A suggested framework is set out in the diagram below. In addition, it is important that I4B have in place a set of fraud and ethics policies to set the tone at the top, such as a counter fraud policy, a fraud response plan, code of conduct for board members, and a whistleblowing policy. Either equivalent Council policies could be adopted, or I4B could develop their own, though the former is likely to be more appropriate given the current entity size.



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## ***Background and scope***

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### ***Background***

I4B is a wholly owned subsidiary of Brent Council, incorporated in December 2016. It has been set up to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes.

Brent has one of the highest numbers of households in temporary accommodation in England, with at least 2,895 households living in temporary accommodation. In response to this challenge on 14 March 2016, Cabinet approved the council's Temporary Accommodation Reform Plan. One of the main measures outlined in the Plan is for Brent to acquire a large portfolio of Private Rented Sector (PRS) accommodation, which would be professionally managed by external agencies with costs protected against rental inflation.

As a wholly owned, Local Authority Company, I4B has been setup to operate at 'arm's length' from Brent, with the remit of providing affordable Private Rented Accommodation to households for which Brent has a responsibility. I4B is governed by a Board which is chaired by an independent voting Director in addition to a Councillor, the Brent Council Strategic Director of Community Wellbeing, and the Brent Council Director of Policy, Partnerships, and Performance. I4B is operating in accordance with a business plan approved in November 2016. Whilst I4B itself has no direct staff, it purchases a range of services from Brent Council under an SLA and can purchase a range of other services as may be required to deliver the business plan.

Over the past 12 months Brent Council has purchased a number of residential properties and are in the process of transferring these to I4B. Moving forward I4B will purchase properties directly in order to expand its portfolio.

These activities create inherent internal and external fraud risks for I4B, particularly when large value payments are to be made to purchase properties and external parties are to be engaged to source identifying and manage properties. Fraudulent activity could result in financial losses and reputational damage to I4B. It is therefore important for I4B to take a pro-active approach to, assessing and responding to fraud risks and ensure that there are robustly designed controls in place to treat these risks in accordance with risk appetite.

The purpose of this review was therefore to identify through a workshop the key inherent fraud risks facing I4B from internal and external sources based on its current and planned business activities, along with a consideration of the key controls in place that would treat these risks and suggestions for next steps. This will enable management to understand the key fraud risk they face and consequently assess whether controls are appropriately designed and fit-for-purpose in advance of I4B expanding its portfolio and the level of its operations.

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## ***Background and scope continued***

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### ***Scope and approach***

In order to perform the review we will facilitate a workshop with management (key contacts set out below) in order to:

- Identify the key inherent fraud risks that I4B are likely to face based on their current business plan. This will be based on current fraud trends impacting on organisations of a similar nature to I4B and local government in general, along with the views of the attendees.
- Identify key controls for mitigating the identified risk (this may include follow up contact with process owners to obtain an accurate and holistic view)

The outputs will be used to produce a summary report, which will contain:

- A summary and analysis of the key risks and controls identified
- A suggested framework for managing fraud risks through a fraud risk assessment strategy

### ***Limitations of scope***

Our work will be limited to the scope outlined in the table above.

We will not be testing operative effectiveness of any controls in place to prevent or detect fraud, and so will therefore not be providing assurance over these.

Our scope will not include designing a likelihood and impact scoring mechanism or defining fraud risk appetite for I4B. Therefore, identified risks will not be scored or ranked, nor will risk responses be recommended.

The identified risks are based on current fraud trends in the sector along with those identified by delegates at the workshop. It cannot be guaranteed that all fraud risks have been identified.

The controls captured in the table are based on information provided by delegates at the workshop. No assessment has been performed by audit to confirm that the controls are in place and operating effectively, or whether they are adequate to mitigate the stated fraud risks.

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## Fraud risks arising from current business activities (1 of 3)

Area/process	Fraud risks	Controls – initial assessment
Property purchases	<ul style="list-style-type: none"> <li>Collusion between staff/board members and estate agents in relation to finders fees and commissions</li> <li>Collusion between staff/board members and vendors to inflate purchase prices and share the additional amount</li> </ul>	<p>I4B purchase properties are sourced either by one of three external agents (who have gone through a Council procurement process and receive a fixed fee per property) or a Council team. The Council team may use estate agencies, however no fees are paid to them by the Council, which should eliminate the risk of manipulated finders fees.</p> <p>All properties must be approved by a Council/I4B panel, which takes into account a number of factors including market value. Perception that collusion between a vendor and Council staff would be difficult to detect if the purchase price was around market value.</p>
	<ul style="list-style-type: none"> <li>Staff making payments for fictitious property purchases to themselves</li> </ul>	<p>Payments for property purchases are processed by the Council through either:</p> <ul style="list-style-type: none"> <li>BACS – Authorised by a Council officer and processes to an existing supplier set up on the procure-to-pay system.</li> <li>CHAPS – Processed by Treasury as an online money transfer.</li> </ul> <p>Perception that BACS would be more difficult to manipulate, as there are additional controls in place around supplier set up and bank account amendments. However there could be an increased risk with CHAPS, as the lead purchaser would be responsible for instructing Treasury to process a one-off payment. The potential for invalid payments was reflected in a recent incident whereby a property purchase payment was processed in duplicate by the Council and was only detected through recipients (solicitors) informing the Council.</p> <p>This could represent an unmanaged risk for I4B and warrants further review of controls.</p>
Asset disposals	<ul style="list-style-type: none"> <li>Collusion between staff/ board members and buyers to dispose of properties at under market value</li> <li>Undeclared conflicts of interest between staff/board members and buyers</li> </ul>	<p>No properties have yet been disposed of by I4B and so process and controls are unclear. However the Council would be required to authorise any sale.</p>

## Fraud risks arising from current business activities (2 of 3)

Area/process	Fraud risks	Controls – initial assessment
Accounts Payable	<ul style="list-style-type: none"> <li>Set up of invalid/fictitious suppliers by staff for personal gain</li> <li>Invalid amendments to supplier bank details to divert payments, either by external parties making fraudulent requests or by staff making amendments for personal gain.</li> <li>Payments to third parties for goods/services not recieved</li> </ul>	<p>I4B has its own bank account independent of the Council. However the Council maintains the supplier master data and processes payments on behalf of I4B based on I4B's instruction. Payments from I4B's account are currently limited to:</p> <ul style="list-style-type: none"> <li>property purchase payments made to the relevant solicitors.</li> <li>low level payments made to two external property managing agents.</li> </ul> <p>Excluding high value payments for property purchases (see separate risk), the potential for payments fraud is currently low, however the risk is likely to increase in the future as business activities increase.</p>
Accounts Receivable	<ul style="list-style-type: none"> <li>Diversion of tenant rent payments by staff</li> <li>Collusion between tenants and staff to write off rent arrears.</li> <li>Deliberate overpayment of rent by tenants using proceeds of crime and then requesting a refund.</li> </ul>	<p>Management of the I4B's property portfolio is split across three parties; the Council, Mears and Pinnacle. I4B calculate the expected monthly rent income to be collected by each party based on the volume of properties and rates, and then reconcile against the actual amount received.</p> <p>It is understood that no arrears have yet been written off. However in practice this would need to be authorised by both I4B and the Council.</p> <p>Management of the I4B's property portfolio is split across three parties; the Council, Mears and Pinnacle, who each operate policies in relation to overpayments and rent refunds.</p>

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## Fraud risks arising from current business activities (3 of 3)

Area/process	Fraud risks	Controls – initial assessment
Rental/voids	<ul style="list-style-type: none"> <li>Subletting of properties by tenants</li> </ul>	<p>Management of I4B’s property portfolio is split across three parties; the Council, Mears and Pinnacle. Each of these parties conduct periodic tenancy audit visits for the properties which they manage to confirm the identity of those residing in the property.</p>
	<ul style="list-style-type: none"> <li>Letting of properties by Council or maintenance staff for personal gain during a void period.</li> </ul>	<p>It is understood that no voids have occurred in relation to I4B properties as of yet and so formal controls have not yet been developed by I4B. It was perceived that void properties would be monitored by the Council teams and that it is unlikely a long term sublet could occur. However the risk is more pertinent for short term voids during a maintenance period, as repairs staff would have control of the keys and could theoretically sublet through a portal such as AirBNB.</p> <p>This could represent an unmanaged risk for I4B and warrants further review of controls.</p>
Property maintenance	<ul style="list-style-type: none"> <li>Repairs/maintenance/major works – overcharging or charging for fictitious works</li> </ul>	<p>Management of I4B’s property portfolio is split across three parties; the Council, Mears and Pinnacle. Each of these parties are responsible for arranging repairs, however the Council is responsible for ensuring that works have been performed through inspections and obtaining tenant confirmation.</p>

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## ***Fraud risks arising from future business activities (1 of 1)***

<b>Area/process</b>	<b>Fraud risks</b>
Land acquisitions	<ul style="list-style-type: none"><li>• Collusion between staff/board members/agents and vendors to inflate purchase prices and share the additional amount.</li><li>• False representation by vendors in relation to land ownership or suitability for development</li></ul>
Strategic investments	<ul style="list-style-type: none"><li>• Organisations misrepresenting their financial viability/performance to make them more attractive as an acquisition</li></ul>
Joint Venture Partnerships	<ul style="list-style-type: none"><li>• Contractor inflating or falsifying development costs, resulting in I4B's portion of expenditure being increased</li></ul>
Board ethical conduct	<ul style="list-style-type: none"><li>• Falsification of financial position by I4B to secure additional Council funding</li><li>• Nepotism in recruitment and procurement processes, including bribery</li><li>• Invalid or overly ostentatious expenses, for example for entertainment purposes</li><li>• Facilitation of income tax avoidance</li></ul>



## Current year findings (1 of 1)

### Fraud risk assessment

Control design and operating effectiveness

1

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#### Finding rating

Rating

Medium

#### Finding and root cause

I4B's current and future proposed business activities as set out in their business plan create inherent internal and external fraud risks for the organisation. Fraudulent activity could result in financial losses and reputational damage to I4B. It is therefore important for I4B to take a pro-active approach to identifying, assessing and responding to fraud risks and ensure that there are robustly designed controls in place to treat these risks in accordance with risk appetite. A fraud risk assessment allows organisations to obtain an overall view of all the fraud risks that they face and assess, based on actual controls, whether residual risks are consistent with the organisation's risk appetite. This has not yet been developed and embedded by I4B.

#### Risk

I4B may not have a holistic overview of the key fraud risks that they are facing or are likely to face in the future, resulting in losses to fraud as a result of risks not being appropriately treated.

#### Recommendations

I4B should use the findings from the fraud risk workshop to perform a fraud risk assessment. This should capture the key fraud risks and include an assessment of mitigating controls so that residual risks are understood. Given that I4B's business activities are likely to expand in the future as per their business plan, the fraud risk assessment should be refreshed at least bi-annually.

I4B should also ensure that they have in place a set of fraud and ethics policies to set the tone at the top, such as a counter fraud policy, a fraud response plan, code of conduct for board members, and a whistleblowing policy. Either the Council's policies could be adopted, or I4B could develop their own.

## Current year findings (1 of 1 continued)

### Fraud risk assessment

Control design and operating effectiveness

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#### Management responses

*Accepted.*

*The company will undertake an anti-fraud risk workshop. This will be done following the anti-fraud measures audit planned for First Wave Housing (as agreed at the First Wave board meeting on 21 March 2018) in order that work can be aligned on fraud risk across both companies.*

*i4B will review Brent Council's fraud and ethic policies with the aim of adopting these for i4B and will add an additional clause to the SLA agreement when it is next updated to strengthen the company's overview of fraud risks.*

#### Responsible person/title:

Martin Smith, I4B Board Chair

#### Target date:

1 September 2018

#### Reference number:

1718FRA-1

#### Finding rating

Rating

Medium

## Appendix A: Basis of our classifications

### Individual finding ratings

#### Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability.

#### High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

#### Medium

A finding that could have a:

- **Moderate** impact on operational; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

## Appendix A: Basis of our classifications

### Individual finding ratings

#### Low

A finding that could have a:

- **Minor** impact on the organisation's operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

---

#### Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

## Appendix B: Limitations and responsibilities

### Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

#### Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

#### Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

### Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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Ref.	Recommendation	Draft Response	Owner	Status/Target Date	Update on Actions taken	
A1	Policies – Completeness and maintenance Control design and Operating effectiveness	a. Consider the need for the policies listed in the Shareholder's Agreement, and either produce policies in these areas or amend the shareholders' agreement as required.	a)Accepted - the board will review the list of policies set out in the shareholder agreement and agree any additional policies which are required. The Shareholder agreement will be updated to reflect any changes.	Sadie East	May-18	03 July - Company policies have been reviewed and a number of minor alterations made. Policies will be resubmitted to a representative from the board for approval and then distributed to Service Areas Leads and i4B commissioned services
		b. Introduce a consistent approach to the review of policy documentation including the frequency of review, responsibility for review, and approach to ensuring version control.	b)Accepted - Policies will be reviewed annually by the board.	Sadie East	Complete	All company policies will be reviewed annually
		c. Undertake a review of all policies in order to ensure that the content remains applicable now that I4B is operational.	c)Accepted - All policies will be reviewed as part of the exercise above and then reviewed annually.	Sadie East	Complete	All company policies will be reviewed annually
A2	Ongoing review of the SLA - Control design	A procedure for ongoing review of the effectiveness of the SLA should be introduced whereby the SLA is reviewed by a specified individual on at least an annual basis. This review should include: Whether the council is providing services to I4B in the most effective and efficient way possible, including performance against a series of KPIs; Whether the council remains the most effective Service Provider for the listed services; and Whether, given changes in the nature of I4B's business, any services should be added to the SLA	Accepted - A number of measures are being put in place to monitor delivery of the SLA including a regular meeting of all service leads. A regular report will be provided to the i4B Board on delivery of the SLA including any issues and actions in place to address these as part of the regular performance monitoring reports. In addition, an annual report based on a review performance against the SLA will be presented to the board to inform decisions on future arrangements.	Sadie East	Complete	The SLA is monitored at monthly meetings between service leads and i4B. A monthly report from these meetings is provided to the board.  The board receive monthly performance updates on performance against the SLA.
A3	Risk Management - Control design	a. I4B should create a Risk Management Framework that clearly depicts: The organisation's approach to risk management; The organisation's risk appetite; The approach to documenting and recording risk on the risk register; Responsibilities in relation to the management and identification of risk; The mechanism for scoring of risks; Responsibilities for maintaining and updating the register; The mechanism for gaining assurance over the operating effectiveness of the mitigations; and The involvement of the Board in risk management and review of the risk register.	a)Accepted - The board will consider a proposal to create a risk framework and will consider the relative scores of the new risk assessment.	Chris Brown	Nov-18	Ongoing
		b. As part of the approach to monitoring and managing risk, the risk register should become a stand alone document that is treated as live.	b)Accepted - the risk register will be produced as a separate document and the board will review the risk register no less than every quarter.	Chris Brown	Complete	Risk register has been created as a stand alone register. Was reviewed by i4B management team in April-18 and an update will be submitted to May board meeting
		c. The risk register should be reviewed to ensure that operational risks are incorporated to the extent that they are applicable.	c)Accepted - the board agreed an updated risk register at its January 2018 meeting which includes additional operational risks.	Chris Brown	Complete	Company Risk Register has been created
		d. Mitigation strategies should be reviewed to ensure they are reflective of controls that have been put in place to prevent the risk from occurring, where no such controls exist management should consider implementing new mitigations.	d)Accepted - the board will review the risk register no less than every quarter.	Chris Brown	Complete	Risk register reviewed and approved at June Board meeting
		e. All risks should be given individual responsible owners who are responsible for monitoring and managing the risk.	e)Accepted - the board will consider who the holder of each risk in the register should be.	Chris Brown	Complete	Risk register reviewed and approved at June Board meeting
		f. Risk should be an at least quarterly Board agenda item, as part of which the Board should review key risks, be provided with an update in relation to notable movements on the register and be provided with assurances that key mitigations are operating. This may be in the form of an update report rather than review of the full register.	f)Accepted - the board will review the risk register no less than every quarter.	Chris Brown	Complete	Company risk register is reviewed quarterly
A4	Code of Conduct - Control design	I4B should introduce a Director's Code of Conduct that is signed by all Directors and includes but is not limited to: The obligations, key roles and duties of Board membership and how these relate to I4B's mission; The ethical values and expectations of the organisation; and The approach to maintaining and ensuring adherence with the Code of Conduct.	Accepted - a code of conduct will be produced to be considered by the Board and Shareholder.	Sadie East	Jul-18	The Director's Code of Conduct was considered at the June Board meeting and will be submitted to the Shareholder for approval and will be signed by all company directors
A5	Escalation Policy - Control design	I4B should introduce a formal escalation policy that clearly defines reporting lines, the process for escalation and indicative thresholds and examples for escalation so as to ensure that reporting is consistent and appropriate.	Accepted – i4B will documents its current escalation policy to the Board. It has put in place a monthly meeting with Council Heads of Service to monitor delivery of the SLA which will provide a mechanism for issues to be escalated and will consider what other measures it needs to put in place as the company's work develops.	Sadie East	Jul-18	The escalation policy was considered at the June board meeting, minor alterations have been made and the policy has been resubmitted to the board for approval
A6	Scheme of delegation - Operating effectiveness	The scheme of delegation should become a stand alone document that is maintained for necessary staff changes and periodically reviewed to ensure it remains appropriate and up-to-date.	Accepted - the scheme of delegation will be established as a stand alone document and reviewed by the board no less than annually.	Sadie East	Complete	The Scheme of Delegation was approved at the June Board meeting and will be reviewed annually
A7	Recognition of income and expenditure – Financial procedures - Operating effectiveness	Financial procedures should be clearly mapped depicting the process for recognising the activities of I4B and in particular the approach for recognition of expenditure under the SLA with the Council.	Accepted - a full set of financial policies and guidance notes for i4B will be produced and approved by the board.	Olga Bennet	Jun-18	There has been a delay in the completion of the financial policies following the departure of the commercial head of finance. There is a new head of finance in post and a stock taking exercise is currently underway.
A8	Financial standing orders - Control design	When I4B makes transactions through its own bank accounts and/or ledgers, Financial Standing Orders will become relevant. Whilst some of the Council's financial procedures may remain relevant under the SLA, it is important that I4B considers which of these policies remain relevant, and where its own policies in this regard may be more suitable. In particular, management should give consideration to and create I4B's own Financial Standing Orders at this point in order to ensure cash, payments and receipts are adequately managed.	Accepted - a full set of financial policies and guidance notes for i4B will be produced and approved by the board.	Olga Bennet	Jun-18	There has been a delay in the completion of the financial policies following the departure of the commercial head of finance. There is a new head of finance in post and a stock taking exercise is currently underway.
A9	Revenue monitoring - Control design	Management should continue to develop the revenue tracker, ensuring that this provides sufficient detail of rental income due and receipts collected. Management should also agree with the Board the extent to which this information is to be periodically reported to the Board so as to ensure the Board has sufficient oversight.	Accepted - a revised financial monitoring model and timetable will be developed and agreed with the board and will include the tracking of rents due and received as well as costs.	James Cook	Complete	A new financial model and timetable was agreed at the February board meeting.

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Ref.	Recommendation	Draft Response	Owner	Status/Target Date	Update on Action Taken	
B1	Distinguishing objectives and implementing an approach for measuring the intended benefits Control design	It is recommended that management ensure that there is a clear distinction between what are the goals of I4B and what are the goals of the Council such that I4B. Once distinguished management should ensure there is a clear approach against which the overall success of the organisation in delivering against its primary objective can be measured and reviewed on a periodic basis.	Partially accepted - This is a joint responsibility on i4B and the Council. i4B has been set up to support and deliver housing and regeneration benefits to the council. i4B's first business is as a PRS landlord tasked with providing quality accommodation for the Council to nominate homeless customers. i4B is able to quantify the number of properties let to nominated customers and will be able to evidence quality through customer surveys and KPI performance. However, the council has a greater awareness of the benefits of each nomination both in financial and quality of life measurement. i4B has approached the council's housing needs service to work jointly to better evidence benefits. As i4B propose new products it will endeavour to agree with the shareholder the most appropriate measurement for success.	Sadie East	Sep-18	Ongoing
B2	Non-Financial KPIs - Control design	Management should ensure that going forward the newly defined KPIs included in the draft business plan that is to be approved at the January Board meeting are monitored to the Board at each monthly meeting.	a)Accepted - The Board has agreed the new KPIs and will receive reports on performance at every Board meeting.	Chris Brown	Completed	KPIs were approved by the Board and the Board continues to receive monthly performance reports
		All KPIs both financial and non-financial should have quantifiable targets and where I4B is not meeting the targets, explanations should be sought for the cause of the shortcoming and action plans implemented where necessary to address any performance issues identified.	b)Accepted - Targets will be set for the KPIs and performance monitored by the board. Any issues will be highlighted and addressed.	Chris Brown/James Cook	Completed	KPIs were approved by the Board and the Board continues to receive monthly performance reports
B3	PRS project tracker - Control design	Management should examine the possibility of using a system based approach to manage and maintain this information. However, if an appropriate system based approach is not considered the most efficient approach then management should seek to incorporate data validation checks either embedded within the spreadsheet or as review checks to be undertaken as part of the process of updating the PRS tracker in order to give assurance over the accuracy and completeness of data.	Accepted - The Company and the Shareholder are considering systems able to improve data collection, accuracy and transparency. A process mapping workshop took place on 29 January 2018 which contributed to developing requirements for a system.	Chris Brown	Nov-18	There is ongoing work to create a Microsoft Dynamics case management system for i4B properties and processes. This will improve Brent Council processes and introduce clearer measuring periods for the companies KPIs. The expected go live date of phase one is September 2018.
B4	Overall purpose of company - Control design	Management should ensure that purpose of the company is clearly defined with the priority of the company's goals and how they interact with each other clearly laid out in the business plan such that the intended benefits of I4B's existence are clear.	Accepted - This will be reflected in i4B's new and future business plans. As i4B proposes new products it will endeavour to agree with the shareholder the most appropriate measurement for success.	Sadie East	Completed	
B5	Monitoring the proportion of LHA rents - Control design	Management should ensure that the proportion of properties let in excess of LHA rates is monitored and reported to the Board in order to inform future decisions regarding purchasing and tenancy types.	Accepted - This has been added to the suite of KPI indicators as KPI 34	Chris Brown	Completed	
B6	Succession Planning - Control design	Management should create guidance documents for how key performance metrics from the PRS project tracker are collated and how the feedback is communicated to senior stakeholders and the board.	Accepted - resources will be identified to provide this guidance	Chris Brown	Aug-18	Ongoing

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Ref.	Recommendation	Draft Response	Owner	Status/Target Date	Update
C1	I4B should use the findings from the fraud risk workshop to perform a fraud risk assessment. This should capture the key fraud risks and include an assessment of mitigating controls so that residual risks are understood. Given that I4B's business activities are likely to expand in the future as per their business plan, the fraud risk assessment should be refreshed at least bi-annually.	The company will undertake an anti-fraud risk workshop. This will be done following the anti-fraud measures audit planned for First Wave Housing (as agreed at the First Wave board meeting on 21 March 2018) in order that work can be aligned on fraud risk across both companies.	Sadie	Sep-18	
C2	I4B should also ensure that they have in place a set of fraud and ethics policies to set the tone at the top, such as a counter fraud policy, a fraud response plan, code of conduct for board members, and a whistleblowing policy. Either the Council's policies could be adopted, or I4B could develop their own.	i4B will review Brent Council's fraud and ethic policies with the aim of adopting these for i4B and will add an additional clause to the SLA agreement when it is next updated to strengthen the company's overview of fraud risks.	Sadie	Sep-18	

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*First Wave Housing  
Limited*  
Report to the  
Directors

*Year ended  
31 March 2018*

***Strictly private and  
confidential***





The Directors  
First Wave Housing Limited  
Brent Civic Centre  
Engineers Way  
Wembley  
Middlesex  
HA9 0FJ

6 July 2018

Dear Sirs

We are pleased to enclose our report to the Directors in respect of our audit of the financial statements for the year ended 31 March 2018.

The primary purpose of this report is to communicate the significant findings arising from our audit to date that are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our Audit Plan, which we submitted to the Directors on 9 May 2018.

We have subsequently reviewed our Audit Plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in the section "Audit approach".

We are in the process of completing our audit work and will update you as to its status as work progresses.

If you have any questions regarding matters in this document please contact Andy Lowe ([andy.a.lowe@pwc.com](mailto:andy.a.lowe@pwc.com)) on 07720 555415 or Hannah Parker on 07706 284727.

