Date: **14 September 2023**
Ask For: Charles Hungwe
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CABINET

21 SEPTEMBER 2023

A meeting of the Cabinet will be held at **7.00 pm on Thursday, 21 September 2023** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillor Everitt (Chair); Councillors: Whitehead, Albon, Duckworth, Keen and Yates

SUPPLEMENTARY AGENDA

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Overview and Scrutiny Panel Review Report on Collaboration between TDC and Parish and Town Councils

Cabinet	21 September 2023
Report Author	Charles Hungwe, Deputy Committee Services Manager
Portfolio Holder	Councillor Everitt, Leader of Council and Cabinet Member for Strategy and Transformation
Status	For Decision
Classification:	Unrestricted
Key Decision	No
Previously Considered by	Overview and Scrutiny Panel - 14 March 2023
Ward:	Thanet Wide

Executive Summary:

This report contains the Cabinet Response to the recommendations contained within the Scrutiny Review Report of the Collaborations Working Party. In July 2022, The Overview and Scrutiny Panel commissioned the Collaborations Working Party to review how the Council could improve closer working relationships with parish and town councils for improved service delivery to Thanet residents. The review reported its findings back to the Overview and Scrutiny Panel who in turn recommended them to Cabinet. Those findings in the form of the Working Party's final report are attached at Annex 1 to this report.

Recommendation(s):

Cabinet is being asked to consider and make a decision on the recommendations from the Overview and Scrutiny Panel highlighted in section 3 and covered in more detail in the review report attached as Annex 1 to the cover report.

Corporate Implications

Financial and Value for Money

The report recommends the prioritising of resources for improved collaborative working between TDC and the parishes and identifying financial resources for any functions that would be delegated to parishes if TDC was to delegate any functions to the parishes. Due to TDC's limited resources any prioritisation for these activities would most likely require the council to consider what other activities would need to be deprioritised in order to release and reallocate funding.

In other words, the council would need to identify new sources of funding or reduce funding on other service areas or activities (via savings or service reductions) to provide the funding to pay for any functions that would have been delegated to parishes. If an officer role were to be identified to support formal engagement of parishes by TDC as proposed in Recommendation 4, again sources of funding such a role would need to be identified.

However, it would be necessary for the council to have assurance that any income estimates to fund the proposals as detailed in the report were robust, reliable and sustainable before they could be included in the budget.

Legal

The role of scrutiny is set out in section 9F of the Local Government Act 2000. The council must also have regard to the statutory guidance on Overview and Scrutiny from the ministry of Housing, Communities and Local Government when exercising its functions.

Risk Management

Adoption of the recommendations in this report and as detailed in Annex 1 to the cabinet report, Cabinet would need to be aware of the financial implications which would arise. This is with particular reference to the need to identify additional resources to fund some of the implementation of those recommendations. The recommendations would also be best implemented through an action plan which would provide a better structure for carrying out the work. An action plan would also make it easier to monitor progress and measure the impact of the new way of working between Thanet District Council and parish and town councils.

Corporate

This report is a result of the work undertaken by a working party that was tasked by the Overview & Scrutiny Panel to conduct an investigation into the potential for closer collaborative working between Thanet District Council and Parish and Town Councils. Any findings would need to be shared with Cabinet for a final decision.

Equality Act 2010 & Public Sector Equality Duty

Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.

Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

This report relates to the following aim of the equality duty: -
(Delete as appropriate)

- To eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act.

- To advance equality of opportunity between people who share a protected characteristic and people who do not share it
- To foster good relations between people who share a protected characteristic and people who do not share it.

No implications arise directly but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration has been given to the equalities impact that may be brought upon communities by the decisions made by Council.

Corporate Priorities

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities

1.0 Introduction and Background

1.1 At the meeting on 26 May 2022, the Overview and Scrutiny Panel set up a four member Collaboration Working Party to conduct a scrutiny review on identifying the potential for closer collaborative working between Thanet District Council and parish and town councils for improved service delivery to the district. The review topic was picked out of a list of topics that were identified by the Panel (on officer advice) and that list forms part of the Overview and Scrutiny Panel work Programme.

1.2 The working party was given specific terms of reference as follows:

a. To consider establishing closer working relationships between TDC and Parish and Town Councils.

2.0 The Scrutiny Review Process

2.1 The working party had three further sessions. One was with Cabinet on 27 October which was attended by members of the previous Cabinet,mainly the Leader of Council, Deputy Leader and Cabinet Member for Economic Development, Cabinet Member for Housing and Cabinet Member for Environmental Services and Special Projects. The working party then held a meeting with parish and town council chairs and clerks on 3 November and this was followed by a session with TDC senior officers on 9 November 2022.

2.2 These sessions were useful in bringing forward a number of suggestions that will be shared by the working party in the report back to the Panel. The sub group met on 24 November 2022 and agreed on the findings that came out of this investigation and recommendations and then signed off the report at a meeting on 1 February 2023. Thereafter the Overview and Scrutiny Panel adopted the report on 14 March 2023.

2.4 The scrutiny review report is attached as Annex 1 to the covering report.

3.0 Recommendations of the Scrutiny Review Report

3.1 The recommendations of the Scrutiny are as follows:

1. Reconstitute the Parish Forum, meeting quarterly with a strictly controlled agenda. Its membership would be Parish & Town Council Chairs and Clerks, it would be chaired by the Leader of Thanet District Council, and other officers and members could attend by invitation;

2. Provide clarification on options for delegation of responsibilities from TDC to Parish and Town Councils, with a view to further developing these responsibilities over time;

3. Encourage a spirit of learning and sharing so Parish, Town and District Councils can learn from each other, and Councils can share their experiences of carrying out certain delegated functions;

4. Establish a dedicated officer role to act as the point of contact between Parishes and the District. Identify a Cabinet Member to support and monitor any transition of functions between TDC and Town/ Parish Councils;

5. Provide a regular circular for information to Parish & Town Councillors and Clerks, based on information in The Loop and the CEx's fortnightly mailing to TDC members;

6. Invite Parish/ Town Councillors to attend training provided for District Councillors as appropriate to help establish a shared understanding and approach on important issues. Invite Chairs and Clerks to Members' Briefings on matters of mutual interest;

7. Work with the Parishes to jointly develop a Parish Charter, which would detail a framework for collaborative working between the District Council and Parish and Town Councils. The Charter would also explain how Parishes could take on additional responsibilities from the District Council and highlight the need for mutual respect between the two tiers;

8. Establish good communication between the District and Town/ Parish Councils, so that Town & Parish Councils are routinely kept informed of, and where appropriate consulted on, District Council plans affecting their areas - for example, planned Asset Disposals (which will require a review of the current Asset Management Policy), events plans, funding bids and regeneration proposals;

9. Share an up to date TDC officer and Member structure chart with contact details that can be shared with Parish and Town Councils.

