

Public Document Pack



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GOVERNANCE AND AUDIT COMMITTEE

13 DECEMBER 2011

A meeting of the Governance and Audit Committee will be held at **7.00 pm on Tuesday, 13 December 2011 (training at 6.30pm)** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillor Savage (Chairman); Councillors: Binks, Campbell (Vice-Chairman), Day, D Green, Johnston, Matterface, M Tomlinson and Worrow

A G E N D A

Item
No

1. **THE ROLE OF THE GOVERNANCE AND AUDIT COMMITTEE**
To receive a presentation from Andy Mack of the Audit Commission.
2. **APOLOGIES FOR ABSENCE**
3. **DECLARATIONS OF INTEREST**
To receive any declarations of interest. Members are advised to consider the extract from the Standard Board Code of Conduct for Members, which forms part of the Declaration of Interest Form at the back of this Agenda. If a Member declares an interest, they should complete that Form and hand it to the Officer clerking the meeting.
4. **MINUTES OF PREVIOUS MEETING** (Pages 1 - 8)
To approve the Minutes of the Governance and Audit Committee meeting held on 29 September 2011, copy attached.
5. **ACTION POINTS FROM PREVIOUS MEETINGS** (Pages 9 - 12)
6. **EXTERNAL FUNDING PROTOCOL**
To receive a presentation from Sarah Martin, Financial Services Manager (Deputy s151 officer).
7. **ANNUAL AUDIT LETTER 2010/11** (Pages 13 - 26)

Item
No

Subject

8. **AUDIT COMMISSION UPDATE 2011-2012** (Pages 27 - 42)
9. **INTERNAL AUDIT PROGRESS REPORT** (Pages 43 - 64)
10. **QUARTERLY GOVERNANCE PROGRESS REPORT** (Pages 65 - 126)
11. **MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT** (Pages 127 - 138)
12. **BUDGET AND RENT SETTING REPORT AND TREASURY MANAGEMENT STRATEGY REPORT 2012/13-2014/15** (Pages 139 - 160)
13. **FUTURE ITEMS OR TRAINING FOR THE COMMITTEE**

Declaration of Interest form - back of agenda

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 29 September 2011 at 6.30 pm in Media Centre King Street, Margate, Kent.

Present: Councillor Jason Savage (Chairman); Councillors Binks, Campbell, Day, D Green, Johnston, Matterface and M Tomlinson

In Attendance: Everitt, Fenner and Poole

174. ALSO PRESENT:

Dr. Sue McGonigal – Chief Executive and Chief Financial Officer
Harvey Patterson – Corporate and Regulatory Services Manager
Sarah Martin – Financial Services Manager & Deputy s151 Officer
Nikki Morris – Business Support and Compliance Manager
Harpal Singh – Team Leader - Audit Commission
Lisa Robertson – Audit Manager – Audit Commission.
Andrew Stevens – Assistant Director – East Kent Services
Mark Gillmore – Payments Manager – East Kent Services
Simon Webb – Audit Manager – East Kent Audit Partnership

175. RULE 24.1

Councillor Mrs Fenner – Minute No 179 – Action Points from Previous Meeting
Minute No 181 – Debt Write-Off Protocol
Minute No 182 - Quarterly Governance Progress Report

176. APOLOGIES FOR ABSENCE

No apologies for absence were received.

177. DECLARATIONS OF INTEREST

There were no declarations of interest.

178. MINUTES OF PREVIOUS MEETINGS

Subject to an amendment to minute number 148 (Minutes from 22 June 2011 meeting) to read:

“There is an Equalities and Diversities Group that consists of a representative from each service area. This group meets each quarter and aims to ensure that equalities and diversity is co-ordinated and communicated across departments. Unfortunately this group no longer has the involvement of a Director or Cabinet Portfolio holder demonstrating the priority assigned to other issues at the current time”

The minutes of the meetings held on 22 June 2011, 29 June 2011 and 10 August 2011, were then approved and signed by the Chairman.

179. ACTION POINTS FROM PREVIOUS MEETINGS

Members had asked for details on 'bids for funding' regarding Equalities and the importance of the involvement of a Member Champion for Equalities. Sue McGonigal advised that Sarah Carroll was meeting with the Leader and would provide an update to Members regarding this matter.

Members had requested more information on the decision making process behind the sale of 20 allotments in Dane Valley.

Harvey advised that he had asked Paul Verrall, Landscape and Building Services Manager whether, at the point of lease, they were cultivated allotments and had been informed that they had been uncultivated for some time and therefore in his view they were available for freehold disposal.

Further questions were asked regarding allotments:- whether they were Statutory Allotments and what the Lease period was.

Harvey informed Members that had the allotments been Statutory it would have been necessary to go to the Secretary of State for decision. He added that he would check the period of the Lease as if it was over 25 years it should have been referred to the Asset Management Working Group.

In respect of the European Regional Development fund and the evidence that the new protocol has made the situation better Harvey Patterson advised Members that a new protocol had been drafted and as Monitoring Officer he would rely on the outcome of any audit to establish whether there were any problems with the External Funding Protocol.

Councillor Mrs Fenner, speaking under Council Procedure Rule 24(1) asked how the unexplained misspending was mediated

Sue explained that the External Funding Protocol was a tool used for all grants. All applications for external funding go to SMT for consideration.

Other Members had asked for an explanation to be given on the Council's underborrowing and the strategy for this.

Sarah Martin gave Members an update on the Council's borrowing position and Sue added that it was about the temporary use of cash to alleviate borrowing need. It was also noted that the Council could borrow more but that it would not be prudent at this time although the time will come when the Council will have to borrow more.

Referring back to the ERDF funding Members had asked that a report be brought to Governance and Audit by Clive Bowen and information on the SRB grant. Sue advised that she would speak with the officer about this but that this would detract the officer from other duties.

The issue around the Marks and Spencers building was raised by Members who asked whether the maintenance was done by the Council and who paid. Harvey replied that the Council had responsibility for repairs and maintenance until tenant was found and SEEDA had approved the letting.

Members asked about the policy regarding the buying up of properties in Cliftonville and whether due process had been followed, either through Cabinet and Council or both.

Sue informed Members that the housing intervention programme was in its infancy and nothing had gone to Cabinet or Council yet but that will follow. Members asked for clarification on this in a written format and Sue advised that she would provide this.

Other Members asked about dozens of empty garages that were being sold for housing and that they had been informed by housing officers that they were earmarked for development. Sue advised that if this had been said then that was the answer.

180. HOUSING BENEFITS QUARTERLY TESTING

Andrew Stevens and Mark Gillmore from East Kent Services were at the meeting update Members on the Housing Benefit Quarterly Testing.

The methodology used by Internal Audit is different to that used by EK Services and therefore some differences in the accuracy rates were to be expected. Whilst EK Services test a random sample of 4% of transactions per day they do not test the entire claim back to 1st April of that year which is the methodology employed by Internal Audit for the random sample of 20 claims examined by them on a quarterly basis.

Mark advised that errors were fed back to individual officers and that they do have a quality control plan across the three Council sites. Common errors are identified and corrected through training and that it was important to know that they use the findings from this to help all of the East Kent Services sites.