Yours sincerely

Andy Lowe  
For and on behalf of PricewaterhouseCoopers LLP

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*Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.*

# *Introduction*

## **Purpose of this report**

We set out in this report our significant findings, to date, from our audit of First Wave Housing Limited ('FWH' or the 'Company') financial statements for 2017/2018, together with those matters which auditing standards require us to report to you as 'those charged with governance' of the Company.

We carried out our audit work in line with our 2017/18 Audit Plan that was submitted to you on 9 May 2018. This report details the main conclusions and matters arising from our audit work to date. We would also refer you to our engagement letter dated 2 May 2018.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

## **Status**

We have completed the majority of our audit work. The key outstanding matters, where our work has commenced but is not yet finalised, are:

- Review of revised draft financial statements (and the full Annual Report) following our initial detailed comments relating to compliance with FRS 102 and other general presentation matters;
- Review for subsequent events; and
- Finalisation procedures including receipt of the signed annual report and financial statements and letter of representation.

We will inform the Directors if any other key matters arise as we finalise our work.

## **Key reporting matters**

We have worked closely with management throughout the year to ensure that, as far as possible, all potential issues have been identified and resolved prior to the year end.

There are two key reporting matters to bring to you attention.

### **Going concern**

The Directors of the Company must be comfortable that there is sufficient evidence available to them that FWH will continue to be a 'going concern' for at least twelve months from the date the financial statements are approved and signed. This going concern status relates not only to the preparation of the financial statements for the 2017/2018 accounting period but also, from an operational perspective, going forward.

At the date of this report, the Council have resolved to continue with FWH as a housing stock holding vehicle for the foreseeable future with reduced operations, and thus we have concluded that the going concern position is appropriate for the 2017/2018 financial year.

However, the situation will need to be carefully monitored in future reporting periods for any further developments in the Council's plans.



### **Pension transfer**

The London Borough of Brent ('LBB' or the 'Council') decided to terminate the Management Agreement with FWH, with effect from 30 September 2017; but decided that the Company should continue in its own right as First Wave Housing Limited.

All FWH staff have transferred back to LBB under Transfer of Undertakings (TUPE) regulations. This means that the pension scheme deficit (excess of liabilities over assets) that previously existed (£18.5m in 2016/2017) no longer fall on the Company; and has been transferred back to LBB.

Even though the pension liability had transferred to LBB by the balance sheet (31/3/2018) date, there have still been material impacts on the FWH financial statements for this accounting period (1/4/17 to 30/9/17).

These are:

1. The income statement charge in relation to movements in the pension account – such as current service cost, interest cost, expected return on plan assets – for the period 01/04/17 to 30/09/17; and
2. The treatment of the difference between the pension liability and the pension reserve at the date of transition (30/09/17). This difference has been transferred to the revenue reserve (£2.97m).

We therefore requested that FWH obtain an actuarial valuation as at 30 September 2017. Hymans Robertson LLP has prepared this valuation for accounting purposes. Our internal PwC pension specialists have reviewed this, including assessing the reasonableness of the assumptions used. No issues were noted in this review.

### **Acknowledgements**

We would like to thank Ian Rooney and Paul Keegan, alongside the wider finance department, for the help and assistance provided to us during the course of our audit.

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# ***Audit approach***

## **Response to our risk assessment**

We raised a number of risks in our Audit Plan where we detailed work we would be carrying out as part of our audit procedures.

We performed procedures at the year end to address each of these risks and assess whether the financial statements are free from material misstatement.

We provide an update of the work performed below. Risks are categorised as follows:

- 
- |                      |  |
|----------------------|--|
| ● <i>Significant</i> | Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.                     |
| ● <i>Elevated</i>    | Although not considered significant, the nature of the balance/area requires specific consideration.   |
| ● <i>Normal</i>      | We perform standard audit procedures to address normal risks in all other material financial statement line items (these other risks are not detailed in this report). |
-

Risk	Significant / elevated risk	Reason for risk identification	Audit response
<p><b>Significant risk</b> Risk of management override of controls</p>	<p>●</p>	<p>ISA (UK) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p>	<p>We reviewed the appropriateness of manual journals processed during the year and targeted our testing on a risk basis, specifically:</p> <ul style="list-style-type: none"> <li>• Journals containing specific words;</li> <li>• Material journals;</li> <li>• Round sum journals;</li> <li>• Journals posted at the weekend;</li> <li>• Journals posted during the financial statement preparation period; and</li> <li>• Automated journals</li> </ul> <p>We reviewed and challenged key assumptions and judgments made by management in producing the financial statements including:</p> <ul style="list-style-type: none"> <li>• Those relating to the assumptions of the actuary in the context of the pensions provision;</li> <li>• Provisions made for doubtful debts;</li> <li>• Assumptions made in the valuation and impairment of properties (see work performed over elevated risk below); and</li> <li>• Accruals for expenses incurred but not invoiced.</li> </ul> <p>We have also performed cut-off testing post year end for revenue, expenditure and credit note review.</p> <p><b>We note that management have updated their methodology in regards to the provision for doubtful accounts.</b></p> <p><u>Provisions for doubtful debts less than one year in arrears</u></p> <p>The following point was raised in prior years. Although the provision for doubtful debt is not specifically a significant risk to the financial statements, as a provision it carries an inherent risk of manipulation. As such it has been subject to challenge by audit.</p> <p>The previous policy was to provide in full for:</p> <ul style="list-style-type: none"> <li>• Rentals outstanding from all ‘former’ tenants; and</li> <li>• Rentals overdue by a year from ‘current’ tenants.</li> </ul>

			<p>We recommended that management monitor, on a regular basis, the adequacy of the provision policy (in accordance with FRS102); based on historical data of debt write-offs within FWH. In particular, we challenged management as to whether amounts outstanding between 3 and 12 months should be provided for.</p> <p>In 2017/2018 management have updated their bad debt provision to bring this in line with the methodology used by the London Borough of Brent. The new policy is to provide for:</p> <ul style="list-style-type: none"> <li>• 100% of rentals outstanding from all ‘former’ tenants;</li> <li>• 100% of rentals overdue &gt;1 year from ‘current’ tenants;</li> <li>• 60% of rentals overdue 6-12 months from ‘current’ tenants;</li> <li>• 30% of rentals overdue 3-6 months from ‘current’ tenants; and</li> <li>• 15% of rentals overdue 0-3 month from ‘current’ tenants.</li> </ul> <p>The outstanding rent profile as at 31 March 2018 is as follows:</p> <table border="1" data-bbox="1227 794 2056 1018"> <tr> <td>Rent due from former tenants</td> <td>£165k (£165k provided for)</td> </tr> <tr> <td>Rent due &gt;1 year from current tenants</td> <td>£112k (£112k provided for)</td> </tr> <tr> <td>Rent due 6-12 months current tenants</td> <td>£81k (£49k provided for)</td> </tr> <tr> <td>Rent due 3-6 months current tenants</td> <td>£75k (£48k provided for)</td> </tr> <tr> <td>Rent due 0-3 months current tenants</td> <td>£187k (£28k provided for)</td> </tr> </table> <p>We note that the new methodology is more prudent and is based on historical data of debt write-offs within the Council. The new methodology is also in line with the Council’s methodology.</p> <p><b>We have no other matters to report in this area.</b></p>	Rent due from former tenants	£165k (£165k provided for)	Rent due >1 year from current tenants	£112k (£112k provided for)	Rent due 6-12 months current tenants	£81k (£49k provided for)	Rent due 3-6 months current tenants	£75k (£48k provided for)	Rent due 0-3 months current tenants	£187k (£28k provided for)
Rent due from former tenants	£165k (£165k provided for)												
Rent due >1 year from current tenants	£112k (£112k provided for)												
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Rent due 3-6 months current tenants	£75k (£48k provided for)												
Rent due 0-3 months current tenants	£187k (£28k provided for)												
<p><b>Significant risk</b> Risk of fraud in revenue recognition</p>	<p>●</p>	<p>Under ISA (UK) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. The risk of fraud has been considered for each of the revenue streams recognised as follows:</p>	<p>We considered the accounting policies adopted by the Company and have tested income to the appropriate level in accordance with our audit procedures, designed to identify any material misstatement.</p>										

		<ul style="list-style-type: none"> <li>The majority of the Company’s revenue is received via the management fee with the Council. The Council pays the management fee on a monthly basis.</li> <li>In addition to the management fee, the Company generates revenue from other services including repairs administration, decent homes administration, and other charges to the Council and third parties.</li> </ul> <p>There is a risk that, for these revenue streams, the accounting policies the Company adopts, or the accounting treatment of the revenue transactions, may lead to revenue not being recognised in accordance with accounting standards.</p> <p>This is particularly relevant around year end in how management may manipulate the accounting policy for income recognition.</p>	<p>We also performed additional testing over:</p> <ul style="list-style-type: none"> <li>Income transactions posted to the ledger between the period 1 March 2018 and 30 April 2018; and</li> </ul> <p>We also reviewed income transactions recorded through the Company’s bank statement in April 2018.</p> <p><b>We have no matters to report in this area.</b></p>
<p><b>Significant risk</b> Going concern</p>	●	<p>There is ongoing uncertainty around the HRA and level of funding to be provided to local government in the future. The possibility of local authorities delivering the services currently provided by ALMOs with a view to reduce running costs is currently under consideration.</p> <p>We are aware that the Company is in regular dialogue with Brent Council about the future shape and structure of its business. Currently the Company is under a performance review assessment which will shape its future structure, scope and potentially existence as a separate entity from the Council.</p>	<p>We have obtained an update on the understanding of the going concern position of FWH at year end, through discussions with management and review of Brent Council documents. We have identified the following:</p> <ul style="list-style-type: none"> <li>The Council intend to keep FWH running as a housing stock holding vehicle for the foreseeable future, as currently it would be logistically inefficient to transfer the housing stock either back to the Council or to a third party; and</li> <li>The Council have guaranteed the debts of FWH in the letter of representation sent to PwC.</li> </ul> <p><b>We believe the going concern basis is appropriate and have no matters to report in this area.</b></p>
<p><b>Elevated risk</b> Valuation and impairment of property assets</p>	●	<p>The current economic environment continues to have a significant impact on the housing sector. Recent government policy changes in relation to housing sector funding and benefits also presents significant challenges to the current business model of housing associations. Specifically for FWH, there is a risk that the valuations for completed schemes such as the</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> <li>Obtained valuation data directly from FWH’s independent valuers (Jones Lang Lasalle) to confirm the accuracy and completeness of information presented in the financial statements;</li> <li>Inquired of management on impairment assessments; and</li> </ul>

		Settled Homes Initiative scheme may be less than the build cost, resulting in impairment charges.	<ul style="list-style-type: none"> <li>Performed reasonableness checks on the assumptions used by management in deriving the present value using discounted cash flow analysis; using our own in-house property valuation specialists to assist.</li> </ul> <p><b>We have no matters to report in this area.</b></p>
<b>Elevated risk</b> Component accounting	●	<p>It is a requirement of the Housing SORP that components of housing property assets should be accounted separately where the depreciation charge for separate components have a material impact on the financial statements. In the prior year, management’s assessment of the impact of component accounting on the financial statements was not material.</p> <p>Management will need to assess the impact of component accounting in the current year to ensure that there is no material impact to the financial statements.</p>	<p>The following procedure was performed:</p> <ul style="list-style-type: none"> <li>Reviewed management’s estimation of the cumulative impact of not applying component accounting and ensured that it is not material to the financial statements.</li> <li>Re-performed the calculation to confirm appropriateness of treatment.</li> </ul> <p><b>We have no matters to report in this area.</b></p>

# *Risk of fraud and independence*

## **Fraud**

International Standards on Auditing (UK) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

### *Auditors' responsibility*

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

We found in our work to date no instances of fraud to report to the Directors.

### *Management's responsibility*

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, attitudes and rationalisation.

### *Responsibility of the Directors*

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

## **Independence**

Our policy to ensure independence, integrity and objectivity of PwC and the audit team was set out in our Audit Plan. We have included below our independence assessment which confirms our independence in accordance with International Standard on Auditing (UK) 260 (Revised) "*Communication with those charged with governance*", UK Ethical Standard 1 (Revised) "*Integrity, objectivity and independence*" and UK Ethical Standard 5 (Revised) "*Non-audit services provided to audited entities*" issued by the UK Auditing Practices Board.

We have complied with APB Ethical Standards and, in our professional judgment, we are independent and our objectivity is not compromised. We have not identified any business or personal relationships between PwC and the Company that we consider to bear on our objectivity and independence as external auditors.

# *Internal financial controls*

## Summary of internal financial control deficiencies

Management are responsible for developing and implementing systems of internal financial control and to put in place appropriate arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements.

In accordance with ISA (UK) 265 we are required to communicate significant deficiencies in internal control to the Directors. These deficiencies were identified from our interim and year end procedures. We have also provided an update of issues raised in our prior year report in the table below.

***No new issues in connection with internal financial controls have been identified during the course of our work.***



## Update on prior year recommendations

We reviewed management’s implementation of recommendations made in our prior year report to the Directors in respect of 2016/2017.

We have summarised the response and provided our evaluation, based on the audit work we have undertaken in respect of internal controls this year.

<b>Finding</b>	<b>Recommendation</b>	<b>Audit Follow-up</b>	<b>Status</b>
<p><b>Bank account</b></p> <p>In reviewing our external bank confirmation received from RBS we noticed one bank account which did not have a corresponding general ledger account. Whilst this account had a nil balance, if money were to be paid into the account this would not be recorded in the ledger and not reconciled to the ledger.</p>	<p>We recommend that the bank account is set up with a general ledger account, or, as it is not an operational bank account, the account is closed immediately.</p>	<p><b>Not updated</b> – although the account continues to have a nil balance and was unused, the risk remains that any income or expenditure in this account would not be reconciled to the ledger as there is no dedicated TB code.</p>	<p><b>Open</b></p>
<p><b>Rent accounts receivable reconciliation</b></p> <p>We reviewed the rental accounts reconciliation as part of our testing over the rent receivable balance, and noted the following points:</p> <ul style="list-style-type: none"> <li>The reconciling items are not listed out which does not make it clear what reconciling items require follow up. Through discussion with management it is clear that this is a new process as of September 2016, and that once in operation for a full year it should be easier to identify individual items; and</li> </ul> <p>There are delays in matching cash received to the rental accounts. Through discussion with management it is clear that the delays are often caused by the Council not identifying unmatched cash receipts in a timely manner.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>Reconciling items at the year-end are listed out in a clear manner and investigated promptly to resolve the differences; and</li> </ul> <p>FWH should work with the Council to ensure that a timely review of unmatched cash receipts occurs and is clearly documented in line with the above recommendation.</p>	<p><b>Not updated</b> – the reconciliation continues to list out the bulk differences between cash received on Northgate v5 and the General Ledger due to the difficulty in matching the bulk income received from the Council to specific tenants.</p>	<p><b>Open</b></p>

# Financial statements and audit process





The preparation of the financial statements is a key process in the stewardship of the group and one which should be performed on a timely basis.

The dashboard below summarises our qualitative view of management’s performance regarding preparedness of the financial statements and the audit.

## Key

 Significant impact on our audit process	 Moderate impact on our audit process	 No impact on our audit process
---	--	--

## Assessment

Quality of financial statements and accounting records	 (green)
Readiness for transactional audit	 (green)
Response to queries and information requests throughout fieldwork	 (green)
Availability of staff	 (green)

### Quality of financial statements and accounting records

- The quality and completeness of the first draft financial statements was to a reasonable standard. We received first draft financial statements prior to the start of the audit.

### Readiness for transactional audit

- We were provided with comprehensive working papers supporting the figures in the financial statements on the first day of the audit.

### Response to queries and information requests throughout fieldwork

- Finance staff worked hard to assist us during the audit and were quick in responding to our queries.

### Availability of staff

- Key finance staff were available during the audit.
- Finance staff worked hard to assist us during the audit.

We would like to thank all involved for their time and assistance.

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# *Appendices*

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# ***Appendix I: Summary of uncorrected and corrected misstatements***

This section contains details of any unadjusted errors which management do not consider material in the context of the financial statements as a whole. We are obliged to bring to your attention errors found during the course of the audit that have not been corrected, unless they are 'clearly trivial'. It was agreed with the Directors in May 2018 that we are to report all proposed audit adjustments which management have not elected to change with a value greater than £40,300. Our overall materiality was £806,900.

Errors are those identified as at the date of issue of this report. If additional items are identified between the date of this report and the signing of our audit report we will communicate these to you in due course.

Those charged with governance, the Directors, are requested formally to consider the uncorrected misstatements and to determine whether they concur with management's view that these are not material and that the financial statements should not be amended. If the misstatements are not amended, we will require a written representation from you explaining your reasons.


**At the time of this report there are no uncorrected misstatements to report to you. Additionally, there are no corrected misstatements which exceed the above reporting threshold.**



*In the event that, pursuant to a request which First Wave Housing Ltd has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. First Wave Housing Ltd agrees to pay due regard to any representations which PwC may make in connection with such disclosure and First Wave Housing Ltd shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, First Wave Housing Ltd discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

*This report has been prepared for and only for First Wave Housing Ltd and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.*

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 <b>Brent</b>	<p><b>Audit and Standards Advisory Committee</b> 26 July 2018</p> <p><b>Report from the Chief Finance Officer</b></p>
<p><b>Brent Council Borrowing Strategy 2018/19 – 2020/21 Cover Report</b></p>	

Wards Affected:	All
Key or Non-key Decisions	Key
Open or part/fully exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
Number of Appendices:	One: <ul style="list-style-type: none"> <li>• Brent Council Borrowing Strategy 2018/19 – 2020/21</li> </ul>
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Daniel Omisore Head of Finance Email: <a href="mailto:daniel.omisore@brent.gov.uk">daniel.omisore@brent.gov.uk</a> Tel: 020 8937 3057

## 1. INTRODUCTION

- 1.1 The Council has a three-year capital programme (2018/19 – 2020/21) amounting to some £800m. In addition to this plans are now well advanced in developing a comprehensive list of all possible areas for future capital investment which is scheduled to be presented to Cabinet in September/October 2018 and after further consultation hopefully be included in the formal budget setting report in February 2019.
- 1.2 This is the first time that the Council has had such a comprehensive list of most of the future capital investment opportunities. It is also the first time there has been a consistent framework for evaluating the capital financing costs associated with the potential opportunities.
- 1.3 The scale of the pipeline (c£1bn) means that we will need to evaluate the service and other benefits to be obtained from the proposals, as it will not be possible to finance them all.
- 1.4 Looking wider, the Bank of England monetary policy committee continues to maintain expectations of a rise in interest rates despite failing to do so in May

18. Expectations are for Bank Rate to rise once in 2018 and twice more in 2019.

1.5 In considering both the internal and external factors at play, the report in Appendix A sets out the likely medium to long term borrowing requirement for the Council and confirms the strategy for future borrowing.

1.6 As explained in the main report it is almost certain that the Council will be required to borrow a significant some of money, approximately £230m between 2019/20 and 2020/21 and potentially more thereafter.

1.7 This paper is being presented to the Committee in order to provide an important review and technical oversight but also because the scale of the sums involved means this will be biggest single financial transaction the Council will have undertaken in many years.

1.8 Subject to approval of the recommendations this report will be presented to Cabinet in September 2018.

## 2. RECCOMENDATIONS

2.1 That the Audit and Standards Advisory Committee endorses the borrowing strategy set out in this report (Appendix A) and in particular note the main points arising:

### Main Points

The role the Treasury Management Strategy has played in recent years in contributing to revenue savings.

### Section in main report

Paragraph 3.8

The competing forces that means this strategy will not be sustainable in the coming years (i.e. rising interest rates, reducing cash balances, major capital investment commitments, expanding pipeline, revenue savings).

Throughout

The options Brent has with regard to borrowing externally.

Paragraph 4.6

The estimated borrowing requirement from 2019/20 onwards (c£230m).

Section 5

The use of external consultants or in house resources and the benefits that could accrue to the Council by developing capacity internally.

Paragraph 6.15

Agree that Appendix A should be presented to Cabinet for approval in September 18.

Paragraph 2.2



**3. BACKGROUND**

3.1 The background to this report is set out in Appendix A.

**4. LEGAL POWERS RELIED ON AND ANY LEGAL IMPLICATIONS**

4.1 As set out in Appendix A.

**Report sign off:**

**CONRAD HALL**  
Chief Finance Officer

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**Cabinet**  
12 September 2018

**Report from the Chief Finance Officer**

**Appendix A: Brent Council Borrowing Strategy 2018/19 – 2020/21**

Wards Affected:	All
Key or Non-key Decisions	Key
Open or part/fully exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
Number of Appendices:	Two: <ul style="list-style-type: none"> <li>• Capital Programme 2017/18 to 2020/21</li> <li>• Economic and Interest Rate Forecast</li> </ul>
Background Papers:	N/A
Contact Officer(s): (Name, Title, Contact Details)	Daniel Omisore Head of Finance Email: <a href="mailto:daniel.omisore@brent.gov.uk">daniel.omisore@brent.gov.uk</a> Tel: 020 8937 3057

**1.0 INTRODUCTION**

- 1.1 In February 2018 Cabinet endorsed an ambitious three-year (2018/19 - 2020/21) capital programme amounting to some £800m. This report sets out the likely medium to long term borrowing requirement for the Council partly arising from that decision and reaffirms the Council's approach to borrowing as set out in the Treasury Management Strategy whilst highlighting the potential risks and benefits of various options.
- 1.2 Up to this point the Council has adopted the strategy of funding capital investment from internal cash balances and delayed entering into borrowing commitments. However, as explained throughout the report, this approach, which has been highly cost effective for the last few years, is no longer sustainable as in the short to medium-term the Council will need raise in the order of £230m additional finance to continue with its capital investment plans. Given the scale of the programme this is likely to be the biggest single financial transaction the Council will have undertaken in a generation.
- 1.3 Not only is this decision important because of the sums involved but also the part the capital programme plays in delivering the Council's strategic objectives and its role as a lever in contributing to the level of revenue savings required over the next few years.

- 1.4 Analysis indicates that the Council has a borrowing requirement of £230m over the next 3 years, (2019/20 £62.4m and 2020/21 £166.6m).
- 1.5 The scenarios discussed in this paper are to a large extent based on the Council's views on interest rates supplemented with leading market forecasts provided by the Council's treasury advisors.

**1.6 To be updated to reflect the comments of the July 2018 Audit and Standards Advisory Committee**

**2.0 RECOMMENDATIONS**

That Cabinet:

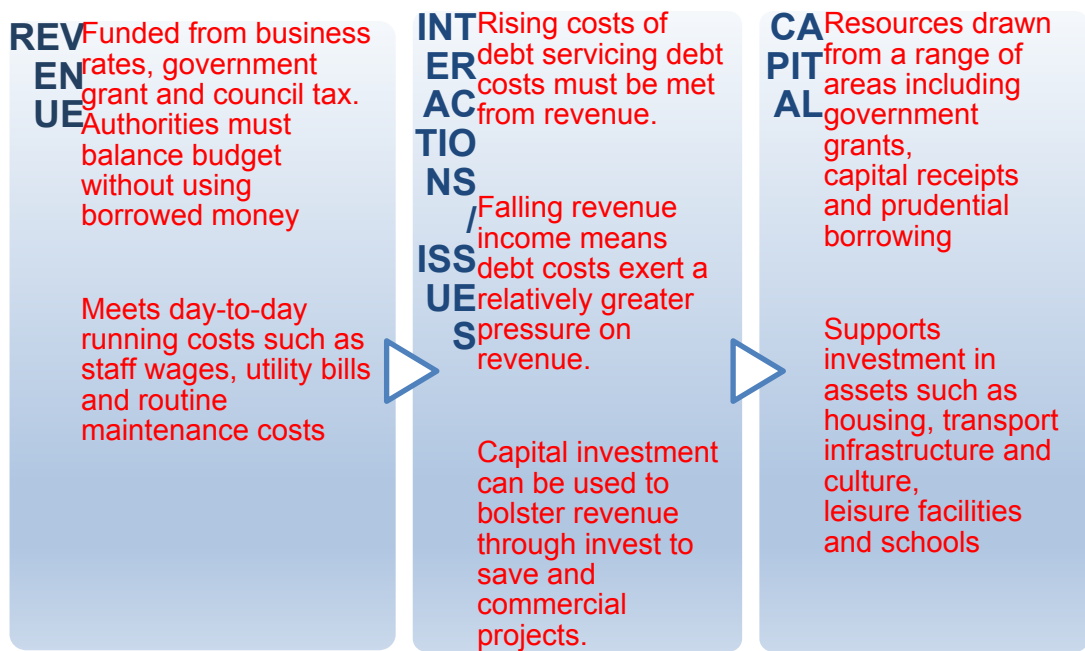
- 2.1 Note the Council's balance sheet analysis and estimated borrowing need as set out in section 5.
- 2.2 Approve the borrowing strategy as set out in this paper including the commencement of negotiations to agree a forward funding loan of up to £40m. See section 6.
- 2.3 Note that the actions recommended above are within the operational boundaries already agreed by Cabinet when setting the Treasury Management Strategy for 2018/19 as part of the budget setting process.
- 2.4 Note that a copy of this report was presented to the Audit and Standards Advisory Committee in July for review and consideration. The comments the Audit and Standards Advisory Committee are shown in paragraph 1.6.