4.0 Comments on the Recommendations from Officers

1. Reconstitute the Parish Forum, meeting quarterly with a strictly controlled agenda. Its membership would be Parish & Town Council Chairs and Clerks, it would be chaired by the Leader of Thanet District Council, and other officers and members could attend by invitation;

Comments: Agreed

2. Provide clarification on options for delegation of responsibilities from TDC to Parish and Town Councils, with a view to further developing these responsibilities over time;

Comments: Agreed

3. Encourage a spirit of learning and sharing so Parish, Town and District Councils can learn from each other, and Councils can share their experiences of carrying out certain delegated functions;

Comments: Agreed

4. Establish a dedicated officer role to act as the point of contact between Parishes and the District. Identify a Cabinet Member to support and monitor any transition of functions between TDC and Town/ Parish Councils;

Comments: Agreed. The nominee is the Head of Neighbourhoods

5. Provide a regular circular for information to Parish & Town Councillors and Clerks, based on information in The Loop and the CEx's fortnightly mailing to TDC members;

Comments: Agreed

6. Invite Parish/ Town Councillors to attend training provided for District Councillors as appropriate to help establish a shared understanding and approach on important issues. Invite Chairs and Clerks to Members' Briefings on matters of mutual interest;

Comments: Agreed

7. Work with the Parishes to jointly develop a Parish Charter, which would detail a framework for collaborative working between the District Council and Parish and Town Councils. The Charter would also explain how Parishes could take on

additional responsibilities from the District Council and highlight the need for mutual respect between the two tiers;

Comments: Agreed

8. Establish good communication between the District and Town/ Parish Councils, so that Town & Parish Councils are routinely kept informed of, and where appropriate consulted on, District Council plans affecting their areas - for example, planned Asset Disposals (which will require a review of the current Asset Management Policy), events plans, funding bids and regeneration proposals;

Comments: Agreed

5.0 Options

5.1 Cabinet could decide to agree as a whole or in part, the findings and recommendations of the Overview and Scrutiny Panel as outlined in Section 3.0 above.

5.2 Cabinet could decide to reject some or all of the recommendations.

6.0 Next Steps

6.1 If Cabinet is minded to agree all or part of the recommendations, officers will then structure these into an action plan for their implementation.

6.2 Members of the Overview and Scrutiny Panel, could then be able to keep a watching brief of the progress regarding the implementation of the action plan.

6.3 Some of the recommendations would require an identification of the budget in order to allocate resources for carrying out the work required by those recommendations.

Contact Officer: (Charles Hungwe, Deputy Committee Services Manager)
Reporting to: (Nick Hughes, Committee Services Manager)

Annex List

Annex 1: Collaboration Scrutiny Review Report

Background Papers

None

Corporate Consultation

Finance: *Chris Blundell (Director of Corporate Services - Section 151)*
Legal: *Sameera Khan (Interim Head of Legal & Monitoring Officer)*

Agenda Item 5
Annex 1

Thanet District Council

Collaboration Scrutiny Review 06 March 2023

06 March 2023/Final Version/CH

Executive Summary and Recommendations

Thanet District has a population of about 140,600 and is served by Thanet District Council and ten Parish and Town Councils that include Acol, Birchington, Cliffsend, Manston, Minster, Monkton, St Nicholas-at-Wade with Sarre Parish Councils, Broadstairs, Ramsgate, Westgate-on-Sea Town Councils and the Margate Charter Trustees. Parish and Town Councils, being second tier level Local Authorities after the District Council, provide a number of services that they fund through precepts. Improved collaborative working between the District Council and the Parishes would enhance service delivery for Thanet residents.

The investigation by the collaboration working party took evidence from the District Council Leader, Cabinet Members and senior officers, Parish and Town Council Chairs and Clerks.

The Review Panel hopes that its recommendations will act as a useful catalyst to further and better engagement between Thanet District Council and Parish and Town Councils with the aim of ensuring good quality service for the local communities in Thanet. A digest of recommendations is set out below and the full conclusions included in the full report.

Digest of Recommendations:

1. Reconstitute the Parish Forum, meeting quarterly with a strictly controlled agenda. Its membership would be Parish & Town Council Chairs and Clerks, it would be chaired by the Leader of Thanet District Council, and other officers and members could attend by invitation;

2. Provide clarification on options for delegation of responsibilities from TDC to Parish and Town Councils, with a view to further developing these responsibilities over time;

3. Encourage a spirit of learning and sharing so Parish, Town and District Councils can learn from each other, and Councils can share their experiences of carrying out certain delegated functions;

4. Establish a dedicated officer role to act as the point of contact between Parishes and the District. Identify a Cabinet Member to support and monitor any transition of functions between TDC and Town/ Parish Councils;

5. Provide a regular circular for information to Parish & Town Councillors and Clerks, based on information in The Loop and the CEx's fortnightly mailing to TDC members;

6. Invite Parish/ Town Councillors to attend training provided for District Councillors as appropriate to help establish a shared understanding and approach on important issues. Invite Chairs and Clerks to Members' Briefings on matters of mutual interest;

7. Work with the Parishes to jointly develop a Parish Charter, which would detail a framework for collaborative working between the District Council and Parish and Town Councils. The Charter would also explain how Parishes could take on additional responsibilities from the District Council and highlight the need for mutual respect between the two tiers;

8. Establish good communication between the District and Town/ Parish Councils, so that Town & Parish Councils are routinely kept informed of, and where appropriate consulted on, District Council plans affecting their areas - for example, planned Asset Disposals (which will require a review of the current Asset Management Policy), events plans, funding bids and regeneration proposals;

9. Share an up to date TDC officer and Member structure chart with contact details that can be shared with Parish and Town Councils.

Foreword

I wish to thank my small group of fellow Councillors who were members of the TDC & Parish/Town Councils Collaboration Working Party, Parish & Town Council representatives, Cabinet Members and senior officers who attended the various sessions where the working party was taking evidence that was then used to come up with this report.

It's been a really interesting exercise for us as Councillors to get an insight into what Parish and District Councillors as well as staff for the lower tier Councils think about how we can improve collaborative working between the District and Parishes. A number of ideas have been identified in this report, many of which were proposed by all parties, which if implemented will successfully lead to a more effective approach for collaborative working for the benefit of our residents around the District. I would also like to thank Thanet District Council officers for their input to support this review project and officers from Democratic Services for their help in putting this report together.

With the ever tightening of the budgets year on year we feel that if the recommendations can be implemented this will hopefully make a big difference to how services are delivered for our local communities.

Once the report is presented to the Overview and Scrutiny Panel, Members will forward the report and its various recommendations to Cabinet for action in due course.