Although Members had concerns that Housing Benefit Claims were going out incorrectly they were assured that although errors were encountered the payment made was ultimately correct. Some Members asked how many errors would have slipped through the net. Andrew advised that he would get this figure to Members.

Other members had concerns around the validity of the audit process and perhaps the method used was incorrect and asked whether the sample tested was large enough.

Simon Webb advised Members that Internal Audit had agreed with EKS that the errors highlighted through the quarterly audit testing were indeed errors on those particular claims and these had been corrected by EK Services. Testing of an enlarged sample of 40 claims from Quarter 1 was currently in progress and work would shortly commence on a further sample of 20 claims from Quarter 2. The Quarter 2 sample would be drawn from those claims which had previously been checked by EK Services; this would not only provide Members with assurance on claim accuracy but also the data quality of the performance indicator in this area for EK Services. The results of this work were intended to be reported to the December meeting of Governance and Audit Committee with reasons for any discrepancies.

Simon Webb also advised Members that they receive assurance in respect of the accuracy of housing benefit processing. Assurance is given by the data quality checks undertaken by EK Services, the random claim sampling by internal audit and also claim sampling by the Audit Commission.

Members noted the verbal update.

181. DEBT WRITE- OFF PROTOCOL

Councillor Mrs Fenner, speaking under Council Procedure Rule 24(1) asked about the 'bad debt provision' and the magnitude of the problem around non-recoverable arrears. Referring to 13.2.1 of the report said that although she welcomes the protocol she had concerns that some tenants would have trouble in paying back arrears.

It was explained that the write-off of debts below £10K had been to the Constitutional Review Working Party and Standards and Council and approved.

Further to this other Members asked about the reporting of write-offs and Andrew advised that this was done on a monthly basis and reported to each Local Authority quarterly. This is a generic 3 way policy as per local authority specification.

In addition Members asked whether a procedure was in place where, when arrears are written off because a customer could not be traced, they could then be pursued if they were then traced.

Andrew informed Members that even if the debt had been written off and the debtor was then traced the debt could still be pursued.

It was noted that the Options at 4.0 to the report were to be amended and be as follows:

- '4.1 The Members comment on the Income Management Policy with respect to the Write Off procedures
- 4.2 deleted

The recommendations at 6.0 to the reports to be as follows:

- 6.1.1 To note and provide comment'

Members agreed.

Moved by Councillor Johnston and seconded by Councillor Campbell that:

Members note the report.

182. QUARTERLY GOVERNANCE PROGRESS REPORT

The Chairman informed Members that training and a presentation had been scheduled for this item but due to the costs of hiring the equipment at the Media Centre that this would be rescheduled.

Nikki Morris summarised the report which provides Governance and Audit Committee with the progress on governance related issues,

Councillor Mrs Fenner, speaking under Council Procedure Rule 24(1) asked how the figures were arrived at in respect of the risk management process.

Nikki advised that the information in the tables (pages 62 and 63 of the report) came from the original Risk Management Strategy from 2004. An exercise was undertaken looking at other examples from Local Authorities and best practice guidelines. It was decided by Council at that time that this was the model the council would use.

Moved by Councillor Mrs Johnston and seconded by Councillor Campbell that:

"Members approve the changes to the Risk Management Strategy and Process documents and recommend that the Strategy be sent to the 17 November 2011 Cabinet for approval"

Agreed.

183. TREASURY MANAGEMENT UPDATE FOR QUARTER 1., 2011

Sarah Martin introduced the report which updates the Governance and Audit Committee on the Treasury Management activity that has occurred up to 30th June 2011.

At paragraph 2.0 to the report it shows the economic background and treasury activities during the second quarter.

Sarah added that the Council had been carefully reviewing the situation regarding the economy closely monitoring the Public Works Loan Board rates and as a result had recently taken out a new loan to repay maturing debt at a very favourable rate.

Moved by Councillor Mrs Johnston and seconded by Councillor Day that:

“the Governance and Audit Committee notes the report”

Agreed.

184. ANNUAL GOVERNANCE REPORT 2010/11

Lisa Robertson outlined the report which provides Governance and Audit Committee with an annual governance report and summarised the finding from the 2010/11 audit which is substantially complete.

A tribute was paid to the officers by the Chairman.

Lisa advised that the certificate mentioned on page 94 to the report was being held back by Andy Mack for one or two weeks as objections had been received from some local people regarding the accounts. Andy is to adequately assess and come back with a final report.

Members agreed the recommendations at 3.0 as follows:

“3.1 take note of the adjustments to the financial statements which are set out in the report

3.2 approve the letter of representation on behalf on the Council before I issue my opinion and conclusion

3.3 agree your response to the proposed action plan”

Agreed.

185. FINAL AUDITED STATEMENT OF ACCOUNTS 2010/2011

Sarah Martin advised Members that the corrections had been made to the Final Audited Statement of Accounts and those changes had been highlighted in the Annual Governance Statement.

Sue McGonigal drew Members’ attention to note 42 in the accounts, which provides information on Contingent Liabilities. The note refers to the Council’s commitment to act as loan guarantor for borrowings of £1.62m for Hartsdown Leisure Centre. She explained that this sum is approximately equivalent to £2.7m when interest charges are taken into account; and made the point that it is the higher figure that has to be taken into account when calculating the Council’s limits for Treasury Management purposes.

Some Members had concerns regarding the procedure for the opening of Tenders. Although this had received ‘Substantial’ assurance from the Internal Audit it was felt that the opening of Tenders should be ‘cross party’. It was agreed that this should be so and Members are to meet with Glenn Back, Democratic Services and Scrutiny Manager, for this to be brought to a Constitutional Review Working Party for consideration.

Moved by Councillor Mrs Johnston and seconded by Councillor Campbell that:

“Members noted the report and approve the Statement of Accounts for 2010/11”

MOTION ADOPTED.

186. ANNUAL GOVERNANCE STATEMENT 2010/2011

Nikki Morris introduced the report which provides Governance and Audit Committee with the Annual Governance Statement 2010/11 for approval.

The action plan at annex 2 of the report will now be monitored on a quarterly basis and Nikki added that these will be added to the Performance Plus system and will be reported to Governance and Audit Committee.

Members referred to 3.19 of the report regarding ‘Engaging with local people and other stakeholders to ensure robust local public accountability’ as follows:-

‘All communication campaigns and community wide consultations are promoted to the council’s database of local groups and organisations. Included in this list are organisations that represent more vulnerable and harder to reach groups. This includes organisations who work with children, the elderly, those with mental physical disabilities, ethnic minority groups, people not in training, education and employment, the homeless, faith groups as well as many other specific interest groups in Thanet. Specific groups and forums are also attended regularly by council officers, including the Senior Citizens Forum, Engage (Youth Forum, Schools Partnership Council, Disability Forum, Thanet Sports Network and Kent Waste Partnership to promote any current or new council campaigns to members and to encourage participation. The council also co-ordinates an online Community Portal of approximately 400 local groups and organisations who are communicated with on a regular basis’.

Members had asked what the council should be doing about this.

Sue informed Members that the consultation on this had not yet started.