**3.0 BACKGROUND**

- 3.1 The Council meets the costs of its statutory and discretionary services through a combination of revenue and capital expenditure. Revenue spending covers day-to-day costs such as payroll costs, heating and light. Capital expenditure relates to investments in assets such as buildings and roads. In 2017-18 the Council spent £181m on capital investments (2016-17 £102m).
- 3.2 A key difference between capital and revenue is that authorities can use long-term borrowing to support capital spending but not revenue spending. This gives Councils the freedom to invest in their asset bases and to pursue 'invest to save' schemes which can deliver revenue savings. However, Councils must ensure that borrowing is affordable and must meet debt servicing costs from revenue. These processes are largely self-regulated within the framework of the prudential code for capital finance. (see section 9)

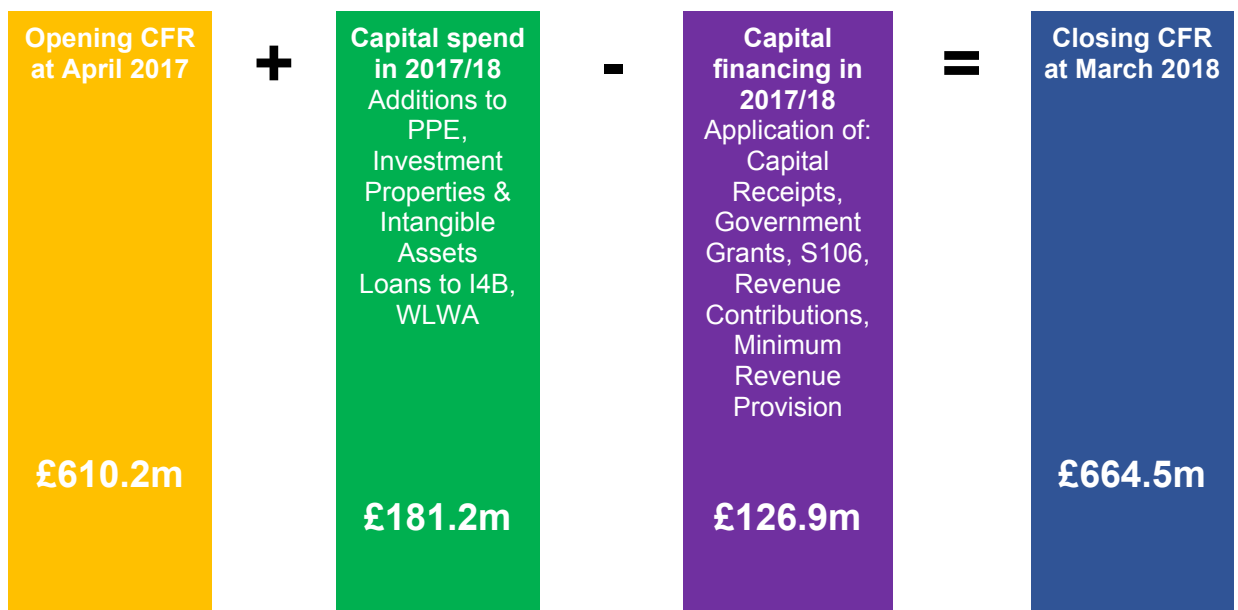
3.3 The linkages between capital and revenue expenditure are shown in figure 1 below.

Figure 1 - Capital & Revenue Expenditure Interaction



3.4 The prudential system for capital finance prescribes that any capital expenditure incurred must at the same time be financed by grants, revenue contributions, capital receipts, reserves or borrowing. Any capital expenditure not immediately financed by any of these sources gives rise to an increase in the Council's underlying need to borrow, otherwise known as the CFR (Capital Financing Requirement).

Figure 2 – Brent Council Capital Financing Requirement



- 3.5 At March 2018 the Council's balance sheet position included long-term borrowing of £410.6m and short-term investments amounting to £140.4m. At the same date the CFR (Capital Financing Requirement) or underlying need to borrow was £661.6m.

#### Treasury Management Strategy and its linkages with revenue savings

- 3.6 The difference between the Capital Financing Requirement and the current long term borrowing of the Council (£664.5m - £410.6m) is £253.9m. This reflects the effective strategy that has been pursued in recent years which has saved millions in capital financing interest and reduced the risk associated with holding large cash balances.
- 3.7 As the Capital Financing Requirement has not been fully funded with loan debt but by using cash reserves, balances and cash flow, this has used up £254m in cash that could have otherwise generated 0.45% (£1.1m) of investment interest income.
- 3.8 The Council could of course instead have chosen to borrow £254m up to its Capital Financing Requirement, however if this sum was borrowed for a duration of 25 years it would have cost approximately 2.45% or £6.2m a year from the PWLB (Public Works Loans Board). *In simple terms this means that the Council forgoes £1.1m in interest income whilst at the same time saving £6.2m in interest payable on borrowing. Capital financing costs of £5.1m per year have therefore successfully been avoided for several years.*
- 3.9 In the current economic environment where inflation has been relatively stable, the rate of interest on traditional investments is significantly lower than that on borrowing and where there are associated counterparty risks, this has been a prudent approach whilst also providing value for money for the Council.
- 3.10 A key element of the Council's successful financial strategy has been to expand the capital investment programme and enable it to deliver substantial revenue savings (e.g. the NAIL and PRS acquisition programmes are forecast to save £3.9m over the next 2 years).
- 3.11 Looking further ahead there are plans to utilise CIL (Community Infrastructure Levy) receipts which are now reaching the level required to undertake major infrastructure projects and in Feb 2018 Cabinet recommended that, subject to the business case and proper due diligence, a further £151m be made available to fund the acquisition of 300 additional private rented sector properties and 100 intermediate rent sector properties by I4B Holdings on top of the £100m already committed in phase 1 and largely delivered during 2017-18.
- 3.12 To date this major capital investment has been managed without the need to enter into new borrowing commitments, thereby reducing external interest costs as described above. However, it is self-evident that this could not be continued indefinitely, and this report demonstrates that the Council now needs to raise additional finance to continue its capital investment programme.
- 3.13 There is nothing unusual in this. Councils across the country have been utilising cash balances to finance capital investment and many are now having to borrow

as balances run down. Councils borrowed a total of £464m from the Public Works Loan Board during February 18 alone, according to figures released by the Debt Management Office, up on the January 18 total of £315m. The biggest sum was borrowed by Wolverhampton City Council, which took £50m in three loans with durations of 16, 22 and 33 years.

- 3.14 In fact, all that is unusual is that Brent's effective treasury strategy has succeeded in deferring the additional costs for so long. This report therefore sets out the likely timing and quantum of the medium to long term borrowing requirement for the Council whilst exploring several borrowing options and their associated risks/benefits.

#### **4.0 APPROACH TO DETERMINING BORROWING NEED**

- 4.1 In identifying the Council's future borrowing needs account was taken of the key financial assumptions underpinning the revenue and capital budget alongside a consideration of the authority's medium to long term financial strategies. Some of the key themes included:

- estimates of the level and timing of capital receipts
- treatment of demand led pressures
- planned efficiency savings
- major developments, partnerships i.e. I4B, NAIL & JV schemes
- borrowing levels and outstanding long term debt
- balance sheet health and reserves levels
- funding options (section 4.6)
- historic trends i.e. levels of programme slippage
- capital plans (3 year capital programme, including pipeline schemes)
- ongoing revenue liabilities created, and the implications for future capital plans and budgets
- other economic and market factors that might influence the manner and timing of the decision to borrow
- the pros and cons of alternative forms of funding, interest rate structures and repayment profiles
- the positive and negative impacts of borrowing in advance of need on the Council's cash balances

### Maturity profile of existing debt

- 4.2 As shown in Figure 3 below, several Council loans are due to mature within the next few years (£26m within 5 years) that the Council will need to refinance. Given that interest rates are expected to increase in the near future, it may be prudent therefore to borrow in advance of their maturity dates whilst interest rates are still relatively low.

Figure 3 Maturity Profile of Existing Debt

Years	< 1	1 - 2	2 - 5	5 - 10	10 - 20	20 - 30	30 - 40	40 - 50	50 +	Total
£m	4.3	10.4	11.2	4.0	24.6	51.9	212.6	6.1	5.0	330.1

- 4.3 The profile above excludes £80m of Council's market loans (also referred to as LOBOs) which could be uplifted or recalled when they are next reviewed. However, considering interest rates are expected to stay relatively low (in comparison to the current average LOBO rate of 4.87%), this is unlikely to be the case in the near future. There may be an opportunity to repay the LOBO loans in the future, which will depend on the penalties imposed by the current funders in order to break the loan conditions. Officers will continue to assess any opportunities as they arise.

### Counterparty risk

- 4.4 Between 2010-11 and 2016-17, the amount of cash held by the Council has increased three-fold, by approximately £109m. This has allowed the Council to borrow internally and lend to other authorities. However, a large amount of cash remains invested in other ways. Consequently, more of our cash is exposed to counterparty risk – the possibility that an institution holding an investment fails.
- 4.5 It is also worth noting that with recent high profile financial failures (at Councils such as Northamptonshire) the assumption that Councils are unlikely ever to default should be revisited. Following the recent s114 notice issued by Northamptonshire they have been removed from the Council's lending list.

### Types of borrowing

- 4.6 As part of this assessment the Council has also reviewed a number of different types of funding, these include the following:

- **Bank Debt**

There are a myriad of private banks/institutions willing to lend to Councils in part attracted by strong financial covenants. The extent to which Council's borrow from private banks varies considerably from Council to Council. However, at Brent bank debt comprises less than a quarter the overall long term loan portfolio.

Pros

- Flexible, including potential to forward start
- Potential economic advantage over PWLB



Cons

- Likely to be a shorter duration
- Documentation may be more complex

▪ **PWLB**

The Public Works Loan Board (PWLB) is one of the principal sources of borrowing for Councils. It is a statutory body that issues loans to local authorities, and other specified bodies, from the National Loans Fund. Since 2004, Councils have been able to borrow (mainly for capital projects) without government consent, provided they can afford the borrowing costs.

Pros

- Certainty on liquidity
- Simple process and documentation (takes 48 hours from start to finish)
- Same rates for all

Cons

- Might be more expensive on an all-in basis

▪ **Local Authorities**

The market for lending between authorities has risen steadily in recent years, although this relates mostly to short-term loans, which are not generally suitable for the long-term finance that Brent now requires. At the end of 2016-17 outstanding debt between Councils stood at £6.53bn. Outstanding debt as of Q3 2017-18 had reached £8.48bn.

Pros

- Potentially lower rates
- Lower risk of default (to be reviewed in the context of recent failures)

Cons

- Usually a shorter duration
- May require the use of broker to locate authorities

▪ **Municipal Bond Agency**

Following four years of debate and preparation, in 2016 the new UK Municipal Bonds Agency was established. It is owned by 56 shareholding local authorities with the aim of facilitating the issuing of bonds by smaller local authorities, and to obtain a competitive price for their bonds within the conventional bond market.

As the Council did not foresee an immediate need to borrow at the time, and as it was aware of the risks of joint and several liability, it did not take any part in setting up the Local Government Bond Agency (LGBA). The arrangement requires that all 56 members collectively and individually guarantee the debt of each and every borrower jointly and severally

Pros

- Cheaper borrowing
- Can be used to raise substantial capital sums

Cons

- Joint & Several liability  
(had the MBA been established a couple of years ago and had Brent and Northamptonshire been in it then Brent, and other Councils would have their default risk.

▪ **Pension Funds**

In 2017 Manchester City Council partnered with the Greater Manchester Pension Fund (GMPF) to build family homes for market rent and sale. The Council provided the land and GMPF put up the money. This was one of the first times a Council pension scheme had used its financial muscle to support a key Council aim: building homes. Since then other Council pension funds have followed Manchester's lead.

Pros

- Generally over longer term
- Can be used to raise substantial capital sums

Cons

- A preference towards investment in Housing
- Brent's Pension Fund requires an average return of 3.8% real (i.e. before inflation and taking on development risk would not be consistent with its risk appetite. This is therefore unlikely to be the cheapest option from the Council's point of view.

▪ **Cash Balances**

As noted in section 1 the Council has in recent years internally borrowed. This is a treasury management practice whereby an authority delays the need to borrow externally by temporarily using cash it holds for other purposes, such as earmarked reserves. This allows the authority to avoid paying interest costs until the original expenditure planned for the 'borrowed' cash falls due.

Pros

- Certainty
- Simple process
- Cost (when deposit interest foregone is less than current cost of borrowing)

Cons

- Defers the borrowing decision to time when cost of borrowing is higher

## 5 BALANCE SHEET AND TREASURY POSITION

- 5.1 The underlying need to borrow for capital purposes is reflected by the Capital Financing Requirement (CFR) which measures the cumulative capital expenditure that has not yet been financed from Council resources. Estimates of the CFR, based on the projected Revenue Budget and Capital programme over the next three years are shown in table 1.
- 5.2 The Council's closing CFR is calculated at £664.5m for 2017/18, outstanding loans total £410.6m at the end of the financial year, resulting in a gross borrowing requirement of £253.9m. **By deducting the gross borrowing requirement from available cash reserves you are therefore able to derive an investable balance or a (borrowing need).**

*e.g. scenario 1 17/18 - £444.7m - £254m = £190.7m investable balance*

TABLE 1 £M	2017-18	2018-19	2019-20	2020-21
General Fund CFR	515.1	536.1	631.8	748.0
HRA CFR	149.5	172.7	188.3	188.3
<b>Total CFR</b>	<b>664.6</b>	<b>708.8</b>	<b>820.1</b>	<b>936.3</b>
Existing Borrowing	410.6	410.6	404.5	401.4
<b>Gross External Borrowing required to meet CFR</b>	<b>254.0</b>	<b>298.2</b>	<b>415.6</b>	<b>534.8</b>
Projected Usable Reserves	303.4	179.9	172.3	165.2
Projected Working Capital	141.3	102.5	73.3	51.4
<b>Available cash reserves</b>	<b>444.7</b>	<b>282.4</b>	<b>245.7</b>	<b>216.5</b>
<b>Investments / (New borrowing required)</b>				
Scenario 1 - no slippage	190.7	(15.8)	(169.9)	(318.3)
Scenario 2 - 10% slippage	<b>206.4</b>	<b>12.0</b>	<b>(131.3)</b>	<b>(257.8)</b>
<b>Scenario 3 - 25% slippage (most likely)</b>	<b>229.9</b>	<b>61.6</b>	<b>(62.4)</b>	<b>(166.6)</b>
Scenario 4 - 35% slippage	245.5	98.2	(13.3)	(91.6)
Scenario 5 - 40% slippage	253.4	117.9	14.8	(50.6)

### Notes:

- HRA borrowing includes £127.9m allocated to the HRA following the introduction of the self-financing regime introduced in March 2012. Increased to £149.5m by 17/18 due to £21.5m additional borrowing.

2. *The existing profile of borrowing **does not** include potential LOBO loan maturities which may or may not occur, over the next five years, individual loans totalling £80m, will be in a state of call.*
  3. *Working capital is calculated by aggregating current assets and current liabilities.*
  4. *Projected reserves includes General Fund, HRA and school balances, earmarked reserves, capital receipts reserve, capital grants unapplied, collection fund adjustment account, major repairs reserves, CIL and S106.*
  5. *Annual inflation of 1.8% has been used to predict usable reserve and working capital balances*
  6. *Capital estimates of spending include c£400m pipeline schemes*
  7. *Per scenario 3 there is a borrowing requirement of £230m (19/20 £62.4m and 20/21 £166.6m)*
- 5.3 The increasing General Fund CFR is due to the Council's programme of capital investment, particularly in relation to NAIL, PRS schemes and the loan to I4B. (Appendix 1)
- 5.4 In reality this is not an exact science and there are many factors (and different combinations of factors) that will determine the precise amount and timing of any borrowing requirement. However the Council's projected capital programme over the next three years, alongside the projected financing, is fundamental in determining any borrowing strategy and has been used to arrive at 3 potential scenarios based on differing levels of capital programme slippage.
- 5.5 The capital outturn for 2016/17 was £101m versus a budget of £223m representing an underspend position for the year of 55%. Since then the capital team are better resourced and the governance procedures have been tightened along with greater oversight of forecasts. This has resulted in an under-spend of only 13.5% for 17/18 (£181m spend against a total budget of £209m) and this positive trend is expected to continue.
- 5.6 Based on previous experiences **scenario 3 is deemed to be the most likely outcome**. This indicates that the Council expects to require additional borrowing of c£62.4m in 2019/20 and c£166.6m in 2020/21 to meet the costs of the capital investments and maturing debt. However it is also worth noting that the programme also includes c£400m of pipeline schemes that are yet to be developed into firm projects. If there are delays in bringing forward pipeline schemes this will likely delay or at least reduce borrowing further.
- 5.7 Under the Prudential Code for Local Authorities, the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this requirement.

## 6.0 FUTURE BORROWING STRATEGY/OPTIONS

- 6.1 The Council's general policy objective is to ensure its level of debt is prudent and sustainable (i.e. keeping financing costs to a minimum) whilst addressing the key associated treasury risks. Projected capital expenditure levels, market conditions and interest rate levels are monitored throughout the year. This enables the Council to adapt borrowing strategies to minimise borrowing costs over the medium to longer term whilst maintaining financial stability.
- 6.2 Table 1 above demonstrates that the Council will need to seriously consider borrowing at some point in 2019/20. In recent years the Council's strategy has been to maintain borrowing at the lowest level possible unless interest rate prospects present a clear case for taking long term borrowing ahead of immediate requirements. However current interest rate forecasts along with the

significant levels of planned capital investment over the next three years means that this approach is no longer sustainable or optimal.

- 6.3 The Council will continue to adopt a flexible approach to borrowing in consultation with Arlingclose Ltd and as specified in the 18/19 Treasury Management Strategy will consider the following issues prior to undertaking any external borrowing: -
- ensure that the ongoing revenue liabilities created and the implications for future capital plans and budgets have been considered
  - evaluate economic and market factors that might influence the manner and timing of the decision to borrow
  - the pros and cons of alternative forms of funding, interest rate structures and repayment profiles
  - the positive and negative impacts of borrowing in advance of need on the Council's cash balances, in particular the increased exposure to credit risk that will arise as a result of investing this additional cash
  - the requirement in the context of the maturity profile of existing debt
- 6.4 Operationally the Council, through its Treasury Management function, manages the aggregate cash flow requirements of the Council. Within that cash flow requirement is the level of capital financing the Council needs to secure by way of borrowing. This is kept under daily review and officers raise additional loan finance, or make deposits in the market, either short or long term, as considered necessary.
- 6.5 Short term loans or deposits are raised or made depending on short term cash flows; generally with a maximum one year horizon but often much shorter. The loans raised or made in this way are to manage day to day cash flow.
- 6.6 Long term loans however are taken to reflect the Council's overall capital financing requirements. Broadly the long term loans and the aggregate need for capital financing are kept aligned. Occasionally however when market conditions (interest rates) are favourable advance loans can be raised in respect of known future liabilities.
- 6.7 In the current market with interest rates predicted to rise plus the scale of the Council's planned capital investment plans it might now be advantageous to lock in long term rates in advance of rates rising at a later date.
- 6.8 When viewed alongside the Council's soon to mature Council borrowing (Figure 3) this approach also offers an opportunity to minimise refinancing costs and alleviate interest rate risk. In broad terms, alongside the considerations listed in section 4.1 it is recommended that the Council adopt the following approach to borrowing: -

TABLE 2

<p><b>Flat yield curve - rates to rise</b>  <b>Seek to lock in medium/long term borrowing</b></p>	<p><b>Flat yield curve - rates to fall</b>  <b>Consider holding off fixed borrowing</b></p>
<p><b>Inverse yield curve</b>  <b>Preferential to lock out fixed</b></p>	<p><b>Positive yield curve</b>  <b>Preferential to hold short</b></p>

- A. If there are indications of **sharp fall** in long and short term rates (e.g. due to an increase in risk of a recession or deflation) then long term borrowing would be postponed.
- B. If there are indications of **sharp rise** in long and short term rates, perhaps arising from greater than expected economic activity, then the portfolio position will be appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still cheap, including the consideration of forward funding, i.e. fixing rates now but drawing down funding in the future when required.

6.9 This framework of Treasury Management will enable the Council to manage its external borrowing in the most advantageous way and to take advantage of market conditions (interest rates) whenever possible to keep the aggregate cost of borrowing as low as possible whilst optimising the return available from any surplus funds (through making deposits).

Forward Starting Loans – recommended option

- 6.10 Given the current and expected economic position (Scenario B paragraph 6.8) officers are recommending the commencement of negotiations to enter into a forward starting loan agreement. Forward starting loans are agreed in advance of need, at a fixed rate for delivery on a pre-determined future date. A number of institutions currently offer these loans to Councils including commercial investors as well as the European Investment Bank (EIB).
- 6.11 A major advantage of forward loans is that by agreeing to a fixed rate now for future delivery (up to 5 years) the Council is able to hedge future interest rate exposure whilst avoiding a short term increase in costs, **as interest payments do not commence until the loan starts.**
- 6.12 It can therefore be used to reduce risk on the financing of planned capital expenditure and provide budget certainty. Compared to borrowing in advance there is a significant credit risk benefit as forward starting loans avoid excessive investment balances.
- 6.13 The Council has the option of directly engaging with institutions, procuring technical advice as and when required or delegating authority to a third party to conduct a competitive funding selection service on behalf of the Council including

the preparation of request for proposals, vetting, credit rating, setting specifications, negotiating contract terms etc.

- 6.14 The preferred approach is to directly engage with potential lenders and buy in the necessary expertise as and when required. This approach would achieve best value for money but would come at a cost, typically a % fee applied against the principal sum borrowed. A competitive funding selection service would fall outside of the services covered by the annual treasury management contract with Arlingclose.
- 6.15 Not only is this approach the most cost effective, it also builds up the internal capacity of the Council which will allow the treasury function to undertake similar deals in the future should opportunities arise. As this report has shown, future and larger transactions will be required, and so building internal capacity and expertise makes sense. These future transactions will most probably be placed via a range of institutions to spread risk, for example some or all of PWLB, market loans, Municipal Bonds Agency and others, according to the prevailing interest rate and other conditions. By building expertise now the Council will be better placed to secure the best value from the future, and larger, borrowing transactions anticipated in 2020/21.
- 6.16 It is therefore recommended that officers directly engage with potential lenders and bring in technical advice as and when required in order to borrow an initial sum of up to £40m on a forward funding basis.
- 6.17 As the authority to borrow in this way has already been agreed by Cabinet when setting the 18/19 Treasury Management Strategy should any opportunities arise in the future for similar deals they will be reported as normal to the Audit & Advisory Committee via the treasury mid-year and outturn updates.

#### Other borrowing options

##### *Borrow longer term debt now*

- 6.18 The default source of borrowing for local authorities is the Public Works Loans Board - a statutory body operating within the UK Debt Management Office (an Executive Agency of HM Treasury). The Council could look to fix out some longer-term debt with the PWLB in 2018/19 whilst interest rates are still relatively low. This could be used to address the Council's under-borrowed position. This would be more expensive than forward borrowing as the Council would incur interest costs in the interim period before the borrowing is required, which is expected to be sometime during 2019/20. However one major advantage of PWLB funding is the simple process and ease of access to funding. Following a phone call the terms can be agreed at the time and the advance of funds made within 48 hours.
- 6.19 It is worth noting that a bill to restrict Councils borrowing from central government is to be considered by the House of Commons Local Authorities (Borrowing and Investment) Bill 2017-18 and will be debated by MPs at its second reading on 15 June. This follows concerns raised over Council's borrowing from the Public Works Loan Board (PWLB) to raise revenue for property acquisitions. Hence there is a risk (albeit a small one) that access could be constrained in the future.

### *Borrow on a short term rolling basis*

- 6.20 The Council could fund on a rolling short term basis from other local authorities initially and arrange forward starting loans, to hedge against future interest rate rises over the longer term. This provides flexible, cheap funding over the near term, whilst providing longer term certainty further into the future. This approach is not recommended as the Council can use its cash balance in the short term as modelled in Table 1 and save money on interest costs whilst avoiding the risks associated with holding excessive cash balances.