Cllr Alan Currie
Chairman TDC & Parish/Town Councils Collaboration Working Party

Members of the TDC & Parish/Town Councils Collaboration Working Party

Councillor Alan Currie (Chair)

Cllr Trish Austin

Cllr Phil Fellows

Cllr Ruth Bailey

Introduction

As part of the Overview and Scrutiny Panel's scrutiny review topics, the Panel agreed to carry out a collaboration review. A working party comprising four Members from the Panel membership was established on 26 May 2022 to investigate and report on the potential for closer working between Thanet District Council and the Parish and Town Councils in order to improve services to Thanet residents and make recommendations for consideration by the Panel and subsequently Cabinet.

Original Scope and Methodology

The investigation was specifically asked to review how the Council could improve collaborative working between itself and Parish and Town Councils.

The investigation could only be successfully carried out by talking to Parish and Town Councils, District Council leadership and senior officers and making recommendations that the Panel concluded would improve collaborative working between the District and the Parishes.

The working party held three meetings in which they engaged Parish and Town Council Chairs and Clerks, TDC Cabinet Members and senior officers in discussion to get different views to the suggestions for collaborative working. These evidence gathering sessions were conducted as follows:

An in-person meeting with TDC Cabinet Members was held on 27 October 2022.

An online meeting was held with Parish and Town Council Chairs and Clerks on 03 November 2022

An online session was held with TDC senior officers on 09 November 2022.

Key Questions
The working party used a series of key questions to initiate discussions and gather feedback responses from the attendees at the review sessions. The questions included the following:

Questions for Parish and Town Council Chairs and Clerks:

- Which Parish or Town Council do you represent?
- What is your role at the Council?
- How long have you been involved with your local Council?
- How do you view the current working relationship between Thanet District Council and your Parish/Town Council?
- How does this current working relationship affect the way services are delivered in your area?
- Do you have any suggestions for how collaborative working between Thanet District Council and Parish/Town Councils could be improved; and if yes what are they?
- Does your local Council have capacity to take on additional roles on a long-term, sustained basis?
- If yes, what additional roles or responsibilities would you suggest?

- Is there anything else that you would like to add regarding the relationship between District and Parish Councils?

Questions for Cabinet Members:

- Which Cabinet Portfolio area(s) are you the lead Member?
- How do you view the current working relationship between Thanet District Council and Parish/Town Councils?
- How does this current working relationship affect the way services are delivered in the District?
- Do you have any suggestions for how collaborative working between Thanet District Council and Parish/Town Councils could be improved; and if yes what are they?
- From your experience working with Parishes, do you think they have the capacity to take on additional roles on a long-term, sustained basis?
- If yes, what additional roles or responsibilities would you suggest?
- Is there anything else that you would like to add regarding the relationship between District and Parish Councils?

Questions for TDC senior officers

- Which Council Department do you represent?
- What is your role at Thanet District Council?
- How do you view the current working relationship between Thanet District Council and Parish/Town Councils?
- How does this current working relationship affect the way services are delivered in the District?
- Do you have any suggestions for how collaborative working between Thanet District Council and Parish/Town Councils could be improved; and if yes what are they?
- From your experience working with Parishes, do you think they have the capacity to take on additional roles on a long-term, sustained basis?
- If yes, what additional roles or responsibilities would you suggest?
- Is there anything else that you would like to add regarding the relationship between District and Parish Councils?

Evidence heard by the Scrutiny Review

The working party heard evidence from witnesses through sessions held on the dates below. These sessions were a mixture of virtual and in person meetings:

- 27 October 2022 in-person meeting with the Leader and Cabinet Members
- 03 November 2022 virtual meeting with Parish and Town Council representatives
- 09 November 2022 virtual meeting with TDC senior officers

Evidence from TDC Cabinet members:

The working party met the Leader of Council and Cabinet Members at an in-person meeting to share views on how the Council could enhance closer working relations with Parish and Town Councils. Cabinet Members highlighted the following key points:

1. As the pressures on the District Council budget increase, TDC will almost certainly have to decide to let go of some non-statutory functions. This is where closer working with Parish and Town Councils could help by taking over some non-statutory functions and sharing such responsibilities as the management of toilets. These ways of working could enhance connectivity between the Parishes and District Council;
2. For example, Parishes could take over parking. Birchington Ground is now managed by the Parish Council, which has provided an opportunity for local participation. KCC could perhaps lead & manage discussions with Parish & Town Councils on car parks;
3. Parishes and the District Council could co-manage some functions – with, for example, the District Council providing backup on emergency matters;
4. Parish and Town Councils have more flexibility and fewer responsibilities than the District Council, so could potentially offer a better service on non-statutory functions, particularly if they were willing to raise their precepts to cover costs, which TDC cannot do.
5. There would be a need to agree on the mechanics for collaborative working that identified who was responsible for decision making and where the supervisory role would lie. For example, there could be a designated officer responsible for managing collaborative arrangements, which would reduce the time taken to resolve issues being raised by Parishes. A designated Cabinet member could supervise this;
6. Re-establishing the formal Parish Forum, meeting bi-monthly with new terms of reference, would be useful and would improve collaborative working. Attendees could be Parish Chairs and Clerks, TDC leader and appropriate Cabinet Members and senior TDC Officers. There should be a clear agenda and a strong Chair;
7. Once there was an agreement on how TDC and the Parishes would work collaboratively, a joint communications message to residents on the new way of working would be a good idea.

Evidence from Town and Parish Councils:

Discussions with Town and Parish Councils were an eye opener into different views and into new possibilities that could be considered in trying to improve the working relationship between the District and Parish and Town Councils. A number of views were conveyed through a virtual meeting and these are highlighted below as follows:

1. There was a foundation on which to build on a stronger and closer working relationship between the two tiers;
2. Parish Forum meetings used to be regularly held and were very useful;
3. Parish Forum and other meetings need to be planned in advance to enable maximum attendance. There was also a need for agendas for these meetings to be clear;

4. There should be a improved way of sharing information between Parishes and the District Council;
5. Currently there was a Thanet Area Committee that could be attended by a TDC officer to share information;
6. Parish and Town Councils would welcome additional responsibilities provided they came with additional funding;
7. In the past TDC has proposed passing on legal fees to Town & Parish Councils taking on responsibilities/ assets, which left lower tier Councils feeling they were being charged for being helpful. Any future such negotiations should embody full transparency on additional costs to Towns & Parishes;
8. It might be worth considering coming up with an agency agreement between Parishes and TDC over delegation of functions and resources to be given to Parishes;
9. There was a danger of residents feeling that there were being taxed twice; for the Council tax and the precepts;
10. Once an approach for collaborative working has been agreed, there would also be a need to agree on the delivery dates for the functions to be handed over to Parishes;.