Moved by Councillor Campbell and seconded by Councillor Binks that:

“Members approve the Annual Governance Statement for 2010/11 and it’s associated action plan”

MOTION ADOPTED.

187. INTERNAL AUDIT PROGRESS REPORT

Simon Webb outlined the report which summarises the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th June 2011.

There had been nine Internal Audit assignments completed during the period. Of these seven concluded Substantial Assurance and two concluded reasonable Assurance.

In addition, three follow-up reviews have been completed during the period. Of these, one related to an area which was originally assessed as giving rise to Limited assurance and the assurance level for this business area had increased to Reasonable.

Members made reference to the audit of the receipt and opening of Tenders which had concluded a ‘Substantial Assurance’ and queried whether ‘cross party’ Member attendance at tender openings would provide an additional level of control and Assurance.

Members were advised that each tender is opened in the presence of the Cabinet Portfolio holder, a procurement officer, an officer from the relevant tendering department and a Democratic Services Officer. Whilst cross-party Member attendance would provide an additional level of control, it would require a change to the Council's Constitution. The audit was able to provide Members with Substantial assurance that all of the sample of tenders which were examined as part of the review had been opened in accordance with Contract Standing Orders.

Members were pleased to not the forthcoming review of Electoral Registration and Election Management.

The recommendations at 6.0 of the report were agreed:

“6.1 that the report be received by Members

6.2 that any changes to the agreed 2011-12 internal audit plan resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved”

AGREED.

188. FUTURE ITEMS OR TRAINING FOR THE COMMITTEE

Training at the December meeting will be the risk management training deferred from the September meeting.

Meeting concluded : 8.45 pm

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Governance and Audit Committee Action Plan

G & A meeting	Action	Owner	Target date	Progress	Feedback / Comments
29-Sep-11	Clarification was sought on why a number of garages are not being used, even in the interim, if they have been earmarked for development.	DG/JT/CG	07-Oct-11	C	The garages referred to are in a poor state of repair and cannot be used due to damaged asbestos roofs and doors.
29-Sep-11	Housing Benefits testing - a further report will be brought to Governance and Audit Committee on this matter. The Audit Commission will also be bringing their report to the December meeting.	SW / LR	13-Dec-11	C	EKS representatives have also been invited in case there are any questions in connection with the report.
29-Sep-11	Risk Management Strategy to go to 17 November 2011 Cabinet meeting for approval.	NM	04-Nov-11	C	Cabinet approved the RMS on 17 November 2011. Web pages have been updated.
29-Jun-11	Questions raised with regard to Treasury Management: * how the £17 million underborrowing had been financed be brought to the Committee * are we using revenue money or selling assets? * that Members be advised of any existing guidance for a prudential strategy on borrowing	SM	29-Sep-11	C	Updates provided at 29 September meeting.
29-Jun-11	The External Funding Officer be invited to a future meeting to explain the external funding protocol	SM / CB	13-Dec-11	C	External Funding Officer to attend the December meeting.
29-Jun-11	Review the meeting schedule for 2012, instead of having 2 meetings in June have 1 in June and 1 July/August time.	NM	31-May-12	IP	Amendment to meeting calendar going to Annual Council 17 May 2012 with recommended changes up to the end of the current cycle.
29-Jun-11	Meeting to be arranged for July / August 2011 to discuss the draft Statement of Accounts	SG		C	Complete - Meeting held 10 August 2011
22-Jun-11	A member of Cabinet and Shadow Cabinet should be invited to the Equalities and Diversity Group.	SC	13-Dec-11	C	An update is provided at Annex 1 to this action plan.
22-Jun-11	Member training - when is the survey going to be undertaken?	GB	29-Sep-11	C	Learning and Development questionnaire issued to all members.
22-Jun-11	Value for Money reviews - will there be member involvement in the new process? Possible presentation on revised process.	SC (JC)		C	The council is currently looking at the approach to service delivery options, consideration will be given to whether member involvement is appropriate.
22-Jun-11	Members requested management attendance at the next meeting in connection with the housing benefit testing issues.	AS	29-Sep-11	C	Andrews Stevens and Mark Gillmore in attendance.

G & A meeting	Action	Owner	Target date	Progress	Feedback / Comments
22-Jun-11	Members agreed that a response should be given to the DCLG consultation on the future of local public audit	NM	29-Jun-11	C	Consultation response discussed at 29 June meeting, and response sent to DCLG on 30 June 2011.
13-Jan-11	Members agreed they would appreciate a regular update on the National Fraud Initiative to G & A.	ZH	20-Mar-12	IP	ZH to provide an update for the March 2012 meeting.

Key:

AS Andrew Stevens
 CP Christine Parker
 CB Clive Bowen
 CG Craig George
 DG David Gonzalez
 EKS EK Services
 GB Glenn Back
 HP Harvey Patterson
 JC Julie Compton
 JT Justin Thomson
 LR Lisa Robertson
 MH Madeline Homer
 NM Nikki Morris
 SC Sarah Carroll
 SM Sarah Martin
 SW Simon Webb
 SG Sue Glover
 SMcG Sue McGonigal
 ZH Zoe Harrison

Key:

C Completed
 IP In progress
 O Ongoing

Agenda Item 5

Annex 1

Update report for Governance and Audit Committee

Equality legislation changed in October 2010 with the launch of the Equality Act 2010, replacing the previous anti-discrimination laws with a single Act.

Contained within the Act is the Public Sector Equality Duty. It ensures that public bodies consider the needs of all individuals in their day to day work – in shaping policy, in delivering services, and in relation to their own employees.

The new Duty covers the following protected characteristics:

- Age
- Disability
- Gender reassignment
- Pregnancy and maternity
- Race – this includes ethnic or national origins, colour or nationality
- Religion or belief
- Sex (Gender)
- Sexual Orientation

It also applies to marriage and civil partnership, but only in respect of the requirement to have due regard to the need to eliminate discrimination.

The Duty came into force in April 2011 and is divided into two parts, the General Duty and the Specific Duties.

The General Duty

The General Duty has three 'aims'. It requires public bodies to have **due regard** to the need to:

1. **Eliminate unlawful discrimination** – harassment, victimisation and any other conduct prohibited by the Act;
2. **Advance equality of opportunity** – between people who share a protected characteristic and people who do not share it by;
 - removing or minimising disadvantages suffered by people due to their protected characteristics;
 - meeting the needs of people with protected characteristics; and
 - encouraging people with protected characteristics to participate in public life or in other activities where their participation is low.
3. **Foster good relations** – between people who share a protected characteristic and people who do not share it, by tackling prejudice and promoting understanding between people with a protected characteristic and others.

Having **due regard** means consciously thinking about the three aims of the Duty as part of the process of decision making. Some council's have been challenged in the Courts where they have failed to do this resulting in decisions being delayed or overturned and fines imposed.

Specific Duties

The Specific Duties support good decision making by ensuring we consider how different people will be affected by our activities, helping us to deliver policies and services which are efficient, effective and accessible.

Good decision making is reliant on quality data and under the Specific Duties we are required to publish:

- **Staff Equality Data** – this must be published by no later than 31st January 2012 and then annually thereafter. This is on target for completion, a staff equality census will take place from 1st December 2011 for a period of four weeks. The Council will publish anonymous statistics by the statutory deadline.