### *Borrow to short term to cover the entire forward period*

- 6.21 Another approach would be to borrow fixed rate funding from other local authorities to cover the entire forward period, eliminating short term interest rate risk, but again this would be at a higher cost and may not be necessary given the Council's current cash position.

### *Do nothing until 2019/20*

- 6.22 The Council could do nothing for now and seek to borrow in 2019/20 when needed however there is a risk that the Council will have to refinance debt under unfavourable terms, either due to a lack of availability of replacement financing or an increase in interest rates. This approach is not recommended as it does not match the Council's borrowing need, which is to fix an amount and rate now by forward funding, without incurring the interest cost.

## **7.0 RISKS**

- 7.1 With forward starting loans there is a risk that the Council might agree the loan and then not require the funds. This could prove costly if investment returns remain low. The Council should be certain of its borrowing requirements before entering into this type of arrangement.
- 7.2 Table 1 sets out a range of borrowing need scenarios based on differing levels of capital slippage. **The 3 year capital programme would have to slip by 45% in order for borrowing not to be required before 2020/21.**
- 7.3 It is also worth noting that as shown in Figure 3 the Council will have to refinance £26m worth of loans that will be maturing within 5 years. This drastically reduces the likelihood of not requiring the funds at the anticipated drawdown date.
- 7.4 Conversely, should it transpire that funds are required earlier than planned these forward loan arrangements provide the flexibility to execute the transaction earlier. There is also the option of utilising PWLB or local authority lending to cover this risk off.

## **8.0 FINANCIAL IMPLICATIONS**

- 8.1 The Council will soon need to raise significant additional finance to continue with its capital investment plans. Given the scale of the programme this is likely to be the biggest single financial undertaking the Council would have undertaken in many years so this decision is of great significance.



- 8.2 Estimates indicate that the Council will have a borrowing requirement of £230m over the next 3 years, (2019/20 £62.4m and 2020/21 £166.6m).
- 8.3 Should the recommended option be agreed the Council will enter into a forward funding arrangement, agreeing to a fixed rate now for future delivery. Such an arrangement would likely attract an arrangement fee. The Council may also need to bring in additional support (legal and technical financial) in order to successfully execute such a transaction. These costs would be funded from the Councils existing treasury debt management budget.
- 8.4 Analysis of the costs associated with a forward funding loan versus a traditional PWLB loan based on predicted interest rates indicates that demonstrable savings could be secured.
- 8.5 When borrowing is undertaken in advance of need there is usually a net cost of holding this money until it is used (cost of carry). The cost of carry needs to be viewed in conjunction with forecast changes in interest rates; where a delay in borrowing could lead to the need to borrow at a future higher rate and where the increased interest over the loan period would far outweigh the short term cost to carry. One of the major benefits of the recommended forward funding option is the ability to fix a competitive rate in advance without incurring interest costs.

## **9.0 LEGAL POWERS RELIED ON AND ANY LEGAL IMPLICATIONS**

- 9.1 In recognition of the importance of capital investment in asset and treasury management to Council activities, CIPFA and central government have compiled codes of practice and regulations for Councils to follow. These ensure that Councils have effective processes and practices in place to control, manage and govern capital investment decisions, that include borrowing and treasury management practices.
- 9.2 The Prudential Code was introduced in 2004 as a framework to support Councils and help them show effective control levels of decisions relating to capital investment activity, including borrowing. Before this, capital investment levels in Councils were government regulated.
- 9.3 This self-regulated approach has enabled the Council to adopt borrowing and treasury management strategies that fit with corporate plans and objectives. The framework allows the Council to judge for itself what is affordable and sustainable. The Prudential Code sits alongside CIPFA's treasury management code, which sets out the requirements for a professional treasury management function.
- 9.4 A key requirement of the code is for the Council to produce an annual treasury management strategy before the start of each financial year. The strategy includes prudential indicators that are set out within the Prudential Code. They form a set of 12 limits and ratios that all Councils must calculate and use to show Councilors and the public that capital plans are affordable and sustainable.
- 9.5 The recommendations set out in this report fall within the boundaries encapsulated in the Council's treasury management strategy for 2018/19.

## Codes of Practice and Regulations

### *Local Government Act 2003*

- 9.6 Under part 1 chapter 1 of the Local Government Act 2003, a local authority may borrow for any purpose relevant to its functions or for “the prudent management of its financial affairs”. Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), as amended.
- 9.7 Each authority must set a total borrowing limit for itself in accordance with the principles of the Prudential Code. The borrowing limit will be related to the revenue streams available to the local authority, with which it can repay the debt.
- 9.8 The total amount that a local authority may borrow is governed by the requirements of CIPFA’s Prudential Code for Capital Finance in Local Authorities; and by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), as amended

### *The Prudential Code for Capital Finance in Local Authorities*

- 9.9 A professional code of practice to help Councils govern capital investment decisions by providing a framework that includes Indicators to demonstrate affordability and sustainability.

### *Treasury management in the Public Services: Code of Practice and cross-sectoral guidance notes (CIPFA treasury management code)*

- 9.10 Adopting this code is a requirement of the Prudential Code. It makes recommendations to provide a basis for Councils to create clear treasury management objectives and structure and maintain sound treasury management policies and practices

## **10.0 Equality Implications**

- 10.1 None arising from this report.

**Report sign off:**

**CONRAD HALL**  
Chief Finance Officer

<b>BOARD (PROGRAMME)</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>TOTAL</b>
Barham Park Trust	0	50	0	0	50
Civic Centre	(132)	935	0	0	803
Digital Strategy	539	3,261	1,780	0	5,580
Energy	0	145	6	0	151
ICT	2,784	1,660	0	0	4,444
Libraries	0	67	2	2	70
Property Management	0	724	0	0	724
<b>Corporate Landlord</b>	<b>3,191</b>	<b>6,842</b>	<b>1,787</b>	<b>2</b>	<b>11,821</b>
Bridge Park Regeneration	340	1,065	0	0	1,405
Grant	2,116	888	19	0	3,023
Olympic Way Pedestrian Improvements	9	6,391	8,000	3,000	17,400
Barham Park	7	93	0	0	100
Housing Zones	4,987	1,105	215	115	6,422
Small Schemes	0	33	0	0	33
Town Centre Regeneration	299	74	0	0	373
<b>Regeneration</b>	<b>7,758</b>	<b>9,648</b>	<b>8,234</b>	<b>3,115</b>	<b>28,755</b>
South Kilburn Development	15,312	12,527	12,165	40,601	80,604
Energy	52	932	1,222	106	2,312
<b>South Kilburn</b>	<b>15,364</b>	<b>13,458</b>	<b>13,387</b>	<b>40,707</b>	<b>82,916</b>
CCTV	40	2,285	0	0	2,325
Cemeteries	2	8	0	0	10
Environmental Health	0	77	0	0	77
H&I S106	1,057	5,556	300	0	6,913
Highways & Infrastructure	4,717	894	3,500	3,500	12,611
Landscaping	212	748	132	0	1,092
Parking & Street Lighting	2,128	4,369	500	0	6,997
Parks	313	1,087	0	0	1,400
Sports	(23)	159	485	20	641
Transport For London [TFL]	3,886	4,268	2,345	2,145	12,644
<b>Public Realm</b>	<b>12,331</b>	<b>19,452</b>	<b>7,262</b>	<b>5,665</b>	<b>44,710</b>
Academies	2,486	15	0	0	2,501
Children & Youth Facilities	703	212	0	0	915
Completed School Projects	29	6,621	128	0	6,777
Expansion of School Places	8,905	2,335	2,250	0	13,490
Phase 3 Permanent Primary	8,839	9,440	595	175	19,048
Phase 4 Permanent Primary	62	1,076	8,291	8,338	17,768
PSBP Phase 2 Secondary	3,370	500	0	0	3,870
School Capital Improvement	4,722	4,194	3,200	5,500	17,616
<b>Schools</b>	<b>29,116</b>	<b>24,393</b>	<b>14,463</b>	<b>14,013</b>	<b>81,985</b>
<b>GENERAL FUND</b>					
Affordable Housing	4,253	1,966	0	0	6,218
Capitalisation	0	240	0	0	240
Travellers Site	0	600	0	0	600
Energy, Health & Safety	0	2,700	2,500	0	5,200
Mixed Development	877	12,659	19,542	16,667	49,745
NAIL	20,289	15,414	22,363	10,993	69,058
PRS	38,835	55,555	0	0	94,390
<b>Housing Care Investment Board</b>	<b>64,254</b>	<b>89,134</b>	<b>44,404</b>	<b>27,660</b>	<b>225,451</b>
<b>HRA</b>					
Condition Surveys	0	2,100	2,600	0	4,700
Energy, Health & Safety	1,630	0	0	0	1,630
HRA Acquisitions	17,922	6,062	10,732	402	35,118
Infill Development - Phase 1	3,989	3,025	463	0	7,477
Infill Development - Phase 2	480	15,389	2,189	0	18,059
Major Repairs & Maintenance	25,244	27,241	31,120	14,775	98,380
<b>Housing Care Investment Board</b>	<b>49,265</b>	<b>53,817</b>	<b>47,104</b>	<b>15,177</b>	<b>165,363</b>
Estimated pipeline schemes	0	32,980	170,000	172,764	375,744
<b>Pipeline</b>	<b>0</b>	<b>32,980</b>	<b>170,000</b>	<b>172,764</b>	<b>375,744</b>
<b>TOTAL ESTIMATED CAPITAL PROGRAMME</b>	<b>181,278</b>	<b>249,723</b>	<b>306,641</b>	<b>279,102</b>	<b>1,016,745</b>

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Arlingclose Ltd:  
Independent treasury management services

# Economic and Interest Rate Forecast

June 2018

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# Economic and Interest Rate Forecast June/July 2018

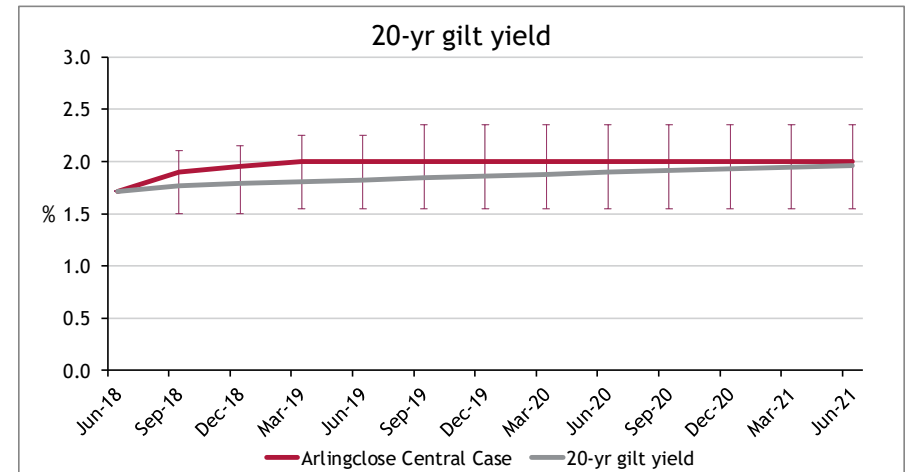
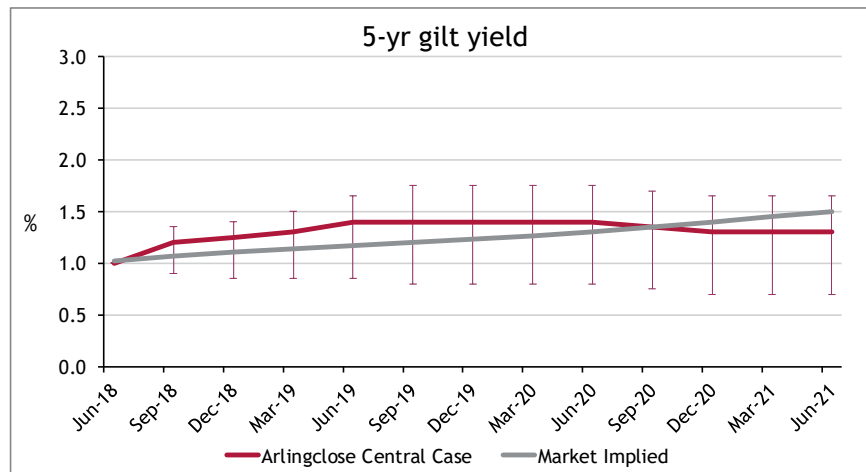
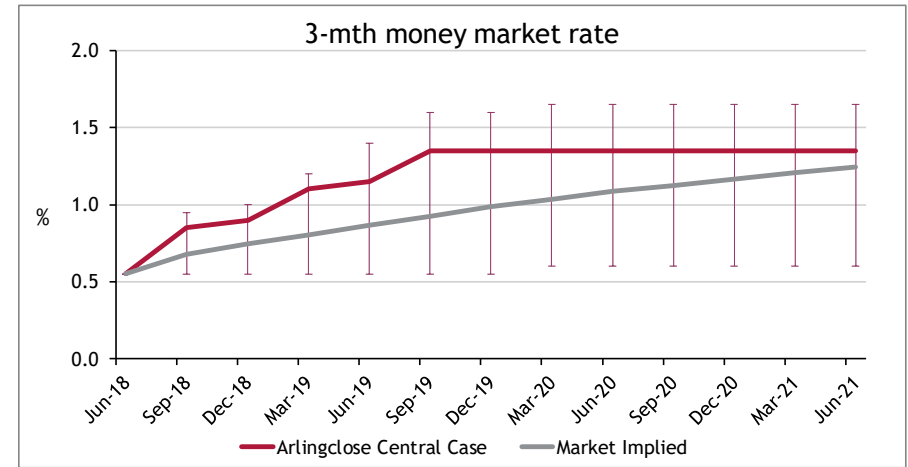
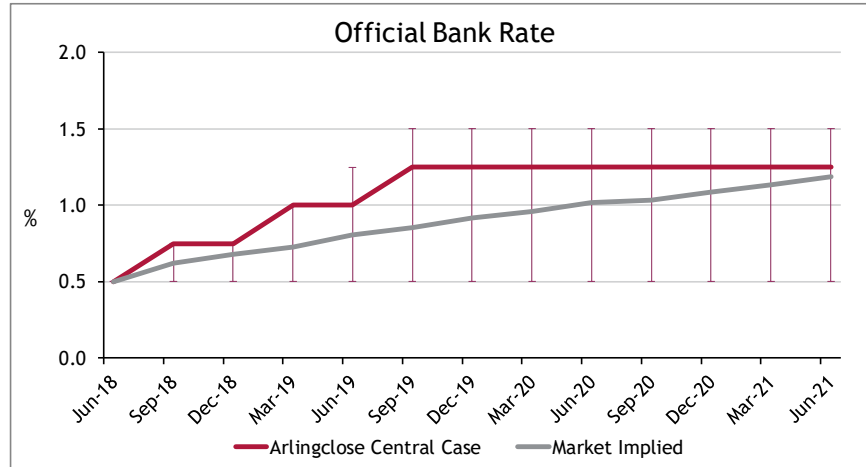
- The MPC minutes supported our view that MPC will seek to raise Bank Rate in the short term. While the majority of the Committee voted to maintain Bank Rate at 0.5% as expected, the unexpected vote for a rate hike by the Bank's chief economist Andy Haldane increased the probability of a near term rate rise.
- Our projected outlook for the UK economy, however, means that we believe monetary tightening in the current environment to be a potential policy error and so maintain the significant downside risks to our interest rate forecast.
- The MPC has a definite bias towards tighter monetary policy. While policymakers are wary of domestic inflationary pressures over the next two years, we believe that MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and that 2) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise.
- The current soft UK economic environment prompted the MPC not to tighten policy in May. The economic data since then has been mixed, but suggests that GDP growth will recover somewhat in Q2 2018 after the weak expansion in Q1. The MPC appears to be focused on data sets that support monetary tightening, at the expense of others that show a less healthy economic environment.
- As noted previously, the Bank has moved the goalposts around both the forecast horizon and supply capacity of the UK economy in order to justify monetary tightening even in a below-trend economic environment.
- Our view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
<b>3-mth money market rate</b>													
Upside risk	0.00	0.10	0.10	0.10	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.55	0.85	0.90	1.10	1.15	1.35	1.35	1.35	1.35	1.35	1.35	1.35	1.35
Downside risk	0.00	-0.30	-0.35	-0.55	-0.60	-0.80	-0.80	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
<b>1-yr money market rate</b>													
Upside risk	0.10	0.20	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	0.84	1.00	1.05	1.15	1.25	1.45	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Downside risk	-0.20	-0.35	-0.40	-0.50	-0.60	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
<b>5-yr gilt yield</b>													
Upside risk	0.00	0.15	0.15	0.20	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.00	1.20	1.25	1.30	1.40	1.40	1.40	1.40	1.40	1.35	1.30	1.30	1.30
Downside risk	0.00	-0.30	-0.40	-0.45	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
<b>10-yr gilt yield</b>													
Upside risk	0.00	0.20	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.27	1.55	1.65	1.70	1.75	1.75	1.75	1.75	1.75	1.70	1.70	1.70	1.70
Downside risk	0.00	-0.35	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>20-yr gilt yield</b>													
Upside risk	0.00	0.20	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.72	1.90	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Downside risk	0.00	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45
<b>50-yr gilt yield</b>													
Upside risk	0.00	0.20	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.63	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.85	1.85
Downside risk	0.00	-0.35	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45

- The MPC has maintained expectations of a rise in interest rates this year.
- Our central case is for Bank Rate is to rise once in 2018 and twice more in 2019. The risks are weighted to the downside.
- Gilt yields have been volatile, but remain historically low. We expect some upward movement from current levels based on our interest rate projections and the strength of the US economy, but volatility arising from both economic and political events will continue to offer borrowing opportunities.

# Arlingclose and Market Projections June/July 2018

Charts show the Arlingclose central case along with upside and downside risks:  
Arlingclose judges that there is currently a higher risk of outcomes to the downside



# Cost of Carry Analysis

If our interest rate forecasts are correct, it will be cheaper overall to borrow long-term now and suffer the cost of carry in the meantime if PWLB rates fall below those shown in the left-hand table

*(Based on PWLB maturity loans borrowed at the certainty rate)*

PWLB CR Breakeven Levels

29 Jun 18

Forecast PWLB rates (adjusted for shorter term)

		Total term	5	10	20	50
		PWLB rate	1.77	2.18	2.55	2.35
Forward period (mo)	Investment rates					
	3	0.66	1.82	2.25	2.61	2.46
	6	0.79	1.87	2.32	2.68	2.57
	9	0.83	1.86	2.31	2.67	2.56
	12	0.87	1.85	2.29	2.66	2.54
	15	0.91	1.77	2.24	2.63	2.53
	18	0.94	1.71	2.19	2.61	2.52
	21	0.98	1.65	2.14	2.58	2.51
	24	1.01	1.60	2.10	2.55	2.49
	27	1.04	1.52	2.03	2.52	2.48
	30	1.07	1.45	1.97	2.50	2.47
	33	1.10	1.42	1.93	2.47	2.49
	36	1.12	1.39	1.89	2.44	2.50

		Total term	5	10	20	50
Forward period (mo)						
	3	1.89	2.30	2.65	2.48	
	6	2.00	2.41	2.74	2.60	
	9	2.05	2.44	2.76	2.60	
	12	2.10	2.47	2.78	2.60	
	15	2.08	2.46	2.78	2.60	
	18	2.05	2.44	2.78	2.60	
	21	2.03	2.42	2.78	2.60	
	24	2.01	2.40	2.77	2.60	
	27	1.94	2.36	2.77	2.60	
	30	1.86	2.31	2.76	2.60	
	33	1.84	2.29	2.75	2.63	
	36	1.82	2.26	2.74	2.65	

Current rates within 10bp of breakeven  
Current rates below breakeven

From Arlingclose's May 2018 forecast



# Bank of England Inflation Report - May 2018

## Overview

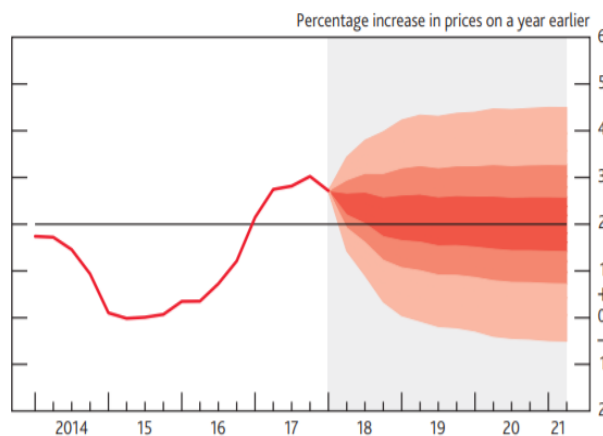
The initial estimate of GDP growth in Q1 was 0.1%, although other indicators suggested growth was stronger than this. The estimate was 0.3 percentage points lower than predicted in February and the Bank of England believes the adverse weather conditions prevalent in February and March resulted in the weaker than expected GDP growth. The MPC expect GDP to grow by around 1.75% per year on average over the forecast period.

CPI inflation fell to 2.5% in March, lower than had been expected at the time of the February report. The MPC envisages that the depreciation of the sterling on the price of imports is likely to diminish faster than initially expected. CPI inflation is anticipated to fall back to target a quicker than expected in February; reaching the target in two years.

Wage growth and domestic cost pressures are rising gradually as was expected. The rate at which productivity levels are expected to grow is projected to remain well below pre-crisis rates and the UK economy has very limited degree of slack. In the MPC's central projection, therefore, a small margin of excess demand will emerge by early 2020, feeding through into higher rates of pay growth and thus domestic cost pressures.

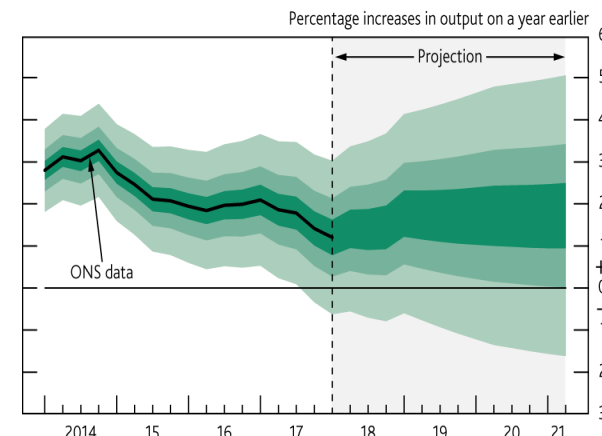
## Projection for CPI Inflation

Based on market interest rate expectations and other policy actions as announced



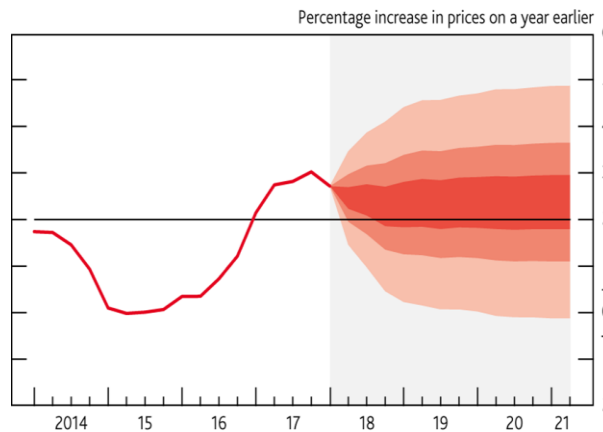
## Projection for GDP Growth

Based on market interest rate expectations and other policy actions as announced



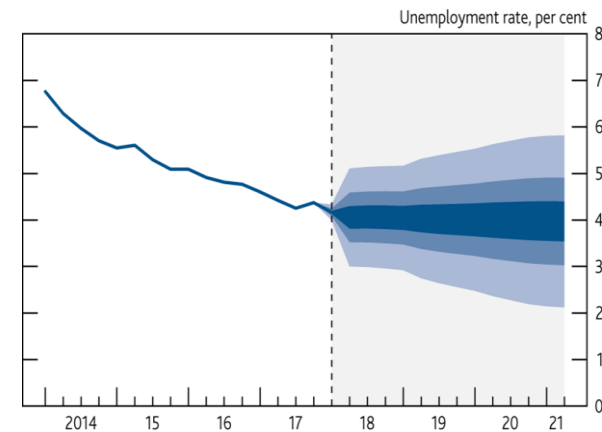
## Projection for CPI Inflation

Based on constant 0.5% Bank Rate and other policy actions as announced




## Projection for LFS Unemployment Rate

Based on market interest rate expectations and other policy actions as announced



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 <b>Brent</b>	<b>Audit and Standards Advisory Committee</b> 26 July 2018
	<b>Report from the Chief Finance Officer</b>
<b>2017/18 Treasury Management Outturn Report</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	Two : <ul style="list-style-type: none"> <li>• Debt and Investment Portfolio Position - 31 March 2018</li> <li>• Prudential Indicators</li> </ul>
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Daniel Omisore Head of Finance Email: <a href="mailto:Daniel.Omisore@brent.gov.uk">Daniel.Omisore@brent.gov.uk</a> Tel: 020 8937 3057

## 1.0 Purpose of the Report

1.1 This report updates members on Treasury Management activity and confirms that the Council has complied with its Prudential Indicators for 2017/18.