Evidence from TDC senior officers:

1. During Covid, TDC hosted weekly meetings with Parishes (Parish Conference Calls) and officers produced a Google document that contained queries from Parish and Town Councils which officers would complete with responses to those queries. This worked well and established regular contact. Getting back to this way of working would benefit everyone: perhaps officers could identify the top ten transactions that take place between TDC & Parishes and develop notes to signpost Parishes & residents;
2. A regular news update based on The Loop could be produced for Parishes;
3. Having a dedicated officer as the contact between TDC and Parishes was in principle a good idea, but the big issue was resourcing such a role;
4. The Waste Team now holds weekly meetings with Town Councils; main areas of interest for these Councils are waste collection and open spaces, so Open Spaces and Enforcement teams are now also represented. This model could be extended to other services and involve Parish as well as Town Councils if they wish;
5. The annual residents' survey shows the services that TDC provides. Bin collections, street cleaning and keeping areas safe tend to be residents' primary concerns. If Towns and Parishes ask for extra precept to take on non-statutory functions from TDC, they could take the lead in explaining to residents what they are using that for;
6. It would be valuable to support newly elected Parish and Town Councillors as part of the induction process – eg by giving them access to TDC members' training;
7. There used to be PACT meetings with Parishes that TDC officers would attend: it would be worth considering reviving these.

Recommendations of the Scrutiny Review

The working party then met for a private session on 24 November 2022 to carefully consider and evaluate the evidence it had heard and create its recommendations. In the process of doing this it identified some areas where collaborative working could be started and other areas where existing informal arrangements could be made more formal.

The panel has created nine recommendations, some of which cut across themes. The panel has further collated these recommendations into three broad themes, these are:

Improving Communication: Restructure and formalise channels of communication

Recommendations 3, 4, 5, 6, 8 and 9

Identifying Financial Resources for functions delegated to Parish and Town Councils: Identify resources for Parishes to take on additional functions and agree a memorandum of understanding between TDC and Parish and Town Councils

Recommendations 2, 4 and 7

Prioritising and resourcing: Establish formal arrangements for collaborative working

Recommendations 1, 2 and 7

Justification for the proposed recommendations:

Recommendation 1:
Reconstitute the Parish Forum, meeting quarterly with a strictly controlled agenda. Its membership would be Parish & Town Council Chairs and Clerks, it would be chaired by the Leader of TDC, and other officers and members could attend by invitation

We are recommending this because:
There is a prevailing view by all who gave evidence that these meetings had previously provided a very useful forum for officers to network, clarify issues and improve efficiency.

Recommendation 2:
Provide clarification on options for delegation of responsibilities from TDC to Parish and Town Councils, with a view to further developing these responsibilities over time

We are recommending this because:
All parties, be they officers, Councillors or members of the public, will benefit from knowing where the respective responsibilities lie at any time. Parish and Town Councils considering taking on extra functions need to have clarity on the financial implications for taking on those functions and how it would work in practice.

Recommendation 3:
Encourage a spirit of learning and sharing so Parish, Town and District Councils can learn from each other, and Councils can share their experiences of carrying out certain delegated functions

We are recommending this because:
Officers and Councillors will benefit from the experience of their colleagues and will learn from positive outcomes and any difficulties encountered.

Recommendation 4:
Establish a dedicated officer role to act as the point of contact between Parishes and the District. Identify a Cabinet Member to support and monitor any transition of functions between TDC and Town/ Parish Councils

We are recommending this because:
A dedicated, single point of contact would provide stability and continuity for all parties.

Recommendation 5:
Provide a regular circular for information to Parish & Town Councillors and Clerks, based on information in The Loop and the CEx's fortnightly mailing to TDC members

We are recommending this because:
This will keep Town and Parish Council officers and members up to date with regard to developments at TDC and will not be onerous to produce as the information is already circulated to TDC members.

Recommendation 6:
Invite Parish/ Town Councillors to attend training provided for District Councillors as appropriate to help establish a shared understanding and approach on important issues. Invite Chairs and Clerks to Members' Briefings on matters of mutual interest

We are recommending this because:
This will enable Town and Parish Council officers to align with Councillors in regard to developments at TDC and to work together on areas of mutual concern.

Recommendation 7:
Work with the Parishes to jointly develop a Parish Charter, which would detail a framework for collaborative working between the District Council and Parish & Town Councils. The Charter would also explain how Parishes could take on additional responsibilities from the District Council and would further develop mutual respect between the two tiers

We are recommending this because:
There is a perceived need for closer collaboration between the tiers, with a view to developing a shared vision and the potential devolution of responsibilities.

Recommendation 8:
Establish good communication between the District and Town/ Parish Councils, so that Town & Parish Councils are routinely kept informed of, and where appropriate consulted on, District Council plans affecting their areas - for example, planned Asset Disposals (which will require a review of the current Asset Management Policy), events plans, funding bids and regeneration proposals

We are recommending this because:

It is appropriate that Town and Parish Councils are kept apprised of, and consulted on, TDC's plans in respect of any asset disposals, major infrastructure plans and events within their respective areas.

Recommendation 9:
Share an up to date TDC officer and Member structure chart with contact details that can be shared with Parish and Town Councils

We are recommending this because:
This information is key to effective communication and would be equally useful to officers and Councillors.

Annual Treasury Management Review 2022/23

Cabinet	21 September 2023
Report Author	Chris Blundell, Director of Corporate Services and Section 151 Officer
Portfolio Holder	Councillor Rob Yates, Cabinet Member for Corporate Services
Status	For Decision
Classification	Unrestricted
Previously Considered by	Governance & Audit Committee - 26 July 2023
Ward	Thanet Wide

Executive Summary:

This report summarises treasury management activity and prudential/ treasury indicators for 2022/23. However, the Council's 2021/22 and 2022/23 accounts have not yet been audited and hence the figures in this report are subject to change. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions;*
>
> *the effective control of the risks associated with those activities; and*
>
> *the pursuit of optimum performance consistent with those risks."*

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the 2022/23 year-end position for treasury activities.

Key reporting items to consider include:

- 2022/23 capital expenditure on long term assets was £16.2m (2021/22: £12.7m), against a budget of £49.8m.
- The Council's gross debt, also called the borrowing position, at 31 March 2023 was £19.9m (31 March 2022: £20.2m).
- The Council's underlying need to borrow to finance its capital expenditure, also called the Capital Financing Requirement (CFR), was £52.2m at 31 March 2023 (31 March 2022: £51.7m).
- Therefore it can be reported the Council has complied with the requirement to hold less gross debt than its CFR.
- The maximum debt held by the Council during 2022/23 was £20.2m, which was well within the statutory authorised limit of £96.0m.

- At 31 March 2023 the Council's investment balance was £60.6m (31 March 2022: £51.3m).
- A marked reduction in GF capital receipts over the last few years, which has implications for funding the future capital programme.

Recommendation(s):

That Cabinet:

1. Notes the actual 2022/23 prudential and treasury indicators in this report;
2. Makes comments as appropriate on this Annual Treasury Management Report for 2022/23;
3. Recommends this report to Council for approval.

Corporate Implications

Financial and Value for Money

The financial implications are highlighted in this report.

Legal

Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, this is the Director of Corporate Services and Section 151 Officer, and this report is helping to carry out that function.

Risk Management

Risk management is as per the provisions of the annual Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

Corporate

Failure to undertake this process will impact on the Council's compliance with the Treasury Management Code of Practice.