- **Service User Equality Data** – this must be published in the same way as staff data, with the same deadlines. In response to this, the State of the District report has been broadened out to include data on all of the protected characteristics as defined within the act (where data is available). This is on track for publishing by the deadline of 31st January 2012.
- **Equality Objectives** – this must be published by no later than 6th April 2012 and then at least every four years thereafter.

Framework for Progressing Equalities

A new corporate framework has been designed to help officers understand the Duty and what information and options must be put to Members so that equalities issues can be fully discussed and considered at the time of making decisions.

To support compliance with the Act and Duties at operational level an officer group has been established to embed equalities working practices within the culture of the organisation.

The Group's main remit is as follows:

- 1 To review the Council's Equality Policy on an annual basis or as Legislation changes and make recommendations to SMT thereon.
- 2 To develop, review and monitor the Council's Equality Objectives Plan, ensuring actions are completed to time and the plan remains populated.
- 3 To produce reports to SMT on the Group's activity (including recommendations arising from meetings).
- 4 To champion the work of the Corporate Equalities Group within their own service areas ensuring all processes and procedures are fully embedded within standard practice.

Training on the Public Sector Equality Duty and the legal and decision making system was secured and delivered to key managers within the organisation.

This training was tailored to ensure officers are able to provide Members with the information they need to demonstrate the Duty was in their minds at the time of making decisions. Focus was around how the Courts are treating the Duty, using evidence and data to add quality to the options put before decision makers in order to comply with the Duty and contribute towards intelligence led decision making.

Additionally, the same training providers will be producing a pod cast of the session which we will use as a training resource to give Members and officers the chance to benefit from the learning in an effective and cost efficient way.

An online toolkit is being developed for our intranet (TOM), this will serve as a further training and support resource for officers. Sections within the toolkit include: legislation, the corporate framework, forms, tools, guides and completed examples, officers that can give guidance to their colleagues, FAQs, case studies, process maps, links to relevant sites etc.

Report templates, new Equality Impact Assessment templates are all being developed with guidance notes.

The toolkit and templates will be circulated to officers once finalised.

These improvements address issues arising from both the Audit of the Council's previous Equalities Framework and examples of case law. Feedback from both Audit and the training providers on our 'cultural' approach has been extremely positive in enabling Thanet Members and Officers to effectively participate in the Duty to the benefit of the community.

ANNUAL AUDIT LETTER

To: **Governance and Audit Committee – 13 December 2011**

Main Portfolio Area: **Chief Executive**

By: **Audit Manager, Audit Commission**

Classification: **Unrestricted**

Summary: **To present the Audit Commission's Annual Audit Letter 2010/11.**
For Information

1.0 Introduction

1.1 The Audit Commission's Annual Audit Letter summarises the findings from the 2010/11 audit. It includes messages arising from the audit of the Financial Statements and the results of the work undertaken to assess the arrangements to secure Value for Money in the Use of Resources.

2.0 Corporate Implications

2.1 Financial

2.1.1 There are no financial implications arising directly from this report.

2.2 Legal

2.2.1 There are no legal implications arising directly from this report.

2.3 Corporate

2.3.1 This report summarises the key findings and conclusions for the three Use of Resources themes. An action plan for addressing the recommendations made has been agreed.

2.4 Equity and Equalities

2.4.1 There are no equity and equalities implications arising from this report.

3.0 Recommendation(s)

3.1 **That Members note the report.**

Contact Officer:	Andy Mack, District Auditor, Audit Commission
Reporting to:	Sue McGonigal, Chief Executive (s151 Officer)

Annex List

Annex 1	Audit Commission Annual Audit Letter
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Annual Audit Letter

Thanet District Council

Audit 2010/11

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Agenda Item 7
Annex 1

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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Value for money

I gave an unqualified value for money conclusion on 30 September, stating that the Council has proper arrangements in place for securing economy, efficiency and effectiveness.

The Council has good financial governance. Financial planning is effective and forward looking. There are sound arrangements for financial control. It is well-placed to address the financial pressures it faces over the medium term. Strong financial management will be vital going forwards because the financial position continues to be tightly drawn, reserves are at the minimum level necessary to provide against future pressures and there is limited or no scope for growth.

The Council takes a strategic approach to the prioritisation of resources and the achievement of cost reductions through improved efficiency and productivity. It is working effectively with its partners to deliver improved efficiencies.

Audit opinion and financial statements

I gave an unqualified audit opinion on the Council's financial statements on 30 September 2011. The Council coped well with the first year of IFRS implementation, despite capacity within the finance team being stretched.

The statements were prepared to a sound standard overall. Although I agreed a number of amendments during the course of the audit, these resulted in no material impact on the Council's reported financial position.

I am holding open the certificate on the audit while I consider matters raised by local electors. I expect to conclude these shortly.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I gave an unqualified opinion on the Council's financial statements on 30 September 2011. The Council presented a draft set of accounts at 30 June 2011 which was complete except for the cashflow statement and notes for financial instruments, IFRS transition, Segmental Reporting and Capital Adjustment Account. These notes were completed the following week and in overall terms the Council coped well with the additional requirements posed by the International Financial Reporting Standards. Delays were due to the complexity of these areas and competing demands on staff time during the closedown period.

I reported on the detailed findings of my audit to the Governance and Audit Committee on 29 September 2011, including a recommendation to build in additional time within the accounts preparation process to allow for stronger internal consistency checks.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements. However, I identified weaknesses in the key controls at your outsourced payroll provider which reduce the effectiveness of your control environment for payroll transactions. I reported these weaknesses to the Governance and Audit Committee in my June 2011 audit progress report and my September Annual Governance Report

The Council is working with partners to ensure initial weaknesses in the key controls over payroll processing at the payroll provider are fully rectified for 2011/12.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council has good financial governance, an effective financial planning framework and adequate arrangements for financial control. It has a good understanding of the financial pressures it faces over the medium term and plans in place to deal with these. Strong financial management will be vital going forwards because the financial position continues to be tightly drawn, reserves are at the minimum level necessary to provide against future pressures and there is limited or no scope for growth.</p> <p>Thanet District Council has good systems and processes in place to manage its financial risks in a challenging economic climate. It has a good understanding of its financial position and effective medium term financial planning.</p> <p>Financial monitoring and forecasting is fit for purpose and accruals based. The Council achieved a £1.1 million budget underspend and useable reserves (excluding HRA balances) have increased from £13,544,000 to £15,972,000. Reserves are consistent with the requirements of</p>

Criterion**Key messages**

the Council's medium term financial strategy and provide a degree of comfort against future pressures. However any reduction in reserves from the current level would leave the Council vulnerable to future uncertainties.

2. Securing economy efficiency and effectiveness**The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council takes a strategic approach to prioritisation of resources and achievement of cost reductions through improved efficiency and productivity.

The Council has reviewed its medium term financial plan and identified strategies to manage the financial position despite the current economic pressures. Medium term service priorities have been clarified and changes have been made to management structures.