## 2.0 Recommendation

2.1 The Audit and Standards Advisory Committee is asked to consider the 2017/18 Treasury Management outturn report, and ask that it be forwarded to Council, in compliance with CIPFA's Code of Practice on Treasury Management (the Code).

### **3.0 Detail**

- 3.1 The Council's treasury management activity is underpinned by the Code, which requires authorities to produce annually 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.
- 3.2 This report fulfils the Council's obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Investment Guidance.
- 3.3 The Council has borrowed money over the long term to support investment in the Council's infrastructure and also invests cash balances held for short periods. It 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 risk are central to the Council's treasury management strategy.

#### **Economic background**

- 3.4 The UK grew at the same pace in 2017 as in 2016 however the latest estimates showed signs of slowing. Q1 2018 GDP showed year-on-year growth of 1.2% but quarterly growth of just 0.1%. Services and production grew in Q1 with agricultural and construction output decreasing. Consumer Price Index (CPI) has increased to 3.1% in November due to the weakness of the pound but has since fallen back to 2.4% at the time of writing. The Bank of England has indicated that it would like inflation to return to its 2% target over the next 18 to 24 months. Employment is currently at a record level of 75.6% of the working age population with the number of people in work increasing through the year. The unemployment rate fell to 4.2% from 4.6% a year earlier. Real wage growth remained negative for most of the year only turning positive at the end of the year.
- 3.5 Political events have continued to give rise to a very uncertain environment. Economic activity has gained momentum in the Eurozone and the US economy continues to grow steadily. However, this is balanced off against uncertainties over Brexit in the UK, geopolitical tensions and the imposition of tariffs initiated by the US. Therefore it is difficult to forecast what effect this will have on the way the UK economy develops.

#### **Gilt Yields and Money Market Rates**

- 3.6 Gilt yields (the rate of interest on UK government borrowing) showed significant volatility through the year. They fell in the first quarter of 2017/18 and then rose in the third and final quarters. 10 year yields ended the year at 1.35% and 20 years at 1.70% both higher than at the start of the year.
- 3.7 Interest rates on short term inter-bank lending rose as a result of the increase in the bank rate.

## The Borrowing Requirement and Debt Management

- 3.8 The table below summarises the Council's borrowing activity during 2017/18. The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) was £665m at 31/03/2018.

	Balance 01/04/2017 (£m)	New Borrowing (£m)	Borrowing Repaid (£m)	Balance 31/03/2018 (£m)	Average Rate (%)	Average Life (Years)
<b>CFR</b>	<b>581</b>			<b>665</b>		
<b>Short Term Borrowing</b>	<b>0</b>	51	30	<b>21</b>	0.57	0
<b>Long Term Borrowing</b>	<b>415</b>	0	4	<b>411</b>	4.82	34.6

- 3.9 At 1 April 2017 the Council had £415 million of long-term borrowing, to finance its previous years' capital programmes. With short-term interest rates being much lower than long-term rates, it was more cost effective in the short-term to use internal resources rather than undertake further long-term borrowing. By doing so, the Council has been able to reduce net borrowing costs and reduced overall treasury risk as overall long-term borrowing has been reduced slightly.
- 3.10 Temporary borrowing was used during the year at times of low cash balances to maintain liquidity. The average rate on long term borrowing of 4.82% was higher than last year's rate of 4.79% and this was due to the redemption of £4m of PWLB loans that are paid back steadily over their lifetime.
- 3.11 If the Council were to repay its long term borrowing this would involve paying a premium to compensate PWLB for their inability to relend the money at the rate at which they have financed the loan. For example, the Council's most expensive loan is £3.05m at a rate of 8.875%, to repay it would cost £0.781m, a 26% premium on the value of the loan before the cost of re-financing. In short, the cost of re-financing our loans under the Government's punitive approach means is not economical. However this analysis might change if interest rates returned to historically normal levels.
- 3.12 The Treasury Management Strategy approved by the Council in February 2017 states that the Council will maintain borrowing at the lowest level consistent with prudent management of the Council's finances. This implies that, at present discount rates, we will not undertake premature repayment of debt but that, in conjunction with our Treasury Management advisers, Arlingclose, we will remain abreast of developments and be prepared to borrow up to the level of CFR if a significant permanent rate rise appears likely. These circumstances did not arise during the year.
- 3.13 The Authority has £80.5m exposure to LOBO loans (Lender's Option Borrower's Option) of which £10m of these can be "called" within 2018/19.

- 3.14 Under the LOBO arrangements lenders can exercise their rights at set times to amend the interest rate on the loan. At that point, the Borrower can accept the revised terms or reject them and repay the loan without penalty. LOBO loans present a potential refinancing risk to the Authority since the decision to call a LOBO is entirely at the lender's discretion. This risk is mitigated by the fact that the Council's current cash holdings mean that any repayment could be accommodated by reducing deposits. It is also unlikely that LOBO loans will be called at the present time due to low interest rates – this may change in the future if rates rise.
- 3.15 Any LOBOs called will be discussed with Arlingclose prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.
- 3.16 There are complex arguments made about LOBOs, by their supporters and by their detractors. The Council's position is simply that the LOBOs are part of its portfolio, and must therefore be managed as effectively as possible. There are no plans to enter into further LOBO contracts. However, it should be noted that the average rate of interest being paid on LOBOs is little different to that on PWLB debt (4.87% compared to 4.80% at 31 March). The most expensive LOBO was at 7.386% on 31 March 2018, compared with the most expensive PWLB at 8.875%.

### **Forward Borrowing**

- 3.17 The Council is currently reviewing the feasibility of taking out forward loans to fund the burgeoning capital programme. Options are available to fix the rate now for a period of up to five years in advance. This would allow the Council to maintain a short term, cheap position, with the added comfort of fixed rate loans being drawn down in the future in parallel with our capital commitments.
- 3.18 The risks are, once committed the funds must be taken and the market rates could potentially be cheaper in future although this is unlikely with current interest rates being so low. The Treasury function is currently looking at options with our advisers and are in active discussions with potential lending institutions. A detailed report setting out those considerations is included elsewhere on the agenda.

## Investment Activity

- 3.19 Both CIPFA and the CLG Investment Guidance require the Council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield. The table below summarizes investment activity during 2017/18.

<b>Investments</b>	<b>Balance on 01/04/2017</b>	<b>Investments made</b>	<b>Investments repaid</b>	<b>Balance on 31/03/2018</b>	<b>Average Rate on 31/03/2018 (%)</b>
	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>	
<b>Fixed Term Deposits</b>	151	221	267	105	0.48
<b>Marketable instruments</b>	0	15	15	0	n/a
<b>Money Market Funds and notice deposits</b>	16	736	717	35	0.43
<b>TOTAL INVESTMENTS</b>	<b>167</b>	<b>972</b>	<b>999</b>	<b>140</b>	<b>0.47</b>

- 3.20 Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2017/18 which defined "high credit quality organisations" as those having a long-term credit rating of A- or higher that are domiciled in the UK or overseas where the sovereign rating is AA+ or higher.
- 3.21 The growth of bail-in risk gave rise to the decision to restrict the maximum maturity with market financial institutions to three months and use only marketable instruments issued by them. Bail-in means that long-term loans in financial institutions are converted into equity (shares) that are not easily convertible for many years, preventing Brent from accessing the resources, and potentially giving them a hefty cut in their value.
- 3.22 New investments with banks and Building Societies have been undertaken by means of marketable instruments. The risk of bail in has recently declined for many UK institutions, but investment decisions still need to be made on a case by case basis.
- 3.23 Following the financial crisis and the increasing complexity of financial products the European Commission conducted a review of the existing Markets in Financial Instruments Directive (MiFID) regulations. The result of this review is

the MiFID II regulations which took effect from January 2018. The main change from these regulations is that the council would be reclassified as a retail client with the opportunity to opt up to professional client status. As a retail client the council would have increased protection however this would be balanced against potentially higher fees and access to a more limited range of products. The Authority has met the conditions to opt up to professional status and has done so in order to maintain its status prior to January 2018.

### **Credit developments and credit risk management**

- 3.24 The Council assessed and monitored counterparty credit quality with reference to credit ratings, credit default swaps (a means of insuring loans), perceived credit-worthiness of the country in which the institution is registered and its share price. The minimum long-term counterparty credit rating determined by the Council for the 2017/18 treasury strategy was A- across rating agencies Fitch, S&P and Moody's. The Council continues to monitor risks, with advice from Arlingclose. The Council did not make any deposits with institutions in the Eurozone during the year.

### **Liquidity Management**

- 3.25 Combining changes to the regulatory environment and our adoption of a mainly three month lending limit, investments with financial institutions are now normally by means of purchasing 3 month Certificates of Deposit (CDs). Longer maturities with more attractive rates can be obtained from Local Authorities, though these will depend on being able to satisfy demand when it arises. At peak periods, mindful of the primacy of security as a criterion for decision making, substantial balances may be held in short term investments, particularly Money Market Funds. The use of short term borrowing at times of lower cash balances is judged to maintain a prudent balance between maintaining security and liquidity and achieving a reasonable yield on investments, this approach was required during February and March 2018.

### **Yield**

- 3.26 The UK Bank Rate increased to 0.50% in November 2017. Short term money market rates increased as a result but remained relatively low. This continued to have a significant impact on investment income. The average 3-month LIBID rate during 2017/18 was 0.39% and the 1-year LIBID rate averaged 0.69%. The low rates of return on the Council's short-dated money market investments reflect prevailing market conditions and the Council's objective of optimising returns commensurate with the principles of security and liquidity.
- 3.27 The Council's budgeted investment income for the year had been estimated at £1.4m. The average cash balance during 2017/18 was £179m during the period and interest earned was £0.7m, an average return of 0.41%. (2016/17 - £0.9m on an average cash balance of £199m or 0.52%).

### **Update on Investments with Icelandic Banks**

- 3.28 The Council has recovered 98% of its £10 million deposit with Heritable Bank. The administrators have not made any further estimate of final recoveries yet, though a further distribution is expected, subject to the outcome of a legal case.



## **Compliance**

- 3.29 The Council confirms that it has complied with its Prudential Indicators for 2017/18, which were approved by the Council on 27 February 2017 as part of the Council's Treasury Management Strategy Statement.
- 3.30 In accordance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2017/18. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. Further information is set out in Appendix 1 and 2.

## **Investment Training**

- 3.31 The needs of the Council's treasury management staff for training in investment management are kept under review and considered as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
- 3.32 During 2017/18 staff attended training courses, seminars and conferences provided by Arlingclose and CIPFA.

## **4.0 Financial Implications**

- 4.1 Already noted within the report as this is the Treasury Management Outturn Report.

## **5.0 Legal Implications**

- 5.1 None identified.

## **6.0 Equality Implications**

- 6.1 None identified.

## **7.0 Consultation with Ward Members and Stakeholders**

- 7.1 Not applicable.

## **8.0 Human Resources/Property Implications (if appropriate)**

- 8.1 None identified.

**Report sign off:**

**CONRAD HALL**  
Chief Finance Officer

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## Debt and Investment Portfolio Position 31/3/2018

	31/03/2018 Actual Portfolio £m	Average Rate as at 31/03/2018 %
<b>External Borrowing:</b>		
PWLB – Maturity	288	5
PWLB – Equal Instalments of Premium	27	2.6
Fixed Rate Market Loans	15	4.3
LOBO Loans	81	5
Short Term Borrowing	21	0.8
<b>Total External Borrowing</b>	<b>432</b>	<b>4.6</b>
<b>Other Long Term Liabilities:</b>		
PFI	29	9.5
<b>Total Gross External Debt</b>	<b>461</b>	<b>4.9</b>
<b>Investments:</b>		
Deposits	105	0.5
Money Market Funds	35	0.4
<b>Total Investments</b>	<b>140</b>	<b>0.5</b>
<b>Net Debt</b>	<b>321</b>	<b>6.9</b>

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## Prudential Indicators

### (a) Capital Financing Requirement (CFR)

The Council's cumulative maximum external borrowing requirement for 2017/18 is shown in the table below:

Capital Financing Requirement	31/03/2018 Estimate £m	31/03/2018 Actual £m
General Fund	446	515
HRA	155	150
<b>Total CFR</b>	<b>601</b>	<b>665</b>

### (b) Gross Debt and the Capital Financing Requirement:

In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31/03/2018 Estimate £m	31/03/2018 Actual £m
Borrowing	411	432
PFI liabilities	29	29
<b>Total Debt</b>	<b>440</b>	<b>461</b>
<b>Capital Financing Requirement</b>	<b>601</b>	<b>665</b>
<b>Borrowing in excess of CFR?</b>	No	No

### (c) Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt 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, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

The Authorised Limit for External Debt 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.

The Director of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2017/18.

	<b>Operational Boundary (Approved)</b>	<b>Authorised Limit (Approved)</b>	<b>Actual External Debt 31/03/2018</b>
Borrowing			432
Other Long-term Liabilities			29
<b>Total</b>	<b>800</b>	<b>900</b>	<b>461</b>

**(d) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

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 principal borrowed.

	<b>Approved Limits for 2017/18 Proportion %</b>	<b>Maximum during 2017/18 Proportion %</b>
<b>Upper Limit for Fixed Rate Exposure</b>	100	100
Compliance with Limits:	Yes	Yes
<b>Upper Limit for Variable Rate Exposure</b>	40	0
Compliance with Limits:	Yes	Yes

**(e) Maturity Structure of Fixed Rate Borrowing**

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Actual Fixed Rate Borrowing at 31/03/2018</b>	<b>% Fixed Rate Borrowing at 31/03/2018</b>	<b>Compliance with Set Limits?</b>
	<b>%</b>	<b>%</b>	<b>£m</b>		
under 12 months	40	0	14	4	Yes
12 months and within 24 months	20	0	41	10	Yes
24 months and within 5 years	20	0	51	12	Yes
5 years and within 10 years	60	0	4	1	Yes
10 years and within 20 years	100	0	25	6	Yes
20 years and within 30 years	100	0	52	13	Yes
30 years and within 40 years	100	0	213	52	Yes
40 years and within 50 years	100	0	6	1	Yes
50 years and above	100	0	5	1	Yes

**(f) Capital Expenditure**

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels.

<b>Capital Expenditure</b>	<b>31/03/2018 Estimate</b>	<b>31/03/2018 Actual</b>
	<b>£m</b>	<b>£m</b>
Non-HRA	150.6	132.0
HRA	67.7	49.2
<b>Total</b>	<b>218.3</b>	<b>181.2</b>

**(g) 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	31/03/2018	31/03/2018
	Estimate	Actual
	%	%
Non-HRA	5.6	5.1
HRA	13.8	15.4

**(h) Adoption of the CIPFA Treasury Management Code**

This indicator demonstrates that the Council adopted the principles of best practice.

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in February 2013

**(i) Upper Limit for Total Principal Sums Invested Over 364 Days**

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.


Upper Limit for Total Principal Sums Invested Over 364 Days	31/03/2018	31/03/2018
	Approved	Actual
	£m	£m
	40	0

**(j) HRA Limit on Indebtedness**

HRA Debt Cap (per MHCLG)	£199m	
	31/03/2018	31/03/2018
	Estimate	Actual
	£m	£m
HRA CFR	155	150

\*The actual figures noted above are based on the draft accounts position and subject to revision



 <p><b>Brent</b></p>	<p><b>Audit and Standards Advisory Committee</b> 26 July 2018</p>
	<p><b>Report from the Chief Finance Officer</b></p>
<p><b>Internal Audit Annual Report – 2017/18</b></p>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	One : <ul style="list-style-type: none"> <li>Key Findings from 2017-18 Audits</li> </ul>
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Audit and Investigations Email: <a href="mailto:Michael.bradley@brent.gov.uk">Michael.bradley@brent.gov.uk</a> Tel:0208 937 6526

## 1.0 Purpose of the Report

- 1.1. This report is the annual report from the Head of Audit and Investigations. The report includes an opinion on the overall adequacy and effectiveness of the Council's internal controls and presents a summary of the Internal Audit work undertaken during the year.

## 2.0 Recommendation

- 2.1. The Audit and Standards Advisory Committee is asked to note the content of the report.

## 3.0 Detail

- 3.1. The Accounts and Audit Regulations 2015 require the Council to undertake an internal audit of its control systems, taking into account the Public Sector Internal Audit Standards<sup>2</sup> (PSIAS). These require the Head of Audit to:
- Deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- The annual report must incorporate: the opinion; a summary of the work that supports the opinion; and a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

### **Opinion of the Head of Audit and Investigation**

- 3.2. This report gives a summary of the work carried out by Internal Audit in 2017/18. From the work undertaken during the year, my overall opinion on the Council's system of internal control is that:

I have considered all of the work conducted by Internal Audit for the year ended 31 March 2018.

In my opinion, with the exception of those areas in which limited assurance reports have been issued (as set out below), the controls in place in those areas reviewed are adequate and effective.

Where weaknesses have been identified within internal audit reports and investigations, these are been accepted and actions agreed by management.

The framework for governance is set out in the annual governance statement and, in my view, this is an accurate description of the governance arrangements.

In relation to risk management, I have had oversight of the risk management process and conclude that the usual range of significant risks for a local authority have been identified although a review of the Risk Management framework has identified areas for further improvement.

### **Summary of Work Undertaken**

- 3.3. The 2017/18 Audit Plan was approved by the Audit Committee on 20 March 2017. The plan had a total of 62 audits (excluding follow up and advisory work). The plan has been delivered via an in-house team also in partnership with a contracted service from PWC.
- 3.4 We have liaised with senior management throughout the year to ensure that internal audit work focuses on high risk areas and, in the light of new and ongoing developments in the organisation, ensure the most appropriate use of resources. As a result of this, some changes were agreed and made to the plan during the year, with some audits added or deleted. The total number of projects completed in 2017/18 was 29. A number of the remaining smaller audits were amalgamated while in other cases scoping work showed that the risks were not significant.
- 3.5 Audit work focused on the reliability of the financial and operational information, management accounting controls, safeguarding of assets, economy and

efficiency of operations and review of compliance with relevant statutes and Council regulations.

- 3.6 For each audit where controls have been analysed, an assurance statement is issued. This simple grading mechanism provides an indication of the level of confidence in the controls in operation and the extent to which they are being applied. Each category is defined below:

<b>Substantial</b>	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
<b>Reasonable</b>	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
<b>Limited</b>	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
<b>No</b>	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

- 3.7 There has been a slight improvement on 2016/17 in the percentage of 'substantial' opinions given. The proportion of systems receiving 'limited' has remained reasonably consistent with previous years. The audit plan is directed at areas of inherent risk and/or where concern has been raised by management therefore this can distort the overall picture.

The 'reasonable' category appears lower than previous years. We have, however, increased the amount of 'consultancy' work undertaken. This is part of our revised approach intended to provide Internal Audit input when systems and processes re changing rather than after implementation.

	Substantial	Reasonable	Limited	Consultancy
2017/18	4%	41%	31%	24%
2016/17	2.5%	60%	35%	2.5%
2015/16	0%	63%	31%	6%
2014/15	3%	66%	28%	3%

3.8 The following table shows the audits completed and relevant levels of assurance (where applicable) during the 2017/18 financial year. Key themes are captured below. A 'limited' assurance level indicates that there were risk exposures which hadn't previously been identified in that service. The audit function is intended to identify these and then assist management in identifying cost-effective mitigation actions to address these issues. For the set of audits, listed below management have engaged fully with audit in identifying these areas in the first instance and then in undertaking and concluding the work.

<b>Audit</b>	<b>Assurance Opinion</b>
<b>Key Financials</b>	
Treasury Management	Limited
Payroll	Limited
<b>Community and Wellbeing</b>	
Temporary Accommodation	Reasonable
Single Pathway	Consultancy
Safeguarding Adults	Substantial
Introductory Tenancies/Tenancy Management	Limited
Voids Contract Management	Limited
Leasehold Management	Reasonable
<b>Children and Young People</b>	
Troubled Families (see also below)	Reasonable
<b>Regeneration and Environmental Services</b>	
Contract Management – Waste Contract	Consultancy
Barham Trust Accounts	Consultancy
Transport Shared Service	Limited
<b>Resources</b>	
Continuous Audit and Monitoring	Reasonable
Pensions Administration	Limited

Asset Management	Limited
BACS Payments	Reasonable
PCI Requirements	Reasonable
IT Disaster Recovery	Limited
IT Security and Access Management	Reasonable
HR Contract Management	Consultancy
Temporary Workers	Reasonable
<b>Corporate/Cross Cutting</b>	
Use of Interims/Consultants	Reasonable
Contract Management	Limited
GDPR Readiness	Consultancy
Management of the Capital Programme	Reasonable
Risk Management	Consultancy
<b>I4B</b>	
Benefits Realisation	Reasonable
Governance	Reasonable
Fraud Risk Assessment	Consultancy

3.9 Further details on the audits resulting in a 'Limited' opinion can be found in the appendix to this report. Audits where the opinion is shown as 'Consultancy' were reviews conducted as a result of management request for advice or assistance on developing systems and processes.

3.10 Key themes identified across audits were:

- Contract Management including recording of contracts, managing of contractors and managing of contracts;
- Policies and Procedures including missing or out of date processes and procedures;
- Operational risk management in services including the escalation of risks;
- Maintain a management trail of evidence for decision making.

- 3.11 Internal Audit also completed a number of grant claim certifications for the Troubled Families Programme.
- 3.12 The organisation is faced with developing an increasingly efficient system of internal control that is risk-focused. Internal Audit have a key role in ensuring management are supported in achieving this and to respond to requests for assistance where new processes are being developed.

**Follow up Reviews**

- 3.13 As part of the audit process, follow-up reviews are carried out to ensure that agreed management actions in respect of significant risks have been implemented. This process continued through 2017/18 and is ongoing.
- 3.14 The current status is as follows:

Follow Up Reviews		Recommendations				
		Critical	High	Medium	Low	Advisory
Completed	6	0	4	18	8	3
In Progress	25	0	21	82	36	6
Not Yet Due	13	0	16	36	9	4

- 3.15 Of the six completed, five have had their assurance level raised following completion of the agreed recommendations. This included one Limited raised to a Reasonable.
- 3.16 Many of those in progress are awaiting responses from the business. Work continues in ensuring the status of all outstanding recommendations is reported appropriately to the Corporate Management team for action and the Audit and Standards Advisory Committee for information.

**Schools**

- 3.17 During the year, a number of follow up reviews were carried out to ensure that agreed actions from previous school reviews had been appropriately implemented. Nearly all actions had been completed.
- 3.18 A new programme of school audits has been put in place for 2018/19 with a focus on financial processes and the accompanying back office resources. There are 10 schools identified in the plan where we will work with the staff in order to provide assurance to Governing Bodies and the Council that appropriate controls and processes are in place or work is being done to reach the required standards.

**Internal Audit Performance**

- 3.19 While we ensured that the priority audits and associated key risks were addressed during the year, there were some parts of the audit plan that could not be completed during 2017/18 due to a lack of resource within the in-house team. These remaining audits have been reassessed based on the ongoing risk situation and a number have been rescheduled to be completed during 2018/19.

- 3.20 The restructure of the team and the ongoing recruitment of new staff towards the end of 2017/18 and the beginning of 2018/19 has brought increased stability and will enable improved performance and service developments to be implemented in 2018/19.

### **Customer Satisfaction**

- 3.21 A revised process of seeking formal feedback was developed and implemented for 2017/18. Management have provided feedback on individual audits completed and this feedback has been incorporated into the continuous improvement of the service.
- 3.22 A total of four questionnaires were returned (a return rate of 14%). The questionnaires ask the auditees to provide feedback on areas including usefulness of the audit, quality of the report and usefulness of any recommendations made. All responses were positive with either a satisfied or very satisfied opinion, but the sample size is too small to provide any reliable data. Efforts will be increased next year to obtain a higher return rate in order to provide a more comprehensive opinion. Alternatively, or as well as, audit will look for other ways to gain customer satisfaction feedback.

### **Quality Assurance and Improvement Programme**

- 3.23 A self-assessment against the Public Sector Internal Audit Standards was completed in 2016 and reviewed in March 2017 when the standards were updated. A number of areas were identified where there was no evidence of compliance with the standards. Actions were taken to address this in 2016/17 and further work has been carried out during 2017/18.
- 3.24 The standards state that an external assessment must be conducted at least once every five years by a qualified, independent assessor. This is due during 2018/19. The peer review process administered by Croydon Council has not been successful in identifying another London Authority to undertake the peer review at Brent. We are proposing that the newly appointed Internal Audit Manager undertakes this review.