Equalities Act 2010 & Public Sector Equality Duty

There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities.

1. Introduction and Background

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions;*
>
> *the effective control of the risks associated with those activities; and*
>
> *the pursuit of optimum performance consistent with those risks."*

1.2. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any existing debt may also be restructured to meet Council risk or cost objectives.

2. Reporting Requirements

2.1. This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.2. During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 10/02/2022): https://democracy.thanet.gov.uk/documents/s75310/Treasury%20Mgmt%20Strategy%202022-23%20Council.pdf

- a mid-year treasury update report (Council 08-12-2022): https://democracy.thanet.gov.uk/documents/s79524/Council%208%20Dec%2022%20-%20Mid%20Year%20Report%20Council%202022-23.pdf

- an annual review following the end of the year describing the activity compared to the strategy (this report).

2.3. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the 2022/23 year-end position for treasury activities and highlights compliance with the Council's policies previously approved by members.

2.4. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee before they were reported to the full Council. Member training on treasury management issues was last undertaken on 24 March 2022 in order to support members' scrutiny role, and further training will be arranged as required. The Council's external treasury management advisor is Link Group, Treasury Solutions (Link).

2.5. The Council's 2021/22 and 2022/23 accounts have not yet been audited and hence the figures in this report are subject to change

3. The Council's Capital Expenditure and Financing

3.1. The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure for the General Fund (GF) and the Housing Revenue Account (HRA) and how this was financed.

	2021-22 Provisional Actual £'000	2022-23 Budget £'000	2022-23 Provisional Actual £'000
Capital expenditure - GF	7,425	41,658	12,055
Capital expenditure - HRA	5,301	8,140	4,099
Capital expenditure - Total	**12,726**	**49,798**	**16,154**
Financed by:			
Capital receipts	933	3,936	1,159
Capital grants	5,660	32,637	7,104
Revenue and reserves	4,978	8,708	5,940
Borrowing	1,155	4,517	1,951
Total	**12,726**	**49.798**	**16,154**

3.2. Full details of capital expenditure and explanations of variances from budget will be reported within the Financial and Performance Monitoring Year-End Report to Cabinet. The Council is committed to tackling the significant level of slippage in the capital programme as per the following extract from section 5 of the Council's Capital Strategy document:

"Slippage will not be an acceptable norm. Capital schemes will be at risk of having their Council funding re-directed should there be delays that cannot be substantiated (schemes that are externally funded may require more flexibility however)."

4. The Council's Overall Borrowing Need

4.1. The Council's underlying need to borrow to fund its capital expenditure is termed the Capital Financing Requirement (CFR). The CFR can be thought of as the outstanding debt that still needs to be repaid in relation to the capital assets (buildings, vehicles etc) that the Council has purchased or invested in. It can also be helpful to compare it to the outstanding balance that is still payable on a loan or a mortgage, in this case we are considering how much of the Council's debt still needs to be paid for.

4.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB], or the money markets) or utilising temporary cash resources within the Council.

4.3 **Reducing the CFR** – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

4.4 The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

4.5 The Council's 2022/23 MRP Policy (as required by DLUHC Guidance) was approved as part of the Treasury Management Strategy Report for 2022/23 on 10 February 2022.

4.6 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes any PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against any such schemes as a borrowing facility is included in the contract.

CFR - GF	31 March 2022 Provisional Actual £'000	31 March 2023 Budget £'000	31 March 2023 Provisional Actual £'000
Opening balance	28,449	23,165	23,165
Add unfinanced capital expenditure (as above)	627	3,936	1,867
Less MRP/VRP*	(5,911)	(1,111)	(1,110)
Less PFI & finance lease repayments	0	0	0
Closing balance	23,165	25,990	23,922

CFR - HRA	31 March 2022 Provisional Actual £'000	31 March 2023 Budget £'000	31 March 2023 Provisional Actual £'000
Opening balance	28,236	28,514	28,514
Add unfinanced capital expenditure (as above)	528	581	84
Less MRP/VRP*	(250)	(285)	(286)
Less PFI & finance lease repayments	0	0	0
Closing balance	28,514	28,810	28,312

** Includes voluntary application of capital receipts*

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

4.7 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing (borrowing undertaken with financial institutions or external organisations) does not, except in the short term, exceed the total of the CFR in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years.

4.8 This essentially means that the Council is only borrowing to fund capital expenditure and is not borrowing to support revenue expenditure. Under statutory requirements Councils are not allowed to borrow to fund their revenue budget activities.

4.9 By assessing this indicator over four years it allows the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Council's gross borrowing position against the CFR and shows that the Council has complied with this prudential indicator, as the Council's gross debt of **£19.9m** is less than the **£52.2m** CFR at 31 March 2023.

	31 March 2022 Provisional Actual £'000	31 March 2023 Budget £'000	31 March 2023 Provisional Actual £'000
CFR GF	23,165	25,990	23,922
CFR HRA	28,514	28,810	28,312
Total CFR	**51,679**	**54,800**	**52,234**
Gross borrowing position	(20,216)	(48,157)	(19,882)
Underfunding of CFR	31,463	6,643	32,352

4.10 **The authorised limit -** the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.

4.11 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

4.12 **Actual financing costs as a proportion of net revenue stream -** this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

4.13 The table below shows that during 2022/23 the Council's maximum gross debt position was **£20.2m** and therefore it has maintained gross borrowing within its authorised limit and operational boundary.

	2022/23 £000
Authorised limit	96,000
Maximum gross borrowing position during the year	20,216
Operational boundary	86,000
Average gross borrowing position	20,018

	2022/23 %
Financing costs as a proportion of net revenue stream - GF	TBA*

Financing costs as a proportion of net revenue stream -HRA	TBA*

*2022/23 accounts in preparation and figures not yet available

5. Treasury Position as at 31 March 2023

5.1. The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed above, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2022/23 the Council's treasury position (excluding any borrowing for PFI and finance leases) was as follows:

	31 March 2022 Principal £'000	Rate/ Return %	Average Life Years	31 March 2023 Principal £'000	Rate/ Return %	Average Life Years
Gross Debt Position						
GF debt	7,629	3.44%	15.7	7,295	3.50%	15.5
HRA debt	12,587	4.24%	8.8	12,587	4.36%	8.1
Total debt (all fixed rate)	**20,216**	**3.95%**	**11.4**	**19,882**	**4.04%**	**10.8**
CFR compared to Gross Debt						
GF CFR	23,165			23,922		
HRA CFR	28,514			28,312		
Total CFR	**51,679**			**52,234**		
Under-borrowing	**31,463**			**32,352**		
Net Debt / Investment						
Total debt	20,216	3.95%	11.4	19,882	4.04%	10.8
Total investments	(51,308)	0.10%		(60,599)	2.28%	
Net debt / (investment)	**(31,092)**			**(40,717)**		

5.2. This table shows that, as previously stated, gross debt was £19.882m and the CFR was £52.234m at the end of 2022/23. This means the Council is in an under borrowed position of £32.352m, as external gross debt is less than the CFR.