Management have undertaken a rigorous review of each service and identified a variety of actions for 2011/12 to reduce expenditure and increase income. These include internal restructures as well as participation in partnership working with Dover District Council and Canterbury City Council to deliver key services. A balanced revenue budget has been produced for 2011/12 with no increase in council tax.

Future challenges and opportunities

The Council has coped well in meeting the immediate pressures of the credit crunch. Demands on the public sector to manage within ever more constrained resources look set continue. The Council has positioned itself well and is exploring opportunities to work in new ways with its partners. Constrained resources mean it will however need to continue to focus on its priorities.

Economic downturn and pressure on the public sector

The economic forecast for the UK and western developed economies remains gloomy. Since taking office in May 2010 the Coalition government has focused its attention on deficit reduction measures and the public sector has faced an unprecedented squeeze on its funding. The UK recovery continues to remain weak and there is considerable volatility in financial markets as Europe struggles to deal with the sovereign debt crisis affecting Greece and other countries in the euro zone.

The Council has positioned itself well to ensure it is financially resilient, having significant restructuring and prioritisation review.

In the first quarter of 2011/12 the Council's year end projection is an underspend of £325,980. The Council is currently undertaking a full review of budget allocations with the aim to realign budgets and deliver substantial savings. This information will be used to inform the 2011/12 monitoring position and contribute towards setting the 2012/13 budget.

Joint arrangements/shared services

2011/12 sees the first year of East Kent Services, hosted by Thanet DC. This is a shared service arrangement with Dover DC and Canterbury CC including shared Revenues and Benefits, ICT and Customer Services provision. As a result it plans to achieve savings of approximately £630,000 over the first two years.

The Council continues to pursue any savings or service improvements through the use of partnerships including HR and payroll, waste contract and the first shared Housing Arms Length Management Organisation.

The Council is also working with partners including other districts and Kent County Council to explore opportunities for regional growth funding. Members are promoting a culture of invest to save and service heads have identified some good opportunities to drive service efficiencies in the current budget round. The success of these will be critical in enabling the Council to progress in the future.

Planned changes to legislation

The government has announced some wide-ranging reforms to the public sector since taking office in May 2010. Many are contained in the Localism Bill, key aspects of which include:

- introducing a general power of competence for local authorities;
- introducing the right for communities to bid for local assets threatened with closure, challenge the way services are provided and initiate referendums; and
- significant reforms to the planning system.

The government is proposing the current method of financing the Housing Revenue Account (HRA) will change from 2012/13, to a self-funding system. Under the new system authorities will take control of their housing rental income and a share of the national £28 billion housing debt. The debt settlement will be based on a valuation of the authority's housing stock. From 2012/13 HRA debt will be ring-fenced and authorities will no longer receive housing subsidy or major repairs allowance income and will be expected to fund all HRA revenue and capital expenditure from existing resources.

The Welfare Reform Bill contains proposals which will affect benefits administration. Some proposals are still the subject of consultation, for example those relating to the local retention of business rates and the introduction of new localised schemes to replace council tax benefit.

The Council will need to consider the implications of this new legislation. Some proposals may involve changes to workloads or more coordination with other local authorities. The Council will also need to consider the implications for their medium term financial plans of changes to funding arrangements or to the overall level of central government support.

Closing remarks

I have discussed and agreed this letter with the Leader and Chief Executive. I will present this letter at the Audit Committee on 13 December 2011 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit Plan 2010/11 audit	March 2011
Audit Commission Progress Report	June 2011
Annual Governance Report	September 2011
Annual Audit Letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Andy Mack
District Auditor

November 2011

Appendix 1 - Fees

	Actual 2009/10	2010/11 Initial Estimate (April 2010)	2010/11 Final
Fee for Audit	145,000	153,500	153,500
Inspection Fee	9,152	9,152	0
Total	154,152	162,652	153,500

Our inspection activity and associated fee was cancelled following the abolition of CAA. In addition to the figures above, the Audit Commission issued rebates to the Council of £8,518 in April 2010 in respect of the cost of first year audit work on IFRS and a further rebate of £2,219 in December 2010.

Appendix 2 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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0844 798 7070

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



AUDIT COMMISSION UPDATE REPORT

Main Portfolio Area: **Chief Executive**

By: **Audit Manager, Audit Commission**

Classification: **Unrestricted**

Summary: **To present the Audit Commission's Update Report 2011-2012.**

For Information

1.0 Introduction

1.1 To update Members on progress to date on the current audit plans. Audit and Inspection work undertaken.

2.0 Corporate Implications

2.1 Financial

2.1.1 There are no financial implications arising directly from this report.

2.2 Legal

2.2.1 There are no legal implications arising directly from this report.

2.3 Corporate

2.3.1 The report summarises progress to date on current audit plans.

2.4 Equity and Equalities

2.4.1 There are no equity and equalities implications arising from this report.

3.0 Recommendation

3.1 That Members note the report.

Contact Officer:	Andy Mack, District Auditor, Audit Commission
Reporting to:	Sue McGonigal, Chief Executive (s151 Officer)

Annex List

Annex 1	Audit Commission Update Report
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Audit Committee Update

Thanet District Council

Audit 2011/12



The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

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Introduction

- 1** The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2** This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3** If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4** Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Andy Mack

District Auditor

1 December 2011

Progress Report

Financial statements and VFM conclusion

5 I have concluded our 2010/11 work on the financial statements and VFM conclusion. The findings from the 2010/11 audit are detailed in the Annual Audit Letter. This is presented separately on tonight's committee agenda.

6 On 30 September 2011, I issued an unqualified opinion on the financial statements and gave an unqualified value for money conclusion, stating that the Council has proper arrangements in place for securing economy, efficiency and effectiveness.

7 I have begun my planning work for the 2011/12 audit, working closely with officers and internal audit. I will provide full details of my planning risks and proposed work programme to the next committee meeting.

Grant Claim Certification

8 For 2010/11, the following grant claims, for Thanet DC, require certification by the Audit Commission:

- Housing and Council Tax Benefit Subsidy
- Housing Subsidy
- Housing Base Data Return
- National Non-Domestic Rates Return
- Disabled Facilities Grant
- Pooling of Capital Receipts Return.

9 We have now certified all of the above claims. Full details of all certification findings will be reported to the next meeting of this committee in our annual grants report.

10 The Housing and Council Tax Benefit Subsidy grant claim is, by far, the largest grant claim totalling £80 million in 2010/11. As a result of audit, the claim was reduced by £6,688 and certified with qualification.

11 There is a requirement to be able to track payments made in subsidy through to the impact in the finance system. Out of £78,284,880 of payments within the subsidy claim, evidence of £6,233 was unable to be provided and therefore subsidy is not able to be claimed on this amount, and the claim has therefore been reduced.

12 The further reduction of £455 was due to agreed changes made as a result of the errors identified within the Non HRA caseload. (see table 1 below)

13 A key element of our certification approach involves taking a sample of benefit cases from the entries on an authority's subsidy claim form and undertaking detailed testing on these cases using workbooks. The focus of testing is to consider whether benefit has been awarded in accordance with regulations, and that benefit has been recorded correctly for subsidy purposes.