## **4.0 Financial Implications**

- 4.1 None.

## **5.0 Legal Implications**

- 5.1 None.

## **6.0 Equality Implications**

- 6.1 None

## **7.0 Consultation with Ward Members and Stakeholders**

- 7.1 None.

**Report sign off:**

**CONRAD HALL**  
Chief Finance Officer

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## Key Findings from 2017/18 Audits

Audit Title	Department	Audit Scope	Findings
Treasury Management	Resources	Banking Arrangements Cash Management and Forecasts Investments, Interest and Borrowing Electronic transfers and reconciliations	<p>We found that individuals responsible for Treasury Management have a clear understanding of what their job role entails and a broad understanding across the team that has been developed during their time with the Council.</p> <p>One high risk finding was identified relating to evidence of approval of the investment decisions made by Treasury staff members.</p>
Payroll	Resources	Starters and Leavers Deductions Variations and Amendments Standing Data Overpayments Management Information Data Protection	<p>A number of areas for further improvement were identified. We identified four high priority, nine medium and one low risk finding.</p> <p>The high risk findings related to:</p> <ul style="list-style-type: none"> <li>• Net Pay Variance Exception Reports;</li> <li>• Acting up and Honoraria Payments;</li> <li>• Overtime, and</li> <li>• Overpayments.</li> </ul>

Pensions Administration	Resources	New Joiners Payments of Benefits Data Collection Reconciliations Contract Management	<p>We found examples of good practice, for example the automated new joiners process ensures that the correct contribution rate is used based on the salary details entered into the payroll system; there is a process to identify deceased individuals and halt their payments in a timely manner; and the pensions officer meets with Capita regularly to ensure that there is communication between the two parties. However, we had four high risk findings regarding:</p> <ul style="list-style-type: none"> <li>• Retiree payments;</li> <li>• Changes to standing data;</li> <li>• Data submissions, and</li> <li>• Contract Management.</li> </ul>
Asset Management	Resources	Governance of Commercial Property Management of Commercial Property	<p>The purpose of this audit was to review the Council's asset strategy 'value generation' objective with a particular focus on how revenues from the commercial portfolio are maximised. Although a strong knowledge base was noted throughout the Commercial Property team, areas for improvement were identified in order to ensure the Council is not overly reliant on the knowledge of key personnel and that there is a consistently a clear trail of actions and decisions taken. We identified one high, four medium and one low risk findings a part of this review</p> <p>There was one high risk finding relating to:</p> <p>Policy and approach to arrears management in relation to Commercial Property including escalation process and timeline to the point of write-off. Outstanding receivables of £707,000 were identified across the portfolio. Of this, £266,000 was over 360 days old.</p> <p>There were four medium risk findings relating to:</p> <ul style="list-style-type: none"> <li>• written procedures that govern the day-to-day processes;</li> <li>• non-compliance issues relating to leases and rent reviews;</li> <li>• the interface between the property database and Oracle, and</li> <li>• reviewing the use of assets.</li> </ul>

IT Disaster Recovery (ITDR)	Resources	Governance Provision Maintenance	<p>The IT Shared Service function has undergone significant technology consolidation activity. It has been able to demonstrate the recovery of IT services during real incidents, however given the further planned changes and expansion in service a number of areas for improvement were identified to ensure the scalability of the ITDR capability.</p> <p>A number of areas for improvement were identified to ensure the scalability of the ITDR capability:</p> <ul style="list-style-type: none"> <li>• Business Alignment;</li> <li>• ITDR Planning;</li> <li>• IT Risk Register;</li> <li>• ITDR Testing, and</li> <li>• IT Change Management.</li> </ul>
Contract Management	Cross Cutting	Service Delivery Governance Risk Management Roles and Responsibilities	<p>The purpose of this audit was to review the design and effectiveness of controls in relation to the Council's contract management with a particular focus on how the Council monitors and manages service delivery and reports any issues.</p> <p>We found that individual Contract Managers had a good knowledge of their contract and how it was managed. They had a clear understanding of the level of contract monitoring currently undertaken and who in the team was responsible for various processes. However, while the contracts seemed well managed at an individual level, there is a lack of overarching contract oversight from senior management. For example, there is no complete list of contracts held by the Council or at a departmental or service area level, there is no formalised and agreed contract management plan and there is no process in place to 'risk rate' the contracts.</p> <p>As part of our review, we also followed up on actions from a 2016/17 Contract Management review. We found that various actions had not yet been implemented or had not been implemented in full.</p> <p>There were two high risk findings:</p> <ul style="list-style-type: none"> <li>• a complete list of all contracts was not in place;</li> </ul>

			<ul style="list-style-type: none"><li>• There was no agreed contract management plan in place for both sampled contracts, and segmentation/ categorisation of contracts does not occur before commencement of the contracts.</li></ul> <p>There were three medium findings:</p> <ul style="list-style-type: none"><li>• No formal risk assessment has been performed over both sampled contracts;</li><li>• Not all contract managers were aware of or had read the contract management policies and procedures;; and</li><li>• Prior year actions from the 16/17 review had not been implemented.</li></ul>
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<p>Introductory Tenancies</p>	<p>CWB</p>	<p>Policies and Procedures            New Tenancies            Tenancy Agreements            Management of Tenancies            Possession and Notice of Proceedings            Termination of Tenancy</p>	<p>Our one high risk finding related to Support for Vulnerable Tenants – evidence was not always retained of a vulnerable tenant being referred to support agencies and no evidence of support being provided.</p> <p>Seven medium risk findings related to:</p> <ul style="list-style-type: none"> <li>• Eight month review: – not always undertaken within the prescribed timescales;</li> <li>• Monitoring and Evaluation: - no monitoring of the tenancies where the first and second visits were nearly due or were overdue;</li> <li>• Report On Outcome of eight month review visit – the form was not comprehensive and does not include the Housing Officer's decision;</li> <li>• Settling in visits –not always undertaken within the prescribed timescales and the report on the outcome not properly recorded;</li> <li>• Transfers and Mutual Exchange – A number of tenancies were granted to tenants who were not “new tenants”;</li> <li>• Verification of Date of Birth / Identity of New Tenants – Evidence of not always maintained, and</li> <li>• Policy and Procedures – Lack of a policy. Introductory tenancies process document has not been updated to reflect current practice and is not sufficiently comprehensive.</li> </ul>
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Voids Contract Management	CWB	Works Undertaken on Voids Contract Management Information Policies and Procedures	<p>The purpose of this audit was to review the design and effectiveness of controls in relation to the Council's Voids Contract Management</p> <p>One high risk finding was made:</p> <ul style="list-style-type: none"><li>• Performance of contractors was not formally monitored as part of the Key Performance Indicators (KPI's) process and reporting of performance is not in place.</li></ul> <p>The three medium risk findings related to:</p> <ul style="list-style-type: none"><li>• the process to document the rationale for contractor allocations;</li><li>• The Voids spreadsheet is updated manually and there are a number of inconsistencies and gaps; and</li><li>• The policies and procedures are out of date and do not reflect current processes.</li></ul>
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<p>Transport Shared Service (TSS)</p>	<p>R&amp;ES</p>	<p>Governance Service Delivery Financial Management Performance Reporting</p>	<p>The purpose of this review was to assess the effectiveness and robustness of the Council's arrangements to govern and manage the delivery of the Harrow and Brent Special Needs Transport Service (HB SNT). There was one high risk finding:</p> <p>Brent Council has limited oversight of the service. Specific examples included:</p> <ul style="list-style-type: none"> <li>• KPIs per the Inter Authority Agreement (IAA) were not reported to Brent</li> <li>• The incident log where Harrow records all details and progress of any TSS incidents relevant to Brent was incomplete and Brent do not regularly receive a copy</li> <li>• Results from monitoring checks over the drivers (from third party) were not provided to Brent</li> <li>• No reporting was provided to Brent to confirm that the maintenance of vehicles is performed in a timely manner</li> <li>• Quarterly meeting minutes from the SNT Advisory Board meeting were not provided to Brent.</li> </ul>
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 <b>Brent</b>	<b>Audit and Standards Advisory Committee</b> 26 July 2018
	<b>Report from the Chief Finance Officer</b>
<b>Counter Fraud Annual Report 2017-18</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b> <small>(only applicable for Cabinet, Cabinet Sub Committee and officer decisions)</small>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	None
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Internal Audit Email: <a href="mailto:michael.bradley@brent.gov.uk">michael.bradley@brent.gov.uk</a> Tel: 020 8937 6526

## 1.0 Purpose of the Report

1.1 This report provides an update on the counter fraud work for the period 1 January 2018 to 31 March 2018 (Quarter 4) including key activity for the year end.

## 2.0 Recommendations

2.1 That the Audit and Standards Advisory Committee notes the counter fraud work in the period of the report.

## 3.0 Internal Fraud

3.1 There have been nine new referrals received during Q4 and a total of 35 referrals this year, which is a small increase from the previous year. This includes Whistleblowing referrals and a range of case types that include various financial, conduct and procedural irregularities. It does not include related proactive work or our review of the National Fraud Initiative (NFI) data matching reports, which are covered in the 'proactive' section of this report. Internal fraud typically has the fewest referrals but is generally more complex in nature and is the team's main priority.

The table below sets out key figures captured in this area.

Table A – Internal Fraud

Internal Fraud	2017/18 Q4	2017/18 Q3	2017/18 Q2	2017/18 Q1	2017/18 (year)	2016/17 (year)	2015/16 (year)
Open Cases b/f	13	12	16	16	16	22	21
New Referrals	9	12	6	8	35	28	42
Closed Cases	11	11	10	8	40	34	31
Open Cases c/f	11	13	12	16	11	16	22
Fraud/Irregularity Identified*	2	4	2	2	10	12	9
Dismissal	1	0	0	0	1	1	3
Resignation	0	1	0	0	1	2	5
Warning	0	1	0	1	2	1	1
Other Outcome (see below)	2	2	2	1	7	8	4

\* Where closed cases do not identify fraud / irregularity, these are recorded as NFA (No Further Action)

- 3.2 An officer from Private Housing Services (Enforcement) was dismissed following various irregularities with sickness absence and whilst working from home. A lack of control was identified in how officers are managed whilst working remotely.
- 3.3 An anonymous Whistleblowing allegation concerning the management of Brent Direct Leasing (BDL) properties where no evidence of officer wrongdoing was identified but instead failings in the BDL / Repairs system were found where Brent took on the full cost of repair instead of private landlord at the VOID property stage. A total of £25,050.02 was unnecessarily paid out on the two properties under investigation and the matter passed to Internal Audit as part of a wider review in that service.
- 3.4 A further case was closed at the prosecution stage due to an unlikely chance of success during criminal proceedings. This related to an ex-employee who was dismissed in September 2016 for abuse of the ZipCar system with cost to Brent of £15,921.75.
- 3.5 One referral that has been prominent during Q3 and Q4 concerned allegations relating to traces of asbestos found at Paddington Cemetery in May 2017. This was initially reported to the Audit Advisory Committee (AAC) in December. This was closed as NFA after a number of lines of enquiry were followed but closed by the Counter Fraud team.
- 3.6 There has been an increase in internal referrals logged during 2017/18 compared with the previous year. The increase in this referral type has coincided with a requests that all whistleblowing events are referred to the Audit and Investigations Service as well as an increased presence on the council's website that enables members of the public to report all fraud.

## 4.0 Tenancy and Social Housing Fraud

4.1 The recovery of social housing properties by fraud investigations has a positive impact upon the temporary accommodation budget and remains a high priority fraud risk area for the Council. The Audit Commission has estimated that the average national value of each recovered tenancy is £18,000\* per property. A probably more realistic value is £93,000 per property as reported by the Cabinet Office (National Fraud Initiative 2016). These are notional values and for consistency in reporting, we use the lesser value. The counter fraud activity to end of year is summarised in the table below:

Table B – Tenancy and Social Housing Fraud

Housing Fraud	17/18 Q4	17/18 Q3	17/18 Q2	17/18 Q1	2017/18 (year)	2016/17 (year)	2015/16 (year)
Open cases b/f	47	61	76	82	82	121	174
New Referrals	16	51	36	27	130	332	250
Closed cases	35	65	51	33	184	371	314
Open cases c/f	28	47	61	76	28	82	121
Fraud Found	8	21	7	6	42	52	73
Recovered Properties	7	19	7	5	38	44	63
Applications Refused	1	0	0	0	1	0	2
Property Size Reduced	0	1	0	1	2	4	5
Right To Buy	0	1	0	0	1	4	3
Value of properties recovered*	£144,000	£342,000	£126,000	£90,000	£702,000	£792,000	£1,134,000
Value of property size reduction*	0	£18,000	0	£18,000	£36,000	£72,000	£90,000
Value of Right to Buy Discount Prevented**	0	£103,900	0	0	£103,900	£311,700	£282,000
Cases with Legal for Possession/Prosecution	11	13	19	25	11	26	18

\* Notional value of recovered properties (including housing applications stopped and property size reduction) used for reporting purposes is £18,000

\*\* Actual amount of Right to Buy discount stopped

4.2 A total of 42 properties, with a notional value of £738,000, were recovered as a result of fraud/irregularity during 2017/18 (8 in Q4). This is down on last year's performance, where 52 properties were recovered. As reported previously, we anticipated there may be a temporary dip in recoveries in the final quarter due to a slow-down in referrals as well as the temporary disruption of a service restructure.

4.3 The total referrals in 2017/18 have been lower compared with the previous two years. However, referral quality has increased and the fraud detection rate of closed cases has increased from last year. Higher referrals in the previous two years was a result of proactive work relating to risk factors such as tenants not

reporting repairs for a long period. This type of rationale has resulted in a low detection rate despite apparently higher referrals. This approach to proactive work has been revised - the focus in future will be on intelligence-led proactive exercises with improved collaboration with the Tenancy and other relevant housing teams.

The fraud detection rate against closed cases for last three years are as follows;

- 2015/16 = 23.25% (314 cases closed, detected fraud in 73 cases)
- 2016/17 = 14.02% (371 cases closed, detected fraud in 52 cases)
- 2017/18 = 22.83% (184 cases closed, detected fraud in 42 cases)

4.4 A notable case is the recent recovery of a council property in April 2018, where the tenant had used fraudulent ID from the outset (January 2009) and was unlawfully subletting the tenancy whilst residing in their privately owned property under a different (presumed genuine) identity. There are other factors including Freedom Pass, Blue Badge and Housing Benefit that were all obtained under the fraudulent identity. Criminal proceedings are being instigated with initial court hearing in July 2018. We are also liaising with DWP regarding the benefits matters.

4.5 The source of referrals has also changed over the year, notably referrals from RSLs (Housing Associations) have decreased and referrals from our new online reporting system have been significant since its introduction in June 2017. This is summarised in the table below;

Table C – Referral sources for Tenancy and Social Housing Fraud

Referral Source	17/18 Q1	17/18 Q2	17/18 Q3	17/18 Q4
A&I proactive	0	2	0	0
BHM Forced Entry	7	3	9	1
BHM Management/Service	7	7	12	7
BHM Right To Buy	2	0	0	0
Electoral Services	0	1	0	0
From Other Investigations	1	0	0	0
Hotline	2	0	2	0
Hotline - via BHM	2	2	0	0
Hotline - via RSL	0	0	1	0
HNS Management/Service	0	0	3	1
L&Q Housing	0	1	0	0
Metropolitan Housing	1	5	0	0
NFI (National Fraud Initiative)	0	2	0	0
Octavia Housing	0	0	1	0
Other LA fraud team	0	0	1	1
Police	0	1	1	0
Public non-Hotline (from June 2017)	5	12	20	6
Stadium Housing	0	0	1	0
Totals	27	36	51	16

4.6 One notable case was where a tenant, whose property was recovered in July 2017, had failed to attend multiple court hearings regarding housing fraud offences. The court has issued an arrest warrant and this matter remains outstanding.

- 4.7 In addition to reporting successful tenancy recoveries, the Counter Fraud team undertake detailed value adding work even when a tenancy is not recovered. In most of these cases, where no further action is taken, the team will often complete a tenancy verification including confirmation of the entire household composition. This will be held on the tenancy file and contributes towards the Tenancy team's objectives. By completing these verifications it serves to prevent fraudulent tenancy succession claims where an applicant may dishonestly claim to reside at a property. A total of 17 cases have been closed with no fraud/irregularity and a tenancy verification completed. This is in addition to ongoing proactive work undertaken with Housing Management during 'Gas Forced Entries', where tenancy verifications are conducted if the tenant is available.
- 4.8 Engagement with the Tenancy and RTB teams has continued during Q4 to enhance joint working, verification processes and increase the quality of referrals for investigation:
- The Investigations team has provided both teams with a specifically designed referral form for both teams to use when tenancy fraud is suspected;
  - It has been agreed that a collaborative proactive exercise between Tenancy and Investigations will be undertaken to target a high risk area where unlawful subletting is known to be prevalent. This exercise will be intelligence-led and initial preparations have taken place for the exercise to commence during Q4 and into the following year with a further review at the end of Q2 (2018/19), and
  - It is proposed that a proactive review of RTB applications will take place during 2018/19. This is despite the RTB team increasing its verification processes over the last 18 months. This proactive approach is because RTB remains a high-value and key risk area for the council.
- 4.9 The table below summarises the key housing tenancy fraud figures. It shows that the team had a total recoveries target of 61 and a total of 42 recoveries has been completed. The new 2018/19 target has been re-set at 55, which is anticipated to be challenging but a more realistic objective given this and the previous year's results.

Table D - Housing Tenancy Fraud Summary 2017/18

**2017/18 recovery target: 61**

Total Recovered Properties to date:	38	
Total Housing Applications Refused to date:	1	(last 3 year average: 60.67)
Total Property Size Reduced to date:	2	(2016/17 total recoveries = 52)
Total Right To Buy Stopped to date:	1	(2015/16 total recoveries = 73)
<b>Total Recoveries (fraud/irregularity identified):</b>	<b>42</b>	<b>(2014/15 total recoveries = 57)</b>
<b>Value of housing fraud identified to date:</b>	<b>£841,000</b>	

## 5.0 External Fraud

- 5.1 'External fraud' includes all other external fraud/irregularity that affects the council. This will include (but is not limited to) fraud cases involving; Blue Badge, Direct Payments, Council Tax, Business Rates, insurance, finance, concessionary travel and grant applications. The counter fraud activity up to end of the year is summarised in the table below:

Table 8 – External Fraud

External Fraud	17/18 Q4	17/18 Q3	17/18 Q2	17/18 Q1	2017/18 (year)	2016/17 (year)	2015/16 (year)
Open cases b/f	18	22	13	14	14	57	20
New Referrals	29	16	29	14	88	161	99
Closed Cases	34	20	20	15	89	204	62
Open cases c/f	13	18	22	13	13	14	57
Fraud / Irregularity *	16	6	2	4	12	22	10
Prosecution	0	1	NIL*	NIL	1	2	NIL
Warning / Caution	1	2	NIL	NIL	2	6	3
Overpayment/Saving	15	6	2	3	11	7	7

NB: Where closed cases do not identify fraud / irregularity, these are recorded as NFA (No Further Action).

- 5.2 This type of referral has remained constant from Q1 to Q4. Half of the referrals received during Q3 were received from the public using the online fraud reporting tool. It should be noted that although there was an increase of referrals during Q2, 17 of these were self-generated by the team as part of an on-going investigation into an organised Freedom Pass fraud.
- 5.3 Since Q1 of 2017/18, the team has led on an organised Freedom Pass fraud investigation involving several councils in London with over 100 fraudulent applications identified to date. The team has so far identified 17 fraudulent Brent applications. The main subject of the investigation has been identified, arrested and was due to appear in court on 26 June relating to 21 counts of fraud, counterfeiting and forgery. The investigation was in collaboration with London Councils, Transport for London and the Police and is being led by Brent Council. The fraud has been present in our system since September 2016 and specifically targeted the partially sighted entitlement category using false supporting documentation. This occurred due to inadequate controls on the verification of supporting documentation which was addressed by the service area at an early stage. The potential value of a Freedom Pass is approximately £6,000 per year and the cost to councils is significantly more due to the charging structure with London Councils – it cost Brent approximately £350 per pass to administer. The case is currently with Legal for criminal proceedings under the Fraud Act against the main suspect plus 'Aiding and Abetting' charges against those who have benefited from the use of the fraudulent Freedom Passes.
- 5.4 An insurance case was prosecuted in Q1. The defendant pleaded guilty to section 2 of the Fraud Act for attempting to defraud the council with a false

damage claim to their vehicle. In addition to the claim being repudiated, the defendant was fined £1,800 and ordered to pay costs/surcharge of £870.

- 5.5. In Q3 a Blue Badge case resulted in a formal caution being offered and accepted as an alternative to criminal proceedings. A further case in Q4 has been concluded in this way and resulted in the offender paying a voluntary contribution of £250 towards our investigations costs.

## 6.0 Counter Fraud Savings Summary

- 6.1 The table below summarises the main savings (both notional and actual) identified at the conclusion of investigations. Housing Tenancy remains the highest area of savings for the team and notably, we have placed a value of £90,000 savings against the Freedom Pass investigation that was concluded recently based on the cost to the council of individual freedom pass usage. The table does not reflect all positive outcomes such as some NFI data matching reviews which is reported separately (below) and certain internal fraud cases where it may be difficult to accurately identify a value. It should also be noted that whilst the team no longer has the remit to directly investigate Housing Benefit and Council Tax Benefit, it will take appropriate action to ensure these benefits are corrected where fraud/irregularity is identified.

Savings Summary:	Yr to date	Q4 2017/18*	Q3 2017/18*	Q2 2017/18*	Q1 2017/18*	Yr 2016/17
Client Funds	63,158.02	25,050.02	0.00	38,108.00	0.00	43,154.95
Council Tax Benefit	2,311.31	0.00	2,311.31	0.00	0.00	1,429.64
Council Tax Support	4,617.66	0.00	3,434.91	0.00	1,182.75	1,849.91
Council Tax SPD	1,277.03	0.00	1,277.03	0.00	0.00	2,483.02
Direct Payments	34,646.90	0.00	34,646.90	0.00	0.00	0.00
Housing Application	18,000.00	18,000.00	0.00	0.00	0.00	0.00
Housing Tenancy	720,000.00	126,000.00	360,000.00	126,000.00	108,000.00	810,000.00
Insurance Claims	2,670.00	0.00	2,670.00	0.00	0.00	0.00
Rent Allowance (HB)	14,655.17	0.00	0.00	0.00	14,655.17	12,641.11
Rent Rebate (HB)	26,461.07	0.00	26,461.07	0.00	0.00	20,255.77
Pension Fraud/Irregularity	7,154.30	0.00	1,427.56	2,231.69	3,495.05	0.00
Right To Buy Fraud	103,900.00	0.00	103,900.00	0.00	0.00	415,600.00
Blue Badge	1,000.00	500.00	1,000.00	0.00	0.00	3,880.00
Section 17 Payments NRPf	0.00	0.00	0.00	0.00	0.00	5,074.32
Freedom Pass	90,000.00	90,000.00	0.00	0.00	0.00	0.00
Caution – Voluntary Contrib.	250.00	250.00	0.00	0.00	0.00	0.00
<b>Year to Date Total:</b>	<b>1,090,601.46</b>	259,800.02	537,128.78	166,339.69	127,332.97	1,316,368.72

\* Quarter savings breakdown does not include live cases where values have been recorded e.g. prosecution case.

## 7.0 Proactive Counter Fraud Activity

- 7.1 Two proactive exercises were closed in Q3;
- **Conflicts of Interest** – this identified some inadequacy in system controls and, although no fraud was identified, it will now be considered as part of next year's internal audit plan.
  - **Blue Badge** – a proactive exercise was undertaken in July 2017. There were six parking fines issued for Blue Badge related offences. One vehicle was removed, four badges were retained and 12 parking fines were issued for other parking offences.