5.3. This table also shows that the Council's investments totalled £60.599m at the 2022/23 year end and therefore was in a net investment position, as investments held exceeded gross debt by £40.717m.

5.4. As at 31 March 2023, all of the debt is from the Public Works Loan Board (PWLB), which is a facility operated by the UK Debt Management Office on behalf of HM Treasury and provides loans to local authorities, apart from a market loan of £4.5m principal at 4.19% with an average life of 0.5 years.

5.5. The maturity structure of the debt portfolio, or the timeline of when the Council's debt is repayable, was as follows:

	31 March 2022 actual £000	2022/23 upper limits £000	31 March 2023 actual £000
Under 1 year	4,834	9,941	4,759
1 year to under 2 years	259	9,941	2,487
2 years to under 5 years	2,662	9,941	262
5 years to under 10 years	2,356	9,941	2,356
10 years to under 20 years	7,185	9,941	7,098
20 years to under 30 years	1,920	9,941	1,920
30 years to under 40 years	0	9,941	0
40 years to under 50 years	1,000	9,941	1,000
50 years and above	0	9,941	0
Total debt	**20,216**		**19,882**

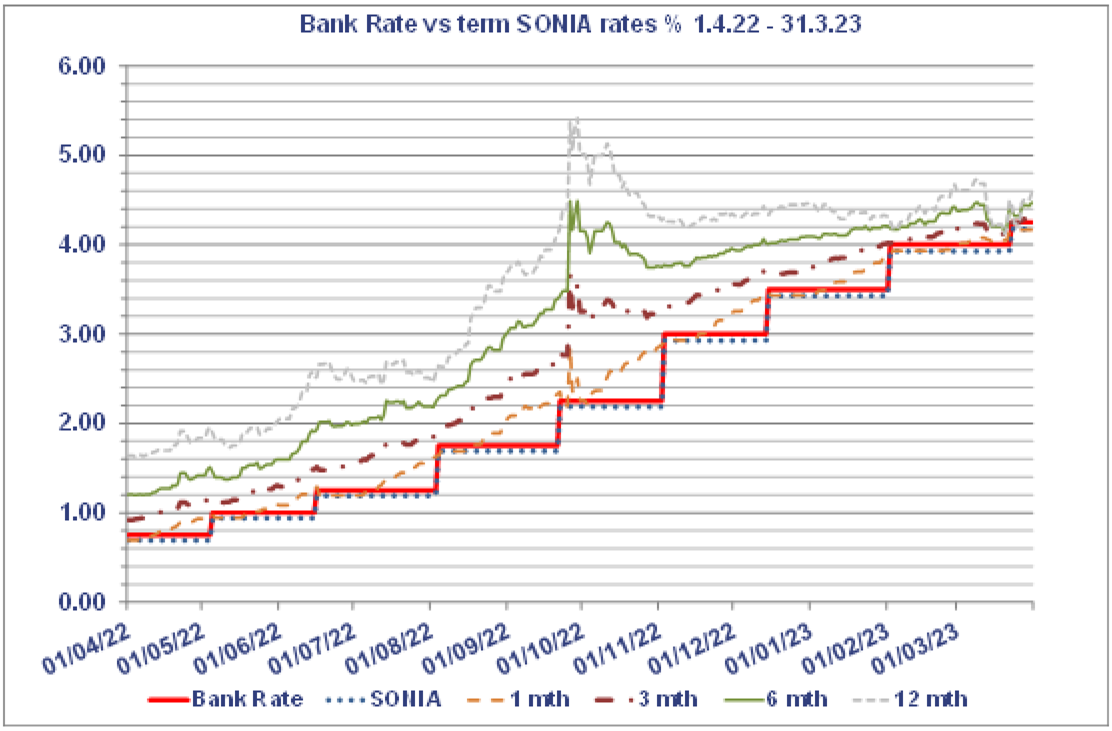
5.6. The following table shows the value of the type of investments the Council was holding at year-end. All investments at the 2021/22 and 2022/23 year-end were for under one year.

	31 March 2022 actual £000	31 March 2022 actual %	31 March 2023 actual £000	31 March 2023 actual %
Banks - Instant Access	30	0.06	30	0.05
Banks - Notice Accounts	4,055	7.90	4,055	6.69
Banks - Fixed Term Deposits	100	0.19	2,000	3.30
Money Market Funds	46,124	89.90	53,512	88.31
Bond Funds	999	1.95	1,002	1.65
Total Treasury Investments	**51,308**	**100.00**	**60,599**	**100.00**

6. The Strategy for 2022/23

6.1. **Investment strategy and control of interest rate risk**

6.1.1. The following chart tracks the Bank of England base rate of interest and the Sterling Overnight Index Average (SONIA) during 2022/23.



6.1.2 Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not necessarily transitory, and that tighter monetary policy was called for.

6.1.3 Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the expectation of a further one or two increases in 2023/24.

6.1.4 The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

6.1.5 With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used. This Council does not invest in equity or property funds, and the bond fund it uses is classified as a short duration fund.

6.1.6 Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

6.1.7 Nonetheless, while the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Great Financial Crisis of 2008/9. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

6.2. **Borrowing strategy and control of interest rate risk**

6.2.1. During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

6.2.2. A cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. The Council sought to avoid taking on long-term borrowing at elevated levels and has focused on a policy of internal borrowing.