14 Our testing identified the following errors. Further testing for failing attributes was undertaken on the full populations involved. Our results are summarised as follows:

Table 1: **Findings of sample subsidy testing for HBCOUNT**

Subsidy Type	Initial sample	Additional testing
Rent Rebates	19/20 passed	All 48 similar cases reviewed and confirmed as an isolated error - claim amended for individual case.
Non-HRA rent rebates	10/16 passed	For each error identified, all similar cases within the 76 case non-hra population were tested. Further testing identified 5 additional errors. Of the total 11 errors identified, 3 underpayments were reported in the qualification letter and amendments made for the remaining 8 issues.
Rent Allowances	20/20 passed	No further testing.
Council Tax Benefit	20/20 passed	No further testing.

15 In addition to the amendments above, we were required to submit a supporting qualification letter to the department in respect of the following:

- Reconciliation differences between benefit paid and granted within the subsidy system. (see paragraph 11 above)
- Errors resulting in underpayment of subsidy. (see table 1 above)

16 We are required to report any unadjusted errors, system or reconciliation issues in a qualification letter to the DWP. These reports are not uncommon and there are no resulting concerns or actions to bring to the attention of this committee.

17 The qualification letter submitted is included at Appendix A.

Other Matters of Interest

Update on the externalisation of the Audit Practice

18 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice.

19 The key points are:

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (i.e. four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private-sector providers the opportunity to bid.
- Bids are due in by mid-December 2011, with the contract awards planned for mid-February 2012, with formal Commission approval planned for late July 2012 following consultation.
- Appointments will start on 1 September 2012. As such, the Commission will extend the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The costs of this 'interim' audit role will be met by the Commission.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

20 A further update was provided in Eugene Sullivan's letter to clients of 10 November 2011. Thirteen potential providers have now been invited to tender following the initial pre-qualification stage.

21 Further details are available on the Audit Commission's website. We will continue to keep you updated on developments.

22 Against this background, the Audit Practice's focus remains:

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

Income Generation

23 Income from fees and charges is a key financial area for local authorities with the top ten income streams generating over £7 billion each year.

24 CIPFA has recently produced an updated guide to income generation and much has happened since the earlier editions were published in 2005 and 2008.

25 In 2011, organisations are looking at income in its widest sense as a key factor in their funding equation. The economic downturn has demonstrated the risks associated with excessive reliance on income from fees and charges. However, the Spending Review 2010 has motivated local authorities to evaluate robustly every possible funding source.

26 Rather than just focussing on savings, organisations are increasingly focussing on maximising their income generation opportunities.

27 This new 2011 edition should enable local authorities to make the most of their fees and charges potential. It provides a full update of the charging opportunities available as at March 2011, reflecting recent legislation and regulations.

Code on Data Transparency

28 On 29 September 2011 the Department for Communities and Local Government (DCLG) published the Code of Recommended Practice for Local Authorities on Data Transparency.

29 Subject to consultation, we understand that Ministers are minded to make this Code a legally binding requirement.

30 The Code requires local authorities to publish public data as soon as possible following production even if it is not accompanied with detailed analysis. Where practical, local authorities should seek to publish in real time. As a minimum, the public data that should be released are:

- expenditure over £500 (including costs, supplier and transaction information);
- senior employee salaries, names (with the option for individuals to refuse to consent for their name to be published), job descriptions, responsibilities, budgets and numbers of staff;
- an organisational chart of the staff structure of the local authority including salary bands and details of currently vacant posts;
- the 'pay multiple' - the ratio between the highest paid salary and the median average salary of the whole of the authority's workforce;
- councillors' allowances and expenses;
- copies of contracts and tenders to businesses and to the voluntary community and social enterprise sector;
- grants to the voluntary community and social enterprise sector should be clearly itemised and listed;
- policies, performance, external audits and key inspections and key indicators on the authority's fiscal and financial position;
- the location of public land and building assets and key attribute information that is normally recorded on asset registers; and
- data regarding the democratic running of the local authority including the constitution, election results, committee minutes, decision - making processes and records of decisions.

Guides to Local Government Finance

31 CIPFA has recently issued a comprehensive guide to Local Government finance. This guide reflects proposals for academies, HRA self financing, the future of local audit, police and crime commissioners and social care reform.

32 In addition to the above changes, the guide also looks at the impact the recent cuts have had on local authority finances.

33 In addition to the comprehensive guide, a shorter guide has also been prepared which is aimed specifically at members. It provides councillors with a brief overview of key facts, figures and requirements in relation to local government finance in a more user friendly and handy reference format.

For information: Fighting Fraud Together

34 In October 2011, thirty-seven organisations joined forces to launch 'Fighting Fraud Together', a new strategy that aims to reduce fraud - a crime estimated to cost the UK £38 billion every year.

35 The organisations involved include the NHS, the Charity Commission, the Department for Communities and Local Government, HM Revenues and Customs and the Association of Chief Police Officers.

36 It is the first time that government, industry, voluntary groups and law enforcement agencies have joined together on such a large scale to sign a joint commitment to tackle fraud.

37 All thirty-seven partners that have signed up to the 'Fighting Fraud Together' strategy which will contribute to and be accountable for its success.

38 The strategy and its accompanying action plan place a strong emphasis on preventing fraud through greater fraud awareness and self protection, combined with stronger government and industry prevention systems and controls.

39 Examples of the new initiatives include:

- Preventing fraud: Industry and the public sector will develop their intelligence-sharing capabilities to prevent fraud attacks;
- Increasing awareness and reporting: A new research tool will help all sectors provide more targeted prevention advice to the public, particularly vulnerable people, and develop a better understanding of small businesses' vulnerability to fraud and the support they need; and
- A more effective enforcement response: Greater intelligence capabilities of the National Fraud Intelligence Bureau will disrupt fraudsters' activities and rapidly close down the channels through which they operate and launder money.

Key Considerations

The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council reviewed CIPFA's guide on income generation and is the Audit Committee satisfied that all potential income sources have been identified?
- Has the Council adequate arrangements in place to ensure that it complies with the Code of Recommended Practice for Local Authorities on Data Transparency and that all published information is both accurate and complete?
- Have Members been provided with a copy of CIPFA's guide to Local Government finance?

Contact Details

40 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

41 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

Andy Mack

District Auditor

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Audit Manager

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Appendix A: Qualification Letter for Housing and Council Tax Benefit Subsidy Grant Claim 2010-11

Department for Work and Pensions
Housing Benefits Unit
Room 512
Norcross
BLACKPOOL
FY5 3TA

Dear Sir / Madam

Thanet District Council

Housing Benefit & Council Tax Benefit claim for the year ended 31 March 2011 (Form MPF720A)

Qualification Letter referred to in the Auditor's Certificate dated 28 November 2011

Details of the matters giving rise to my qualification of the above claim are set out in the Appendix to this letter.

The factual content of my qualification has been agreed with officers of the Authority.

No amendments have been made to the claim for the issues raised in this qualification letter.