7.2 There were a number of proactive exercises that were planned from Q3 onwards. An update on these are summarised below;

- **Direct Payments** (Q3) – this is underway and involves a review of four cases provided by the client where fraud/irregularity has been suspected. The review includes checks on the decision making process and monitoring of expenditure. To date, no evidence of fraud has been identified, although evidence was found in each case of inadequate expenditure monitoring and financial assessment. The exercise is expected to be completed in July 2018. A further proactive exercise in this area will be considered later in 2018/19.
- **Business Rates** in high risk industrial areas (Q2 2017/18) – this proactive has not commenced as an internal audit was planned and undertaken. We will review again in Q3 (2018/19) as to whether a proactive is worthwhile.
- **Council Tax** - students – this proactive was considered for Q2 (2017/18) but the data supplied was unclear and needed further preparatory work before taking forward. This is now underway and expected to conclude by the end of Q2 (2018/19).
- **Procurement** (Q3) – a proactive was planned in this area but due to the service coming back in-house, it was decided to postpone this until such time that new structure and processes have been established.
- **Blue Badge** – one day per month (Q2/3/4) – we have continued with quarterly, rather than monthly events. The Counter Fraud team has been working with the parking enforcement teams since Q1 to provide training with Blue Badge enforcement, inspection/seizure of badges and retention of evidence. We have also assisted the parking enforcement team to develop an intelligence database to help identify persistent misuse, respond to customer complaints of misuse and target hotspots.
- **Housing** – visiting high risk blocks / estates (Q4) – initial preparation for this proactive is underway and will be based on known risk areas for unlawful subletting, supported by good intelligence from both teams. It is anticipated exercise will commence during Q1/2 (2018/19) and will be a collaborative approach with the Tenancy team with an additional focus to emphasis fraud awareness to staff.
- **Blue Badge (Q4)** – the Counter Fraud team led on a successful Blue Badge proactive exercise in January which resulted in good publicity. On this occasion, it included officers from the Enviro-crime and Private Housing enforcement teams along with Police officers from Brent's Partnership Tasking Team and representation from the ASB and Crime team. The operation demonstrated excellent collaborative team work and had multiple successes, which are summarised below;
  - **Counter Fraud team and Parking Enforcement**
    - 35 Blue Badges checked
    - 12 PCNs issued (six for Blue Badge related offences)
    - Two vehicles towed for displaying stolen Blue Badges.
  - **Enviro-Crime Enforcement**
    - Five Fixed Penalty Notices for littering.
    - Found five separate pieces of evidence in black bags dumped on the street.
    - Found a knife off High Street Harlesden - taken by the police as evidence.



- **Private Housing Services Enforcement**

- Identified several properties where the landlord should hold a licence.
- Identified unlicensed one-bed maisonette with a minimum of 12 occupants.

7.3. Since Q3, the Counter Fraud team has engaged with the Enforcement Managers Practitioner's Group (EMPG) to increase awareness of the team and encourage collaborative working. It was a direct result from this engagement that led to the success of most recent Blue Badge operation in January and this has continued with another recent successful operation on 7<sup>th</sup> June 2018.

7.4. The **National Fraud Initiative** (NFI) 2016/17 data matching exercise is now under way following data submission in October 2016 and matches generated since January 2017. There are a total of 20,463 data matches (8,036 are recommended) across the full range of data sets that include Payroll, Pensions, Finance, Creditors, Housing, Benefits, Direct Payments, Insurance, Parking Permits and concessionary travel. All NFI Key Reports have either been reviewed or are under review.

To the end of May 2018, the overall summary of NFI work is as follows;

- Matches processed/reviewed = 1,099 (up to Q1 was 854)
- Investigating = 24 (up to Q1 was 52)
- Cleared = 747 (up to Q1 was 507)
- Fraud/Error identified = 319/3 (no change since Q1)
- Overpayment/Savings identified = £168,177.44 (no change since Q1).

Notable results from NFI reports reviewed is as follows;

- Blue Badge data to deceased persons; 447 matches reviewed and 304 fraud/errors found resulting in live badges being cancelled. Notional saving of £152,000 recorded (£500 for each badge cancelled).
- Brent Pensions to deceased persons; 67 matches reviewed with 12 fraud/error cases found resulting in pensions being terminated and £9,077 being recovered.
- Insurance multiple claims within Brent; one case identified with a reserve of £7,100 which has been cancelled/withdrawn.
- In January, Benefits team have started reviewing several Housing Benefit and Council Tax Support related reports. The reports include matches against both Brent's and other organisations' payroll and pensions records. An update on these results will be reported in the next report but early indications are that there are a few discrepancies with the majority of data matches either already known or previously resolved.

7.5 This year we have introduced an enhanced risk scoring system for all types of referrals to complement our existing intelligence checking capability. This has helped to screen referrals and focus resources on higher priority cases.

- 7.6. In June 2017, the Counter Fraud team introduced an online fraud reporting tool for both the internet and intranet (links below), which allows informants to provide information anonymously or supply their contact details. Current figures suggest the system is effective with an increase of online referrals from the public and a slight decrease in telephone referrals as set out in the table below.

Period	Online referrals	Hotline referrals
Q1*	15	5
Q2	24	2
Q3	32	4
Q4	26	2

\* reporting system introduced in June 2017

- external; <https://www.brent.gov.uk/firmstep/forms/report-fraud/>
- internal; <https://internal.brent.gov.uk/firmstep-intranet-forms/fraud-affecting-the-brent-council/>

- 7.7 At the end of Q2 the Investigations team introduced a **Simple Caution** process as a disposal method for suitable first-time and low-level criminal offences as part of our sanction authorisation procedure. This acts like a Police caution and can be taken into consideration for future offences. This process falls within the scope of the Anti-Fraud and Bribery Policy. Two cautions (one in Q4) have been processed, both for Blue Badge related offences with £250 received in voluntary contributions.

#### Fraud Awareness Strategy 2018/19

- 7.8 A refresh of the main Anti-Fraud policies was approved by the Audit Advisory Committee on 5<sup>th</sup> December 2017. This has enabled the Investigations team to promote these policies (including the Whistleblowing policy) throughout the Council and amongst all stakeholders to increase awareness, generate better quality referrals and raise the team's profile. We are currently unable to update our relevant webpages on the intranet due to site development but anticipate that this will be done during Q2.
- 7.9 Engagement across the council has already commenced as set out in this report and also includes ongoing liaison with all service areas, using social media to report key messages and fraud awareness sessions. We aim to review our strategy at the end of Q2.

### **8.0 Financial Implications**

- 8.1 There are no specific financial implications associated with noting this report.

### **9.0 Legal Implications**

- 9.1 None.

### **10.0 Equality Implications**

- 10.1 None.


## 11.0 Consultation with Ward Members and Stakeholders

11.1 None.

**Report sign off:**

**CONRAD HALL**  
Chief Finance Officer

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 <b>Brent</b>	<b>Audit and Standards Advisory Committee</b> 26 July 2018
	<b>Report from the Chief Finance Officer</b>
<b>Cover Report: Draft 2017/18 Annual Governance Statement</b>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	One: <ul style="list-style-type: none"> <li>• Brent Council Annual Governance Statement 2017/18</li> </ul>
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Internal Audit Email: <a href="mailto:michael.bradley@brent.gov.uk">michael.bradley@brent.gov.uk</a> Tel: 020 8937 6526

## 1.0 Purpose of the Report

- 1.1. This report sets out the draft Annual Governance Statement (AGS) for 2017/18 as required by the Accounts and Audit Regulations 2015.

## 2.0 Recommendation

- 2.1 The Audit and Standards Advisory Committee is asked to consider approving the AGS as set out in Appendix 1.

## 3.0 Detail

- 3.1 The Council is required to prepare an Annual Governance Statement and have it approved by the relevant Committee. The statement must be signed prior to the signing of the accounts. The statement must be signed by the Chief Executive and Leader of the Council.
- 3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) produced a refreshed framework document in 2016 setting out how local authorities could comply with the requirements to conduct a review and produce the Annual Governance Statement.

- 3.3 The guidance determines that the Annual Governance Statement should “provide a meaningful but brief communication regarding the review of governance that has taken place, including the role of governance structures involved....It should be high level, strategic and written in an open and readable style.”
- 3.4 The seven core governance principles, applicable from 2016/17, are as follows:
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
  - B. Ensuring openness and comprehensive stakeholder engagement
  - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
  - D. Determining the interventions necessary to optimise the achievement of the intended outcomes
  - E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it
  - F. Managing risks and performance through robust internal control and strong public financial management
  - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.
- 3.6 The review of effectiveness is an ongoing process involving officers responsible for key elements of the governance framework as well as members of the Corporate Governance Group, who throughout the year have oversight of governance related issues.
- 3.7 The final part of the statement covers significant governance issues relating to 2017/18 as well as updates on any from prior years. There are no significant governance issues and no prior issues remain open.
- 3.8 There is some evidence of incidents and issues which are indicative of risks not having been properly identified, assessed and escalated to the appropriate levels of management. While these individual instances are considered post-event for opportunities to improve controls and learn from mistakes, there is scope to improve the risk framework to increase the likelihood of prevention or appropriate mitigation.
- 3.9 The following factors should be considered in determining significant issues:
- The issue has seriously prejudiced or prevented the achievement of a principal objective;
  - The need to seek additional funding or divert funding to resolve the issue;
  - The issue has had a material impact on the accounts;
  - The issue has attracted significant public interest or has damaged the reputation of the organisation, or
  - The issue has resulted in formal action being taken by a Statutory Officer.

#### **4.0 Financial Implications**

4.1 None

#### **5.0 Legal Implications**

5.1 The Accounts and Audit Regulations 2015 require the Council to prepare an

annual governance statement and have this reviewed by a committee.

## **6.0 Equality Implications**

6.1 None

**Report sign off:**

**CONRAD HALL**  
Chief Finance Officer

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# Brent Council Annual Governance Statement 2017/18

## **1. Scope of Responsibility**

- 1.1 Brent Council ('The Council') is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.3 The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the International Framework: Good Governance in the Public Sector. The statement is included in the annual review of the Constitution undertaken in June each year by the Director of Legal and HR Services. A copy of the Council's code is contained in part 5 of the council's Constitution and can be found on our website:  
  
<https://www.brent.gov.uk/search?q=constitution>
- 1.4 This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 6(1b), which requires all relevant bodies to prepare an annual governance statement. To ensure all statutory requirements have been met the statement has been produced in accordance with the CIPFA Delivering Good Governance Framework 2016.

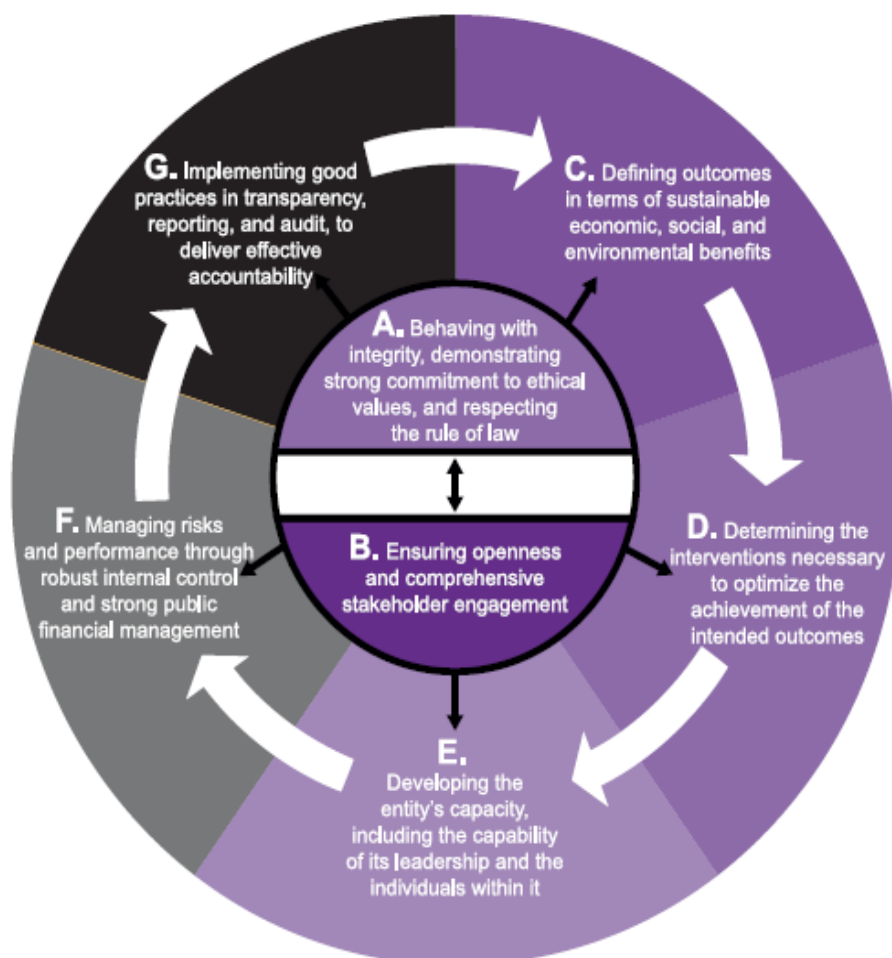
## **2. The Purpose of the Governance Framework**

- 2.1 The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.
- 2.2 The governance framework has been in place for the year ended 31 March 2018 and up to the date of approval of the statement of accounts.

### 3. The Governance Framework

3.1 The key elements of the systems and processes that comprise the Council's governance arrangements are based on the seven core principles of the CIPFA/SOLACE Governance Framework.

3.2 The arrangements for reviewing the effectiveness of the governance framework are



detailed in section 4 of this statement.

#### 3.3 **Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

3.3.1 The Constitution sets out how the council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people. The Constitution comprises six parts which set out the basic rules for governing the council's business, as well as detailed procedures and codes of practice.

3.3.2 The Constitution is regularly reviewed and was last updated in January 2018. The Constitution sets out the responsibilities of both members and officers. In particular the council has identified the following six statutory posts:

<b>Legislation</b>	<b>Statutory Post</b>	<b>Officer</b>
S4 Local Government and Housing Act 1989	Head of Paid Service	Chief Executive
Section 151 Local Government Act 1972	Section 151	Chief Finance Officer
S5 Local Government and Housing Act 1989	Monitoring Officer	Director of Legal And HR
S18 Children Act 2004	Director of Children's Services	Strategic Director Children and Young People
S6 Local Authority Social Services Act 1972	Director of Adult Social Services	Strategic Director Community and Wellbeing
Health and Director of Public Health Social Care Act 2012	Health and Director of Public Health Social Care	Director of Public Health

3.3.3 A Scheme of Delegation sets out the powers delegated to officers as part of the Constitution. The Financial Regulations are also part of the Constitution, together with the Code of Corporate Governance and the Contract Standing Orders. The Constitution is reviewed regularly, with changes (other than minor changes which can be approved by the Director of Legal and HR Services) approved by the full Council and published on the external website.

3.3.4 The Member Code of Conduct is set out in the Constitution, together with other codes. These have been reviewed and the updated codes of Conduct have been agreed or considered by the Standards Committee and/or the Audit. Advisory Committee. The council has a Standards Committee to deal with member conduct issues and this Committee is politically balanced and consists of five members and 4 independent co-opted members. Three Independent Persons have been appointed to be involved with complaints against members and the Council. The Committee has an annual work programme and is supported by the Director of Legal and HR Services. A register of member interests and gifts and hospitality is maintained.

3.3.5 All councillors receive training on the requirements of the Code of Conduct and related issues. Monitoring Officer Advice Notes give advice to members on decision making and standards of conduct.

3.3.6 All staff, in particular managers, are responsible for ensuring that laws and regulations are complied with and that the authority's policies are implemented in

practice. Strategic Directors, Operational Directors and Heads of Service are responsible for monitoring implementation of the council's policies.

- 3.3.7 The Council has a number of key governance related policies. Officers are made aware of their responsibilities through general communications, such as Weekly Round Up, manager briefings, staff events and via the induction process.

#### **3.4 Principle B: Ensuring openness and comprehensive stakeholder engagement**

3.4.1 The Policy, Performance and Partnership team is responsible for supporting statutory local partnership arrangements (Health and Wellbeing Board, Safer Brent Partnership, Safeguarding Adults and Children Boards and Children's Trust) and some non-statutory partnerships such as Partners for Brent. The Strategic Partnerships Team co-ordinates a broad range of collaborative activities, which stem from the Council's engagement with local public, private and voluntary sector organisations.

3.4.2 Partners for Brent is an advisory body which facilitates wider involvement and engagement in the delivery of public services. The Partners for Brent Strategic Forum is made up of eight organisations including the Met Police, NHS partners and CVS.

3.4.3 At a service area level, the objectives of partnerships are documented in the Service Plans and within contract documentation. They are then reflected in staff's individual objectives.

3.4.4 Commitments to deliver against our responsibilities in relation to equality and diversity feature strongly in the Council's Borough Plan. Regard to equality, diversity and human rights duties is embedded in the budget setting and business planning process, and templates for each require that officers and members take into consideration in an appropriate manner the equality, diversity and human rights impacts of proposed decisions. The Council's approach is to embed equality and diversity within all of its work so that equality considerations are part of day-to-day management.

3.4.5 Consultation and engagement with residents, stakeholders and the wider community is integral to the council's decision-making approach and processes, ensuring that a wide and diverse range of views are heard. A range of methods and techniques are utilised including the council's Consultation Portal, quarterly Brent Connects public forum and a series of 'Time to Talk' events.

#### **3.5 Principle: Defining outcomes in terms of sustainable economic, social and environmental benefits**

3.5.1 The Council has a Borough Plan for the period of 2015 to December 2019 agreed by the Cabinet, the Local Strategic Partnership and Full Council. This document includes the corporate objectives of the Council and our shared partnerships priorities with other public agencies. Key performance indicators which relate to the targets in the plan are monitored on a quarterly basis and reported to CMT and the Cabinet. The Borough Plan references other key relevant documents, including the following:

- Housing Strategy
- Health and Wellbeing Strategy
- Property and Assets Strategy;
- Employment, Skills and Enterprise Strategy;
- Safer Brent Strategy

3.5.2 The priorities of the Borough Plan are regularly set out in The Brent Magazine, its website, press releases and targeted campaigns. Service priorities are extensively consulted on with users and other relevant stakeholders. Departmental Service Plans are discussed annually with Lead Members prior to finalisation.

### **3.6 Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes**

3.6.1 The Borough Plan sets out the council's vision for the area, underpinned by a Corporate Plan which identifies the key tasks from which team plans and individual objectives are set.

3.6.2 In 2016, the Council developed a vision for Brent in 2020. The vision sets out how the Council will build on the successes achieved to-date while developing a much sharper focus on services designed around the individual and creating better outcomes for those residents with complex circumstances. It highlighted a smaller number of priorities which will influence how we prioritise our resources. These priorities are aligned to both the demographic and economic needs profile of the borough and the findings from the community engagement activities which underpin the priorities in our Borough Plan. A programme of activity is in place to support delivery of this vision with reports on progress provided regularly to CMT and elected councilors.

3.6.3 The Cabinet consider risks as part of their decision making role on corporate policies, including the annual budget setting processes, major policy decisions and major projects. The Corporate Management Team review corporate risks through regular monitoring reports. Risks are identified within Service Plans and considered on a regular basis within departmental management teams and key operational risks are reported through to the Corporate Management Team. A revised risk strategy was approved by the Audit Advisory Committee in June 2017.

### **3.7 Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it**

3.7.1 A full member learning and development programme is in place and there is a comprehensive induction programme for all councilors within the first few weeks of their election to office. Training on the Council's Code of Conduct for Councilors is compulsory. The council has adopted specific codes of conduct for councilors involved in planning or licensing decision-making and these councilors receive additional training in these areas as a pre-condition of their participation. Entitlement to special responsibility allowances for some posts is dependent on mandatory training being attended. A bespoke annual learning and development programme is provided for Councillors appointed as Members or Substitutes on the Scrutiny, Planning and Alcohol and Entertainment Licensing committees.

- 3.7.2 There is a corporate induction programme in place for staff, which is largely e-learning based, but which includes a one day face to face session including a tour of the borough. This is supplemented by various internal training courses. Key information and policies are highlighted to new staff and managers and held on the intranet.

### **3.8 Principle E: Managing risks and performance through robust internal control and strong public financial management**

- 3.8.1 Decision making arrangements are set out in the Constitution. The Council operates a Leader and Cabinet model of decision making. Although some decisions are reserved for Full Council, most are made by the Cabinet or by committees, sub-committees or officers. There are currently no decision making powers delegated to individual Members.
- 3.8.2 All forthcoming Key decisions by Cabinet, Executive committees or officers are published in the Council's Forward plan published every month on the Council's website.
- 3.8.3 Reports and minutes of meetings are also published on the council's website and are available through the Libraries. This includes urgent decisions, which are reported to the next formal meeting of Council.
- 3.8.4 The council has an Audit Advisory Committee which meets at least four times during the year, with clear terms of reference and an annual work programme for internal audit, investigations and risk management. The committee has an independent chair and an independent member to help ensure it is effective in performing its duties.
- 3.8.5 In order to enhance the effectiveness of the Committee, it has been re-constituted as an advisory committee for most of its activities. This has enabled the independent Members to be equal voting members of the committee.
- 3.8.6 The Council maintains an Internal Audit service that operates in accordance with the published internal audit standards expected of a local authority in the United Kingdom. The Head of Internal Audit has direct access to the Chief Executive, the Section 151 Officer and the Chair of the Audit Committee and now the Chair of the Audit Advisory Committee.
- 3.8.7 Robust business continuity management arrangements exist within the council, with all critical services having business continuity plans in place.
- 3.8.8 The Council has a three year Medium Term Financial Strategy, which is reviewed and updated annually as part of the budget setting process to support the achievement of the council's corporate priorities. The budget and policy framework outlines the process and timetable to be followed each year when setting the council's budget. The financial management framework includes regular budget monitoring reports to departmental management teams, Corporate Management Team and Cabinet.
- 3.8.9 In 2017/18 a task and finish group of members and senior officers was initiated to comprehensively review the Council's arrangements for Emergency Planning. It

found that arrangements were generally sound and made some recommendations for further improvement. The group's report and recommendation will be monitored by the Audit and Advisory Committee.

### **3.9 Principle F: Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

- 3.9.1 The statutory Forward Plan is published monthly on the internet, and details all key decisions proposed to be made by the council during the relevant period. Any key decision which is not on the Forward Plan may not be taken within that period, unless the report author is able to demonstrate to the Monitoring Officer and relevant members that urgency procedure requirements are met and, where required under Standing Orders, appropriate agreement of the Chief Executive or the relevant Chair of Scrutiny is obtained. All urgent decisions taken are monitored by the Monitoring Officer and regular reports taken to Full Council.
- 3.9.2 Members are required to make sound decisions based on written reports which are prepared in accordance with the report writing guide and have to be cleared by both Finance and Legal. The Cabinet receives a briefing (Leader's Briefing) three weeks prior to the Cabinet meeting when members can ask detailed technical questions of officers. All reports must be reviewed and signed-off by, or on behalf of, the Chief Finance Officer and the Director of Legal and HR Services and contain clear financial and legal advice to help members arrive at decisions.
- 3.9.3 In accordance with the Local Government Act 2000, the Council has mechanisms in place to allow the effective, independent and rigorous examination of the proposals and decisions by the Cabinet. These mechanisms involve the Scrutiny process including call-in. The conduct of the Council's business is governed by the Constitution, which includes Standing Orders and Financial Regulations.
- 3.9.4 All members and chief officers are required to complete an annual statement relating to third party transactions and a register of members' interests, which is updated by members, is maintained and published on the Council's website.
- 3.9.5 The Brent Council Code of Conduct for Members, revised in 2015, defines the standards of conduct expected of elected representatives, based on the principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Complaints under the Code are reported to the Standards Committee as are details of declared Gifts and Hospitality received by members.
- 3.9.6 In addition, the following codes, protocols and systems are well established within the council. All are regularly reviewed and updated to account for developments in governance arrangements and changes in local government.

These include:

- A declaration of interest process for members and senior officers as described above;
- Rules and protocols are in place and are being further developed for all partnership working;

- Organisation-wide performance appraisal and employee development schemes are in operation;
- There is a corporate complaints procedure in place in line with Ombudsman good practice requirements;
- Whistle-blowing, anti-fraud and anti-corruption / bribery policies are in place and publicised in compliance with the national transparency agenda; senior officers' remuneration is published on the council website.

#### **4. Review of Effectiveness**

- 4.1 The Governance Framework is subject to on-going review as part of the everyday business of the organisation. The reduction in resources within the public sector has increased the attention on ensuring that governance frameworks remain efficient and effective. The Council also has responsibility for conducting, at least annually, a formal review of the effectiveness of its governance framework including the system of internal control.
- 4.2 The review of effectiveness is informed by the work of the Directors and senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the work of the Head of Internal Audit and Investigation's Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.
- 4.3 The Council's review of the effectiveness of its system of internal control is informed by:
- Annual Assurance Opinion of the Head of Internal Audit;
  - Performance against targets;
  - LGA Peer Review, and
  - A review of the previous year's Annual Governance Statement.
- 4.4 The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is described below:

##### **4.4.1 Performance Management**

The Council has a Performance Management Framework, overseen by the Corporate Performance Team (CPT), within the Chief Executive's Department. The CPT works with Departmental Management Teams to strategically align all the Council's performance monitoring and reporting and coordinate the production of two main reports:

- The Quarterly Performance Report for Cabinet, and
- Portfolio Performance Packs

Members play a regular role in performance management, providing challenge to officers. Cabinet receives a report on performance each quarter. Cabinet portfolio holders have regular meetings with Executive Directors and review finance and performance indicators.