6.2.3. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

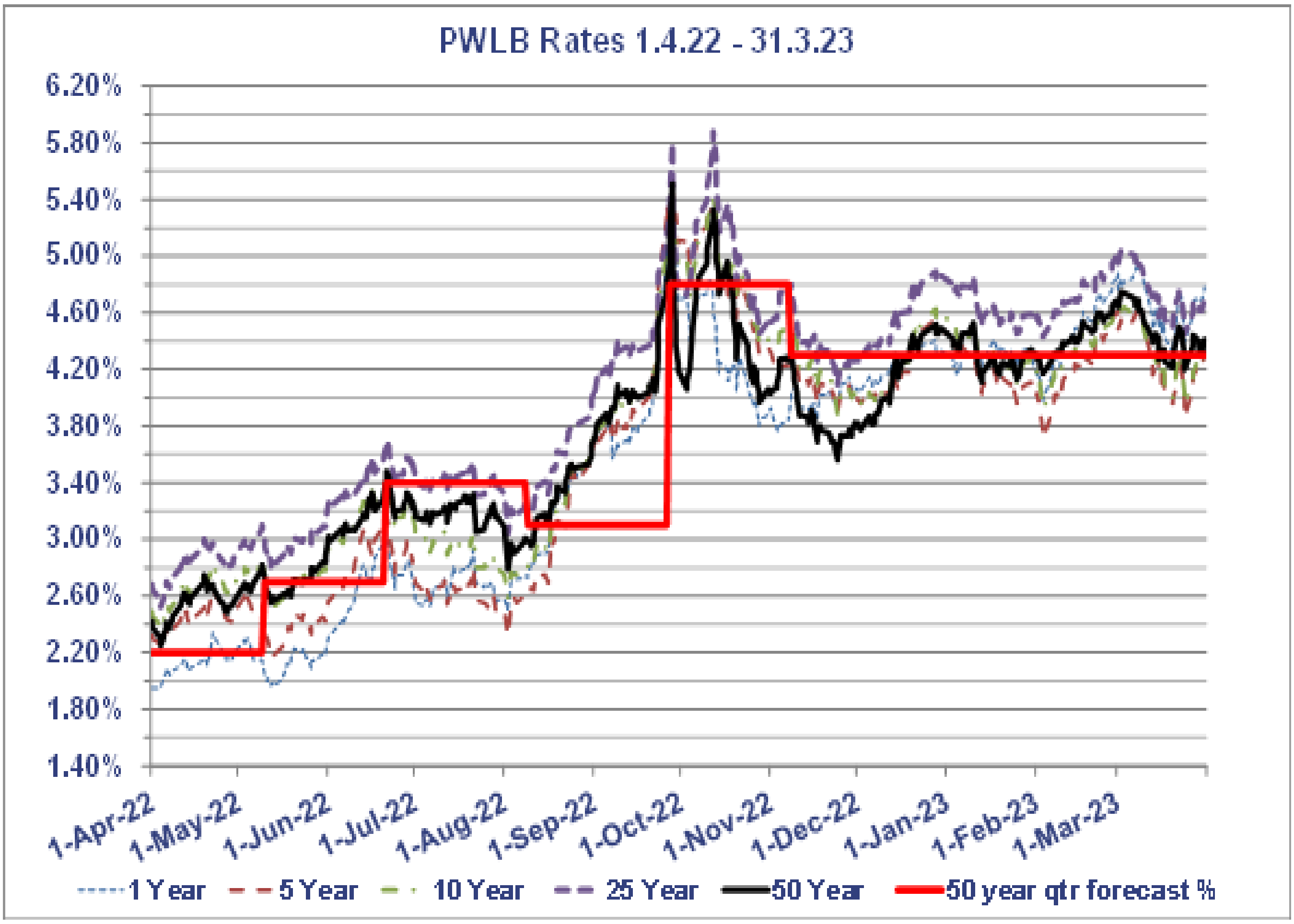
6.2.4. Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected (e.g. perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks), then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

6.2.5 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. The CPI measure of inflation was above 10% in the UK by the end of 2022/23 but is expected to fall back by year end. Nonetheless, there remain significant risks to that central forecast.

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10



6.2.6 PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

6.2.7 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, by the financial year-end the FOMC, ECB and Bank of England were all being challenged by persistent inflation exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

6.2.8 Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

6.2.9 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

6.2.10 There may be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.

6.2.11 As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

6.2.12 The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng "fiscal experiment" in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). There is expected to be a gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds, selling it back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is unknown as at 31 March 2023.

6.3. **Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2022/23 (approved by the Council on 10 February 2022) was revised during 2022/23 in the mid-year treasury update report (approved by the Council on 8 December 2022).

7. Borrowing Outturn for 2022/23

7.1. **Borrowing** – Due to investment concerns, both counterparty risk and comparatively low investment returns, no borrowing was undertaken during the year.

7.2. **Borrowing in advance of need -** The Council has not borrowed more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.

7.3. **Rescheduling** – No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7.4. **Repayments** – The Council repaid £0.334m of maturing debt using investment balances, as below:

Lender	Principal £'000	Interest Rate	Repayment Date
Salix	4	0.00%	01-04-22
PWLB	43	3.08%	25-04-22
PWLB	50	2.48%	27-05-22
PWLB	72	1.28%	20-06-22
PWLB	43	3.08%	24-10-22
PWLB	50	2.48%	28-11-22
PWLB	72	1.28%	20-12-22
Total	**334**		

7.5. **Summary of debt transactions** – The average interest rate on the debt portfolio increased from 3.95% to 4.04% during the year. This was due to the repayment of maturing debt as shown above.

8. Investment Outturn for 2022/23

8.1. **Investment Policy** – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 10 February 2022. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

8.2. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

8.3. **Resources** - the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2022 Provisional £000	31 March 2023 Provisional £000
GF Balance	2,011	TBA*
Earmarked Reserves	21,502	TBA*

HRA Balance	6,364	TBA*
Capital Receipts Reserve	7,396	8,222
Major Repairs Reserve	15,014	TBA*
Capital Grants Unapplied	43	TBA*
Total Usable Reserves	**52,330**	**TBA***

*2022/23 accounts in preparation and figures not yet available

8.4. **Investments held by the Council**

- The Council maintained an average balance of £58.428m of internally managed funds.
- The internally managed funds earned an average rate of return of 2.28%.
- The comparable performance indicator to the end of 2023 was the average 7 day SONIA compounded rate which was 2.19%.
- This compares with an original budget assumption of £35m investment balances earning an average rate of 0.50%.
- Total investment income was £1,333k compared to a budget of £175k.

8.5. **Investments held by fund managers** – the Council does not use external fund managers on a discretionary basis for any part of its investment portfolio.

9. Investment risk benchmarking

9.1. The following investment benchmarks were set in the Council's 2022/23 annual treasury strategy:

9.1.1. **Security** - The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio (excluding unrated investments).

9.1.2. **Liquidity** – in respect of this area the Council seeks to maintain:

- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be in the range of 0 to 1 years, with a maximum of 5 years.

9.1.3. **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day SONIA compounded rate.