Yours faithfully

Lisa Robertson
Audit Manager

Benefit software: reconciliation of benefit granted to paid

The Authority uses the Civica benefit software. The software supplier provides a method for the Authority to reconcile benefit granted per the benefit software (net of adjustments such as local schemes, DHP, write offs and overpayments) to benefit paid per the benefit software. These reconciliations have been prepared for each benefit type, but the following unexplained variances in the two figures have not been followed up:

Claim cell:	Amount granted (net of adjustments) £	Amount paid £	Unexplained variance £
055 – HRA Rent Rebates	7,220,898.17	7,218,192.48	1,135.94
011 and 092 – Rent Allowances and Non-HRA Rent Rebates	55,797,394.36	55,796,259.02	2,705.69
142 – Council Tax Benefit	15,266,587.45	15,264,194.66	2,392.79

The lower of the figures for each headline cell has been used in the subsidy claim.

Cell 011: Non-HRA Rent Rebates – Total expenditure (Benefit Granted)**Cell Total: £ 80,231****Cell Population: 76 cases**

Testing of the initial sample identified 2 cases where benefit had been underpaid. This was as a result of the Authority incorrectly inputting data from notification of liability.

100% of cases included in these cells were tested and confirmed 1 other similar error resulting in an underpayment.

As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as an error for subsidy purposes.

INTERNAL AUDIT PROGRESS REPORT

To: **Governance and Audit Committee: 13th December 2011**

By: **Chief Executive (s.151 Officer): Sue McGonigal**

Subject: **INTERNAL AUDIT PROGRESS REPORT OF THE HEAD OF THE AUDIT PARTNERSHIP.**

Classification: **Unrestricted**

Summary: This report gives Members a summary of the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th September 2011.

For Information

1.0 Introduction

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th September 2011.

2.0 Audit Reporting

2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to each member of Corporate Management Team, as well as an appropriate manager for the service reviewed.

2.2 Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.

2.3 An Assurance Statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be Substantial, Reasonable, Limited or No assurance.

2.4 Those services with either Limited or No Assurance are monitored, and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of Assurance to either Reasonable or Substantial. A list of those services currently with such levels of assurance is attached as Appendix 2 to the EKAP report.

2.5 The purpose of the Council's Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the

associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

- 2.6 To assist the Committee meet its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

3.0 Summary of Work

- 3.1 There have been eight internal Audit assignments completed during the period. Of these: two concluded Substantial Assurance, four concluded Reasonable assurance, concluded limited assurance and there was one audit assignment for which an assurance level was not applicable as this related to quarterly housing benefit testing however this assurance level had increased to Reasonable at the time of the follow-up review. The Limited assurance audit was in respect of the Council's CCTV arrangements. Summaries of the report findings are detailed within Annex 1 to this report.
- 3.2 In addition, seven follow-up reviews have been completed during the period. Of these, one related to an area which was originally assessed as giving rise to Limited assurance and the assurance level for this business area has increased to Reasonable.
- 3.3 For the six months to 30th September 2011, 204.33 chargeable days were delivered against the planned target of 342 which equates to 67.19% plan completion.
- 3.4 The financial performance of the EKAP is on target and there are no concerns to highlight at this time.

4.0 Options

- 4.1 That Members consider and note the internal audit update report.
- 4.2 That the changes to the agreed 2010-11 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved.
- 4.3 That Members consider (where appropriate) requesting an update from the relevant Director/s to the next meeting of the Committee in respect of any areas identified as still having either limited or no assurance following follow-up.
- 4.4 That Members consider registering their concerns with Cabinet in respect of any areas of the Council's corporate governance, control framework or risk management arrangements in respect of which they have on-going concerns after the completion of internal audit follow-up reviews and update presentations from the relevant Director.

5.0 Corporate Implications

5.1 Financial Implications

- 5.1.1 There are no financial implications arising directly from this report. The costs of the audit work have been met from the Financial Services 2011-12 budgets.

5.2 Legal Implications

- 5.2.1 The Council is required by statute (under the Accounts and Audit Regulations and section 151 of the Local Government Act 1972) to have an adequate and effective internal audit function.

5.3 Corporate Implications

- 5.3.1 Under the Local Code of Corporate Governance accepted by Cabinet on 8th December 2009, the Council is committed to comply with requirements for the independent review of the financial and operational reporting processes, through the external audit and inspection processes, and satisfactory arrangements for internal audit.

6.0 Recommendations

- 6.1 That the report be received by Members.
- 6.2 That any changes to the agreed 2011-12 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved.

Contact Officers:	Christine Parker, Head of the Audit Partnership, Ext. 7190
	Simon Webb, Audit Manager, Ext 7190
	Sue McGonigal, Chief Executive (s.151 Officer) Ext. 7002

Annex List:

Annex 1	East Kent Audit Partnership Update Report – 13-12-2011
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Background Papers:

Title	Details of where to access copy
<i>Internal Audit Annual Plan 2011-12</i>	Previously presented to and approved at the 15 th March 2011 Governance and Audit Committee meeting
<i>Internal Audit working papers</i>	Held by the East Kent Audit Partnership

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INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

1.0 INTRODUCTION AND BACKGROUND

1.1 This report provides Members with an update of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th September 2011.

2.0 SUMMARY OF REPORTS

	Service / Topic	Assurance level
2.1	Land Charges	Substantial
2.2	Climate Change	Substantial
2.3	Licensing	Reasonable
2.4	Ramsgate Townscape Heritage Grants	Reasonable
2.5	HMO and Selective Licensing	Reasonable
2.6	Ramsgate Port and Marina	Reasonable
2.7	CCTV	Limited*
2.8	Housing Benefit Testing (Quarter 1 of 2011-12)	Not Applicable

*The Assurance level in this area increased to Reasonable at the time of the follow-up audit.

2.1 Land Charges – Substantial Assurance:

2.1.1 Audit Scope

To ensure that the Council provides an efficient and effective Land Charges function.

2.1.2 Summary of Findings

The day to day operation and administration of the Council’s Land Charges service, including the processing of all searches, is undertaken in a very sound and effective manner.

The most significant change which has occurred since the time of the last audit in 2008 is that the Land Charges Registers are now all held electronically.

The electronic records have also enabled achievement of the 2011-12 Corporate Plan goal to provide public access to the local land charges register.

2.2 Climate Change – Substantial Assurance:

2.2.1 Audit Scope

To address climate change and its impact on the lives of the Authority's residents.

2.2.2 Summary of Findings

The Authority should be praised for the various initiatives that it has place for recycling and reducing its carbon footprint. With buy in and guidance from SMT the Corporate Climate Change Action Group is in place to drive forward the Climate Change Strategy and ensure that the supporting actions on the action plan are being completed to assist in reducing climate issues both in house and across the district.

2.3 Licensing – Reasonable Assurance:

2.3.1 Audit Scope

To ensure that Licences are issued correctly to applicants who qualify for the various licensing categories, the information is recorded accurately and the income receivable by the Council is collected correctly and on a timely basis in line with the procedures laid down.

2.3.2 Summary of Findings

The Licensing process is generally working very well and most of the expected controls have been established and are consistently adhered to across all licensing income streams. There is only minor scope for improvement to strengthen the existing controls and the implementation of the associated recommendations contained within the audit report will be followed up by Internal Audit in early January 2012 when it is anticipated that a Substantial Assurance level should be able to be concluded.