#### **4.4.2 Management**

The Council Management team meets fortnightly to oversee the operations of the organisation and receives reports for both challenge and comment prior to formal decision-making processes. Reports will also be presented to provide the required assurances regarding the strategic risks the organisation faces. These include periodic reports from the groups and boards established in the identified high risk areas such as Health and Safety; IT Governance; Business Continuity; Corporate Risk and Contracts and Procurement. The role and contribution that these groups make is reviewed on an on-going basis.

#### **4.4.3 The Cabinet**

The Cabinet makes key decisions in accordance with the Budget and Policy Framework. It conducts joint planning sessions with the Corporate Management Team to consider the council's policy priorities and its linkages with the medium term financial strategy. The Cabinet meets regularly with the Corporate Management Team to develop policy and to receive operational and financial performance information.

#### **4.4.4 The Standards Committee**

The Standards Committee receives reports from the Council's Monitoring Officer on issues concerning member conduct and would consider reports referred from the Monitoring Officer which require investigation and/or determination.

#### **4.4.5 Scrutiny Committees**

In 2016, Full Council approved a new structure for scrutiny at Brent Council. This was to replace the Scrutiny Committee with the Community and Wellbeing Scrutiny Committee and the Resources and Public Realm Scrutiny Committee. The new dual committee system came into effect on 18 May 2016. Each of the committees has discrete responsibilities for scrutinising the council's executive and covers different parts of the local authority's services. Policy is reviewed by reports discussed at committee as well as task groups set up to review a particular issue. In addition, a Budget panel, which is chaired by the chair of Resources and Public Realm Scrutiny Committee, was set up. As part of the transition of the council's arms-length management company, Brent Housing Partnership, back to the council in 2017, a Housing Scrutiny committee was also established to provide scrutiny of the operation of the new Housing Management Service. In addition, there is scrutiny of Cabinet members and decision-making at individual committee meetings of the three committees. The three committees have a statutory role in scrutinising policy and decision-making of external organisations and agencies.

#### **4.4.6 The Audit Advisory Committee**

The Audit Committee met five times during 2016/17 and has considered the work of Internal Audit during the year, the Head of Internal Audit's annual report and opinion and the External Auditor's annual letter. The Committee monitors the effective development and operation of risk management. It reviews the annual statement of accounts specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from audits that need to be brought to the attention of the Council. The Audit Committee also considers the Treasury Management Strategy and the Annual Investment Strategy and reviews treasury management activity during the year.

In order to enhance the effectiveness of the committee, it has been re-constituted as an advisory committee for most of its activities. This enables the Independent Members to be equal voting members of the committee. Those matters which come before the committee which require a formal exercise of council functions (e.g. approval of accounts) will continue to be made by the Audit Committee, which will consist of the councilor membership of the Audit Advisory Committee.

#### **4.4.7 Corporate Governance Group**

Set up in 2016, this is an informal, but significant, meeting of the Council's three corporate Statutory Officers together with the Head of Audit and Investigations and the Strategic Director of Resources. It reviews key governance issues, the results of recent sensitive investigations and similar material in order to update policy and practice as appropriate.

#### **4.4.8 Internal Audit**

The council receives assurance about the effectiveness of the corporate governance, internal control and risk management arrangements from the work of Internal Audit which provides independent and objective assurance across the whole range of the Council's activities. It is the duty of the Head of Audit and Investigations to give an opinion, at least annually, on the adequacy and effectiveness of internal control within the Council. This opinion has been used to inform the Annual Governance Statement.

The Head of Audit and Investigations will produce an annual report which will be presented to the Audit Advisory Committee. This report will outline the key findings of the audit work undertaken during 2017-18.

An assurance mechanism is used to reflect the effectiveness of the council's internal control environment. The table below details the four levels of assurance provided:

Level	Definition
Substantial	There is a sound system of internal control designed to achieve the objectives. The control processes tested are being consistently applied.
Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the objectives at risk.
Limited	Weaknesses in the system of internal controls are such as to put the objectives at risk. The level of non-compliance puts the objectives at risk.
None	Control processes are generally weak leaving the processes / systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / systems open to error or abuse.

*It is the opinion of the Head of Audit and Investigations that, taking into account all available evidence, there is reasonable assurance over the adequacy and effectiveness of the council's overall framework of governance, risk management and control during the financial year 2017-18.*

The Audit and Investigation Service exited a shared service arrangements led by the London Borough of Ealing as of 01 April 2017 and a new Head of Audit and Investigations was appointed in June 2017. Work to ensure the service fully meets the needs of the Council and adheres to the Public Sector Internal Audit Standards commenced in 2016 and continued into 2017/18.

The team has been restructured with vacant posts filled.

#### 4.4.9 External Audit

KPMG LLP is currently the Council's appointed external auditor. As well as an examination of the Council's financial statements, the work of the council's external auditor includes an assessment of the arrangements the Council have in place to deliver value for money in its use of resources. From April 2018 onwards the Council's appointed external auditor will be Grant Thornton.

#### 4.4.10 Risk Management

The Council managed its risks during 2017-18 in accordance with the approved Risk Management Policy. The Corporate Management Team formally considers risks, with quarterly reports also being presented to the Audit Committee. A new risk strategy was approved in June 2017. During 2017/18 a review of the

effectiveness of the new approach and findings was undertaken and will be reported accordingly.

There is some evidence of incidents and issues which are indicative of risks not having been properly identified, assessed and escalated to the appropriate levels of management. While these individual instances are considered post-event for opportunities to improve controls and learn from mistakes, there is scope to improve the risk framework to increase the likelihood of prevention or appropriate mitigation.

#### **4.4.11 Developing Capacity**

The Council has operated procedures during the period covered by this statement to ensure the training needs of staff are assessed against core competencies and any key training needs are met. Additionally, the Council has provided and makes available ongoing training opportunities to councilors to enable them to effectively fulfil their duties.

#### **4.4.12 Engagement**

Regular consultation is also undertaken with residents to ensure that the authority makes decisions based on resident requirements and feedback regarding general provision and quality of service.

## **5. Significant Governance Issues**

- 5.1 No significant governance issues were identified during 2017/18.
- 5.2 We propose to continue the focus on the principles of governance and ensuring they remain embedded within the governance framework. All the areas for development identified as part of the 2017/18 review of effectiveness will be monitored and closed during 2018/19. This will be confirmed as part of the 2018/19 review of effectiveness and reported within the Annual Governance Statement.

**6. Conclusion and Evaluation**

As Leader and Chief Executive, we have been advised of the implications of the results of the review of the effectiveness of the Council's governance framework.

Our overall assessment is that this Annual Governance Statement is a balanced reflection of the governance environment and that an adequate framework exists within the London Borough of Brent to ensure effective internal control is maintained.

We are also satisfied that there are appropriate plans in place to address any weaknesses and ensure continuous improvement in the system of internal control.

Signed:

.....

**Muhammed Butt**


**Carolyn Downs**

Leader of the Council

Chief Executive

Date:

.....

 <p><b>Brent</b></p>	<p><b>Audit and Standards Advisory Committee</b> 26 July 2018</p>
<p><b>Report from the Chief Finance Officer</b></p>	
<p><b>Risk Management Framework Review</b></p>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	N/A
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	One : <ul style="list-style-type: none"> <li>• Risk Management Criteria and Thresholds, 2014</li> </ul>
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Michael Bradley Head of Internal Audit and Investigations Email: <a href="mailto:michael.bradley@brent.gov.uk">michael.bradley@brent.gov.uk</a> Tel: 0208 937 6526

## 1.0 Summary

1.1 This report provides the conclusions of a Risk Management Framework Review and feedback on a new approach that has been piloted with two departments. The final part of this report provides a draft implementation plan to embed and enhance Brent’s Risk Management culture and provide ongoing assurance on the currency and validity of the Corporate Risk Register.

## 2.0 Purpose of the Report

2.1 In accordance with the terms of reference for the Committee, the report is presented to ‘enable the Committee to monitor the effective development and operation of risk management and corporate governance in the Council.’

## 3.0 Recommendation

3.1 The Audit and Standards Advisory Committee is asked to note and comment on the draft implementation plan to embed the Risk Management Strategy.

## 4.0 Detail

- 4.1 A review of the risk management framework was undertaken as part of the internal audit plan approved by the Audit Committee in March 2017. The purpose of the review was to assess the effectiveness of the current RM framework and, if necessary, establish an appropriate road map to improve the service.
- 4.2 The review assessed the policy and procedures in place, the process and reporting of risk identification, treatment and monitoring, and finally the culture. A number of stakeholders were engaged and the risk management documentation was reviewed.

### Summary of Findings

- 4.3. **Corporate strategy and risk appetite:** Risk management is considered at all levels of governance, but there is an opportunity to further embed risk management into decision making in a consistent, robust and rigorous manner. The principal risk register is felt to drive decision making, and be fully reflective of the risks faced by the council. It could be strengthened by incorporating “bottom up” risks from the organisation.
- 4.4. **Policy, roles and responsibilities:** Brent has successfully drafted the core components of RM documentation, including the policy and strategy, and risk register template for service completion, including incremental complexity that can be adopted as the maturity develops. Brent is also to be commended on establishing a network of Risk Champions although the responsibilities of risk owners, sponsors and champions could benefit from greater clarity. The risk function would benefit from articulating its’s vision and mission statement to help the organisation understand the value add that Risk Management can bring. The Policy would benefit from a more detailed guidance document, and the criteria may benefit from simplification to avoid losing staff good will. The policy needs to be modified to facilitate reporting between different governance levels.
- 4.5. **Method:** The Risk Management Framework sets out the key method for effective risk management and Brent has implemented regular risk reporting for reviewing and publically disclosing the principal risks to members and the public. However, most interviewees felt that the strategic risk register did not reflect the risks of the departments and, as mentioned above, could align better to the 2020 objectives. Consistency is required in process to ensure quality of inputs and value-adding outputs. Clearer reporting and visibility would ensure that risk insight is consistently emerging from the first line. Predictive risk monitoring (Key Risk Indicators) would greatly facilitate risk insight and value added.
- 4.6. **Tools and technology:** The excel risk registers are fit for purpose but not used on a consistent basis. The use of reporting tools could be enhanced/embedded.
- 4.7. **Training and awareness:** Key, selected staff would benefit from a short training programme or working sessions in risk management, the framework and facilitation skills.



- 4.8. **Culture:** There is genuine interest in risk management. However, for some, registers are seen as a 'tick box' rather than a value-adding exercise. Interviewees believe risk is genuinely considered but that there needs to be more explicit rigour and evidence of the process.
- 4.9. **Assurance:** Integration between the assurance plan and the corporate risk register could be strengthened by a corporate risk report that aligned more closely to the 2020 objectives

### **Proposed refinements to the current Risk Management Framework**

- 4.10. To enable the risk management framework to be meaningful and helpful across all aspects of governance, we suggest running a series of targeted workshops for departments and services. The purpose of the risk workshop and risk register is to help teams to identify risks to strategic objectives at every level and then prioritise and track appropriate mitigating actions. The output would be a new/updated risk register. A good risk register can be translated to a report to offer management the opportunity to offer support, review and challenge the appropriateness and timeliness of actions to move risk exposure to an acceptable level.
- 4.11. We suggest a three tier approach:
- DMTs: The first stage would be to roll out DMT risk workshops to create representative risk registers by department to identify key risks and actions under way;
  - CMT: The second stage would be to use the department risk registers to form the basis of a new, aligned and meaningful corporate risk register for the council offering a bottom up approach. CMT will then have the opportunity to offer a 'top down' perspective and finalise the principal risk register, and
  - Services: The final stage would be to run risk workshops for heads of services, which can then inform/refine DMT risk registers to ensure alignment of risks.
- 4.12. At present, everyone in the council uses risk criteria and thresholds as set for 'CMT. We propose a new approach that allows each level of management (service, departmental and CMT) to set materiality thresholds which would allow departments to identify their priorities, identify risks to escalate/report, and thus generate more meaningful discussions. The concept is illustrated in the paragraphs below (using only 'reputational risk' thresholds for illustrative purposes):
- *for CMT the range could be from short term medium damage with criticism of the Council reported in national press coverage - one instance (1), to long term damage caused by negative publicity with high levels of criticism reported in the national press coverage for up to 5 days (5)*
  - *for DMTs: it could range from short term local reputational damage caused by high visibility local press coverage (headlines/front page) through to short term*

*medium reputational damage caused by negative publicity reported by national press (one day)*

- *At service level - the key would be to escalate when there is a real probability of high visibility of local press coverage.*
- 4.13. Once risk registers are in place at the relevant levels, work can commence on the principal risks to identify drivers and key risk indicators that can be used to assess movement in trends, and act as an early warning mechanism. This would also facilitate the articulation of a corporate risk appetite.
- 4.14. We also recommend holding informal quarterly risk management training sessions, for employees to promote best practices for services and help facilitate greater consistency in risk management and alignment with the risk management framework. This would be supported by best practice guidance and links on the intranet.
- 4.15. The current risk criteria and thresholds for CMT are provided in Appendix A. CMT are invited to comment on whether these are still appropriate. We propose to simplify the current probability scale to high, medium and low, and make a similar simplification for the impact criteria. We also recommend revising thresholds for the CMT risk map, once all the DMT risk registers are finalised, to ensure only the principal risks are escalated to CMT.
- 4.16. The key benefit of the approach is to make the risk registers and risk reports meaningful for each level of governance, by setting appropriate risk thresholds for each service and department, which will enable them to prioritise actions and resource to ensure the achievement of objectives. In addition, the approach will allow greater transparency of risks allowing themes such as recruitment and retention, or lone working, to emerge. The key benefit of the reporting template is its simplicity – increasing the transparency of risks and thus allowing greater oversight and challenge of actions.

### **Pilot results**

- 4.17. We have piloted the process outlined above across two areas – the Finance Service and the Regeneration and Environment department. Workshops with senior members of each department were run to identify and assess risks and then actions were identified and discussed with management.
- 4.18. The risk register has been deliberately simplified to facilitate discussion and encourage participation and ownership.
- 4.19. Feedback from participants has been positive, and in general the participants have suggested that other departments and services would benefit from the approach.

### **Implementation Plan**

- 4.20. We ran DMT risk workshops in June and July 2018, and subsequently wrote a principal risk report. These will be repeated on an annual basis.

- 4.21. A risk based approach would be taken to offering services support in compiling risk registers. Training would be offered on a quarterly basis across all departments to enable risk champions and heads of service to lead their own risk workshops.

## **5.0 Financial Implications**

- 5.1. The Strategy does not seek to increase the resources required to manage risk or facilitate the reporting of risk. It recognises the need for streamlined processes as resources within the Council reduce. The Audit and Investigation Service do not currently have a dedicated risk resource. The cost of implementing the new strategy can be achieved within the wider service budgets.

## **6.0 Legal Implications**

- 6.1. All Local Authorities are required to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2015:

“A relevant authority must ensure that it has a sound system of internal control which:

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensures that the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.”

## **7.0 Equality Implications**

- 7.1 None.

## **8.0 Consultation with Ward Members and Stakeholders**

- 8.1 Not applicable.

**Report sign off:**

**Conrad Hall**  
Chief Finance Officer

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## Risk Management Criteria and thresholds, 2014


Impact Score	1	2	3	4	5	6
Descriptor	Insignificant	Minor	Moderate	Significant	Serious	Very Serious
Financial	Financial loss up to £100,000	Loss up to £250,000	Loss up to £500,000	Loss up to £1,000,000	Loss up to £3,000,000	Loss > £3,000,000
Compliance	No regulatory consequence	Minor breach of duty, legal action unlikely	Moderate breach of duty resulting in possible disciplinary action, legal action possible	Significant breach of duty resulting in disciplinary action, legal action probable	Serious breach of duty resulting in fines/disciplinary action, legal action expected	Major breach of duty resulting in possible imprisonment, legal action almost certain and difficult to defend
Service Delivery	Insignificant disruption on internal business and no loss of customer service	Possible significant disruption to internal business and no loss of customer service Lasting less than 24 hours Affects a single or few services	Disruption to internal business or possible disruption to services to non-vulnerable groups Lasting 1 to 2 days Affects a single directorate	Disruption to internal business or probable disruption to services to non-vulnerable groups Lasting 2 to 3 days Affects more than one directorate	Disruption to services to non-vulnerable groups and possible disruption to services to vulnerable groups Lasting 3 to 5 days Affects most directorates	Prolonged disruption to services to vulnerable groups Lasting more than 5 days Affects the whole Council
Environmental	No or insignificant environmental damage	Minor local environmental contamination with short term effects	Moderate local environmental damage with short term effects	Significant local environmental damage with short to medium term effects	Major local environmental damage with medium term effects	Major local and national environmental damage with long term effects for the local area
Reputational	No reputational damage or adverse publicity	Minor/limited reputational damage or internal adverse publicity	Moderate reputational damage or possible local adverse publicity	Significant reputational damage or probable local adverse publicity	Substantial/widespread reputational damage or possible national adverse publicity	Major/severe reputational damage and national adverse publicity Central Government interest/administration
Personal Safety	No impact on personal safety	Minor injury or discomfort, not requiring first aid	Short-term injury, possibly requiring first aid or limited medical attention	Medium-term injury, requiring first aid or medical attention	Extensive, permanent / long term injury for an individual or several people	Death or life threatening situation for an individual or several people

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Impact	6	6	12	18	24	30	36
	5	5	10	15	20	25	30
	4	4	8	12	16	20	24
	3	3	6	9	12	15	18
	2	2	4	6	8	10	12
	1	1	2	3	4	5	8
	1	2	3	4	5	6	
<b>IMPACT</b>							

Likelihood Score	1	2	3	4	5	6
Descriptor	Rare	Unlikely	Possibly	Likely	Probably	Almost Certain
Probability of occurrence in next 12 months	< 5%	5 – 20%	21 – 40%	41 – 60%	61 – 80%	> 80%

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 <p><b>Brent</b></p>	<p><b>Audit and Standards Advisory Committee</b> 26 July 2018</p> <hr/> <p><b>Report from the Chief Finance Officer</b></p>
<p><b>Statement of Accounts 2017/18 and External Auditor's Report</b></p>	

<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>No. of Appendices:</b>	Two: <ul style="list-style-type: none"> <li>• ISA 260 Report</li> <li>• Letter of Representation</li> </ul>
<b>Background Papers:</b>	N/A
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	<p>Conrad Hall Chief Finance Officer Email: <a href="mailto:conrad.hall@brent.gov.uk">conrad.hall@brent.gov.uk</a> Tel: 020 8937 6528</p> <p>Ben Ainsworth Head of Finance Email: <a href="mailto:Benjamin.ainsworth@brent.gov.uk">Benjamin.ainsworth@brent.gov.uk</a> Tel: 020 8937 1731</p>

## 1.0 Summary

1.1 The Audit and Standards Committee has responsibility for considering issues raised by the external auditors as part of the process of approving the annual statement of accounts. The basis for this consideration is the “report to those charged with governance” also referred to as the ISA260 report. The Council’s external auditors, KPMG, produce the report following completion of the audit of accounts. The report is intended to identify any changes to the accounts, unadjusted mis-statements or material weaknesses in controls identified during the audit work. It also provides the findings from the value for money conclusion for the year.

- 1.2 At the time of writing this report KPMG are in the process of completing the audit of the 2017/18 accounts and their ISA260 report, reflecting the current position, will follow and become Appendix 1 to this report. Based on the current position KPMG intends to give unqualified opinions on the Council and Pension Fund accounts and a clear value for money conclusion.
- 1.3 Representatives from KPMG will attend the meeting to provide an update on the audit and respond to any matters raised by the Committee.

## **2.0 Recommendations**

- 2.1 The Committee is asked to:

Review the report to those charged with Governance from KPMG and:

- consider the key issues and recommendations
- consider the corrected audit differences
- approve the statement of accounts
- approve the letter of representation to KPMG

## **3.0 Detail**

### **Statement of Accounts**

- 3.1 The draft statement of accounts for 2017/18 was published on the Council's website on the 31 May, as required by statutory regulation. This timescale is a month earlier than last year and has required the Council to both shorten its processes and make more use of estimation to produce the accounts on time.
- 3.2 The audit of the accounts commenced in June, and needs to be completed by the 31 July. This reduces the time allowed for audit by a month compared to 2016/17, which has meant that in addition to producing the accounts in a shorter timeframe they have to be produced with higher quality working papers as there is less time to conclude any audit queries. In total, two months has been removed from the overall timetable to prepare and audit the accounts.
- 3.3 The attached ISA260 report sets out the anticipated results of the audit with the following key points being:
- Unqualified audit opinion
  - Positive feedback on the accounts production and audit process
  - the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources
- 3.4 As a result of the audit a number of adjustments to the accounts have been agreed by council officers and KPMG. These are shown in section three of the auditor's report. The only material adjustment is as a result of missed revaluation of additions and enhancements made to council dwellings. Although these adjustments are significant in value they do not have any impact on the council's general fund or HRA position, or its future spending plans. As a result of these adjustments the principal changes are that the value of the council's assets has decreased and the value of the Council's unusable



reserves has increased. There are smaller adjustments that have been agreed to ensure that leases are treated correctly, that the pension fund estimates are up to date, and that I4B assets have been transferred to I4B from the council.

- 3.5 As might be expected in the first year of an accelerated timetable to close the accounts, there are a number of recommendations from KPMG for how the process can be improved in future years. Officers will be putting these recommendations into effect with a revised plan for closing the 2018/19 accounts.

#### **Publication of Statement of Accounts**

- 3.6 The Council is required to publish the 2017/18 accounts by 31 July 2018. Once approved, the statement of accounts will be published on the Council's website.
- 3.7 Once the audit has been completed a Letter of Representation needs to be signed prior to KPMG issuing an audit opinion. A draft letter, setting out confirmation from the Council regarding the financial statements and information provided as part of the audit process, is attached as Appendix 2.

#### **4.0 Financial Implications**

- 4.1 There have been some adjustments to the Statement of Accounts during the course of the audit. None of these have impacted on the medium term financial position of the Council.

#### **5.0 Legal Implications**

- 5.1 No specific implications.

#### **6.0 Equality Implications**

- 6.1 No specific implications.

#### **7.0 Consultation with Ward Members and Stakeholders**

- 7.1 Not applicable.

**Report sign off:**

**Conrad Hall**  
Chief Finance Officer

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Topic / Date	20-Mar-18	26-Jul-18	17-Oct-18	11-Dec-18	05-Feb-19	20-Mar-19	24-Apr-19
<b>Internal Audit &amp; Investigations</b>							
Internal Audit Annual Report, including Annual Head of Audit Opinion		X					
Review Internal Audit Charter	X				X		
Internal Audit and Investigations Progress Report	X		X		X		X
Draft Internal Audit and Investigations Annual Plan	X					X	
Preparation for Peer Review (self-assessment; plan; peer review)	X		X		X		X
<b>External Audit</b>							
External Audit progress report	X	X	X	X	X	X	X
External Audit plan					X		
External Audit - Certification of grants and returns (as and when)	X					X	
Statement of Accounts & External Auditor's Report		X					
External Auditor Annual Audit Letter				X			
<b>Financial Reporting</b>							
Treasury Management Mid-term Report			X				
Treasury Management Strategy & Annual Investment Strategy					X		
Draft Statement of Accounts		X					
Capital Programme Update*			X				
Minimum Revenue Policy (MRP) 2018/19 Report (Including an introduction to the revised MHCLG guidance on Investments & MRP)*		X					
Treasury Management Outtrun Report		X					
<b>Governance</b>							
To review the performance and management of I4B Holdings Ltd and First Wave Housing	X	X					
Review of the use of RIPA Powers	X					X	
To consider issues that had been raised under the Planning Code of Conduct				X			
Receive and agree the Annual Governance Statement		X				X	
<b>Risk Management</b>							
Risk Management Annual Review, including Risk Management Strategy				X			
Strategic Risk Register				X			
Emergency Preparedness		X					
<b>Audit Committee Effectiveness</b>							
Review the Committee's Forward Plan	X	X	X	X	X	X	X
Quarterly private meetings between the Chair of Audit Advisory Committee and the Head of Audit and Risk Management							
Determine and Deliver Training Requirements for Audit Committee Members as Required	X					X	
<b>Standards Matters</b>							
Quarterly update on gifts and hospitality		X		X		X	X
Annual Standards Report						X	

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