9.1.4. The Council kept to the above benchmarks during 2022/23.

10. Fair Value of Investments (IFRS 9)

10.1 Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

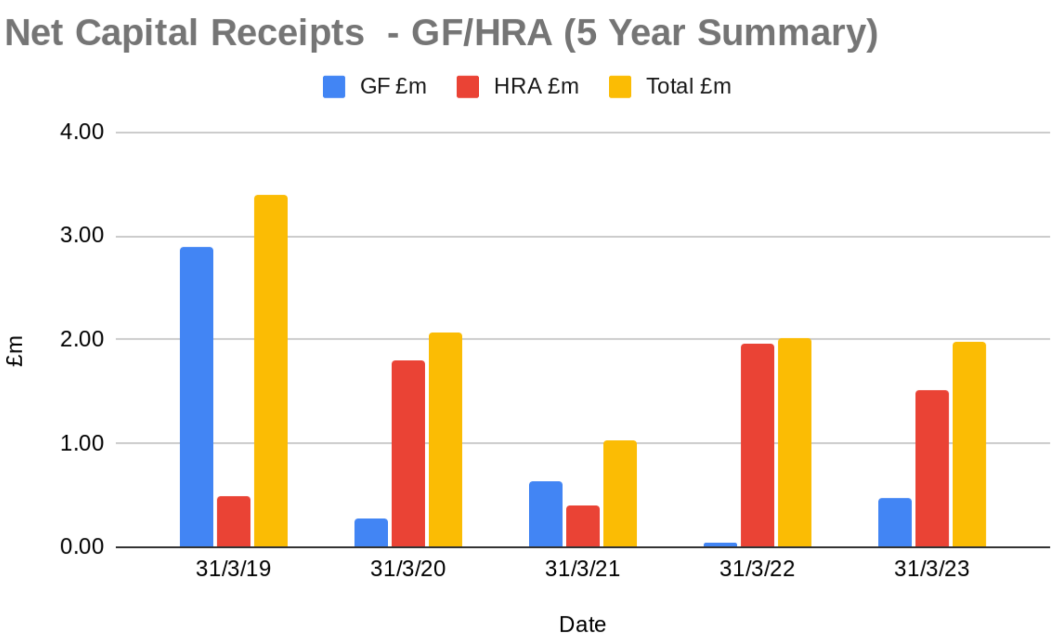
10.2 As at 31 March 2023, the Council had £1m in a pooled investment fund accounted for at fair value, with an unrealised fair value gain of £24k.

11. International Financial Reporting Standard 16 (IFRS 16)

11.1 The implementation of IFRS16 (bringing almost all lease liabilities onto the balance sheet together with the corresponding 'right of use' assets) has been delayed once more to 2024/25.

12. Capital Receipts

12.1 The chart below shows a 5 year summary of net capital receipts. It excludes the 2020/21 and 2021/22 capital receipts from the Dreamland disposal, as these have been used to reduce the Council's capital financing requirement (CFR) rather than finance the future capital programme.



12.2 As can be seen from this chart, there has been a marked reduction in GF capital receipts over the last few years, which has implications for funding the future capital programme.

13. Capital Financing

13.1 The 2022/23 accounts are in preparation and figures are not yet available to compare the Council's CFR (showing how much of the Council's capital / long-term assets had yet to be funded) against its Capital Adjustment Account (showing how much had effectively been paid off or funded) and its Revaluation Reserve (showing the aggregate increase in value of these assets since acquisition by the Council).

14. Options

14.1 The recommended option (to ensure regulatory compliance as set out in section 1 of this report) is that Cabinet:

- Notes the actual 2022/23 prudential and treasury indicators in this report.
- Makes comments as appropriate on this Annual Treasury Management Report for 2022/23.
- Recommends this report to Council for approval.

14.2 Alternatively, Cabinet may decide not to do this and provide reason(s) why.

15. Disclaimer

15.1 This report is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

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Annex List

Annex 1: Report Guidance
Annex 2: Abbreviations and Definitions
Annex 3: The Economy and Interest Rates

Corporate Consultation Undertaken

Finance: n/a
Legal: Sameera Khan, Interim Head of Legal & Monitoring Officer

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Annex 1: Report Guidance

Borrowing Need

This section includes the council's debt and Capital Financing Requirement (CFR) split between its General Fund (GF) and Housing Revenue Account (HRA). The HRA is a 'ring-fenced' account for local authority housing.

The CFR represents the council's aggregate borrowing need (the element of the capital programme that has not been funded). The council's debt should not normally be higher than its CFR as explained in the report.

Public Works Loan Board - PWLB

PWLB is the Public Works Loan Board which is a statutory body operating within the UK Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities, and to collect the repayments.

The council has the following types of fixed rate loan with the PWLB:

- Annuity: fixed half-yearly payments to include principal and interest.
- Equal Instalments of Principal: equal half-yearly payments of principal together with interest on the outstanding balance.
- Maturity: half-yearly payments of interest only with a single payment of principal at the end of the term.

Financing Costs as a Proportion of Net Revenue Stream

This shows (separately for HRA and GF) the percentage of the council's revenue stream that is used to finance the CFR (net interest payable and Minimum Revenue Provision (MRP)).

MRP is the annual resource contribution from revenue which must be set against the CFR so that it does not increase indefinitely.

Borrowing and Investments

Borrowing limits – there are various general controls on the council's borrowing activity (operational boundary, authorised limit and maturity profiles).

General controls on the council's investment activity, to safeguard the security and liquidity of its investments, include:

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.

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Annex 2: Abbreviations and Definitions

Basis Point	One hundredth of one percentage point so, for example, 100 basis points (otherwise known as bps or bips) is 1%.
CE	Capital Economics - is the economics consultancy that provides Link Group, Treasury Solutions, with independent economic forecasts, briefings and research.
CFR	Capital Financing Requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.
CIPFA	Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.
CPI	Consumer Price Inflation – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.
DLUHC	The Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.
ECB	European Central Bank - the central bank for the Eurozone.
EU	European Union.
EZ	Eurozone - those countries in the EU which use the euro as their currency.
Fed	The Federal Reserve, often referred to simply as "the Fed," is the central bank of the United States. It was created by Congress to provide the nation with a stable monetary and financial system.
FOMC	The Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members -- the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.
FTSE 100	The Financial Times Stock Exchange 100 Index - a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation.

GDP Gross Domestic Product – a measure of the growth and total size of the economy.

G7 The group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts Gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt (unless a gilt is index linked to inflation). While the coupon rate is fixed, the yields will change inversely to the price of gilts, i.e. a rise in the price of a gilt will mean that its yield will fall.

HRA Housing Revenue Account.

ILO International Labour Organisation

IMF International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

MPC The Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP Minimum Revenue Provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR (the total indebtedness of a local authority).

PFI Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

PWLB Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE/QT Quantitative Easing (QE) – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, like government bonds (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening (QT). The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI	The Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.
SONIA	The Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.
S&P 500	Standard & Poor's 500 Index - a share index of 500 of the largest companies listed on US stock exchanges
TMSS	The annual Treasury Management Strategy Statement report that all local authorities are required to submit for approval by the full council before the start of each financial year.
VRP	A Voluntary Revenue Provision to repay debt, in the annual budget, which is additional to the annual MRP charge (see above definition).

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Annex 3: Link's Review of the Economy and Interest Rates (issued by Link on 6 April 2023)

1. UK

1.1 Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

1.2 Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200 basis points in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extraordinarily tight, making it an issue of fine judgement as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.25%	3%	4.75%-5%
GDP	0.1% q/q Q4 (4.1% y/y)	0.1% q/q Q4 (1.9% y/y)	2.6% Q4 Annualised
Inflation	10.4% y/y (Feb)	6.9% y/y (Mar)	6.0% y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

1.3 Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

1.4 Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

1.5 The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

1.6 Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

1.7 In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

1.8 As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

1.9 Link's economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

1.10 The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.23. Notwithstanding the £'s better run of late, 2023 could see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

1.11 As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

2. USA

2.1 The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

2.2 In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.

2.3 As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

3. EU

3.1 Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

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