2.4 Ramsgate Townscape Heritage Grants – Reasonable Assurance:

2.4.1 Audit Scope

To provide assurance in respect of the Ramsgate Townscape Heritage Grant scheme whose objective is to encourage the conservation, regeneration and enhancement of the historic buildings and street scenes that make up the distinctive character of Ramsgate's Seafront Townscape through the Townscape Heritage Initiative (THI) Grant Scheme which is jointly funded by the Heritage Lottery Fund (HLF) and Thanet District Council (TDC).

2.4.2 Summary of Findings

The internal controls and procedures surrounding Ramsgate Townscape Heritage grant scheme are generally working well and most of the expected controls are effective.

A small number of areas for improvement have been highlighted by the review and these will be addressed as part of the implementation of the new proposed THI grant scheme for Dalby Square commencing in May 2012.

2.5 HMO and Selective Licensing – Reasonable Assurance:

2.5.1 Audit Scope

To work with landlords and tenants to ensure the legal standards for housing are met.

2.5.2 Summary of Findings

The processes for implementing the duties placed upon the Council by virtue of the Housing Act 2004 are generally working well and most of the expected controls are effective.

Housing regeneration activities can demonstrate a proactive approach to the work undertaken in ensuring its mandatory duties are discharged. Improvement and/or revision activity is already proposed on various aspects of the controls reviewed. On implementation they will be a positive addition to the current system of internal control and the overall assurance of control effectiveness.

Reconciliation of the collated operational information to the Financial Management Information System would compliment the current recording and checking procedures ensuring that all income due to the Council arising from HMO licensing is received and accurately accounted for.

2.6 Ramsgate Port and Marina – Reasonable Assurance:

2.6.1 Audit Scope

To ensure that all income arising from the Council's maritime operations at Ramsgate Harbour is completely and correctly accounted for and that the schedule of fees and charges are set at levels which ensure not only the recovery of direct costs but also an appropriate contribution towards the overheads and medium term maintenance requirements of the Harbour.

2.6.2 Summary of Findings

The overall financial process is generally working well and most of the expected controls are effective. The invoicing processes for both marina and port site users is undertaken through the harbour office with sufficient documentary evidence retained to support the posted transactions.

Plans are developing for the maintenance of the harbour and work is continuing towards the harbour master plan.

2.7 CCTV – Limited increasing to Reasonable Assurance after follow-up:

2.7.1 Audit Scope

To ensure that the CCTV operation is undertaken in accordance with the Code of Practice and all prevailing legislation such as the Data Protection Act and the Human Rights Act.

2.7.2 Summary of Findings

At the time of the original review in April/May 2011, a number of control weaknesses were identified particularly surrounding non-compliance with the CCTV Code of Practice. By the time of the follow-up audit in November 2011, Management had taken prompt action to address these matters and the assurance level had increased to Reasonable.

The Council operates 96 cameras in Margate, Broadstairs and Ramsgate, the vast majority of which are of the tilt, pan and zoom configuration with only a small number of static cameras.

The use of cameras is covered by a CCTV Code of Practice based upon the model code of practice used throughout Kent and the individual operators are also in possession of a CCTV Operators code which sets out how the operation will be conducted on a daily basis. The Code should be easily available via the TDC website, however, all that appears during searches is a very abbreviated version.

Two vital elements in ensuring public confidence in the CCTV system are the use of lay visitors to carry out random checks of the operation comparing its use to the two guiding Codes and through annual peer reviews by another service. Whilst two lay visitors have been appointed, neither has thus far fulfilled the role. Management should look to increasing the number of lay visitors to ensure fair coverage of the operation. A comprehensive peer review was conducted in June 2010 with a further review scheduled for July 2011. The possible publication of the review was discussed with Management.

Access to the control room is well protected behind two locked doors and surveilled by a camera in the foyer. Visitors are required to sign in, testing however showed that this was not always accomplished. Neither are visitors required to sign a confidentiality declaration as recommended by the Model Code of Practice, this could simply be achieved by introducing the model sign in register.

The previous audit in 2007/8 recommended that an annual report be produced, this was agreed for April 2008 and thereafter each April, however the report was not produced. The peer review mechanism in 2010 identified this as a continuing weakness. An annual report has not been produced for 2011 and publicised as set out in the Code of Practice; this audit reiterates the previous recommendation.

Signs are displayed advising that an area covered by CCTV is about to be entered, they conform to the required standard and carry the Council Anti Social Behaviour phone number. The comprehensive signage expected was not however always present.

These issues had been satisfactorily addressed by Management at the time of the follow-up review

2.8 Housing Benefit Testing (Quarter 1 of 2011-12) – An assurance level is not applicable for this work:

- 2.8.1 Over the course of the 2011/12 financial year the East Kent Audit Partnership (EKAP) is undertaking a sample check of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission's verification work.

- 2.8.2 For the first quarter of the 2011/12 financial year (April to June 2011) an initial sample of 20 claims, including new claims and changes of circumstance of each benefit type, were selected by using Excel software to randomly select the various claims for verification.
- 2.8.3 In total 20 benefit claims were checked and of these 4 (20% of the sample) failed the criteria set by the Audit Commission's verification guidelines as they impact on the subsidy claim. One further claim failed due to procedural error; however this has no affect on the subsidy claim.
- 2.8.4 Due to the higher than expected error rate the EKAP then undertook, at the request of EK Services, testing of a additional sample of 20 benefit claims. From this additional sample of 20 claims 2 (10% of the sample) were found to have failed the set criteria as they would have an impact on the subsidy claim. One further claim failed the data quality check due to the input of an incorrect national insurance number; this however has had no affect on the subsidy claim.
- 2.8.5 In total 40 benefit claims were checked and of these 6 failed the criteria set by the Audit Commission's verification guidelines as they impact on the subsidy claim. Two further claims failed due to procedural/data input errors, however these have no affect on the subsidy claim. The first sample of 20 claims produced an error rate of 20% and the second sample of 20 claims produced an error rate of 10%.
- 2.8.6 The overall error rate, identified by the EKAP from the sample of 40 claims of 15% is the same as the reported error rate arising from the testing undertaken by the EKAP during 2010/11.
- 2.8.7 During Quarter 1 of 2011-12, quality control testing was also undertaken by EK Services and during this period a total of 721 transactions on cases were tested which highlighted an error rate effecting subsidy of 2.36%. Detailed results of the testing undertaken by EK Services can be seen in the table below.

Total cases tested	721
Total errors	58 (8.4%)
Cases with calculation errors	17 (2.36%)
Percentage of cases with procedural errors	44 (6.10%)
Overall accuracy rate	704 (97.64%)

- 2.8.8 The next sample of benefit claims to be checked by the EKAP will be in respect of Quarter 2 (July to September 2011) and this work is currently in progress. The sample for Quarter 2 has been selected from those claims which have already been quality control tested by EK Services in order to provide assurance on the data quality of the benefits accuracy performance indicator and also to seek to ascertain the reasons for the difference in the accuracy rate highlighted by the EKAP and that identified by EK Services.

The point must be reiterated, however, that the methodology being used for quality assurance differs between EKAP and EK Services. EKAP check the whole amount of the benefit paid in the financial year to date in order to establish potential accuracy of subsidy claims and EK Services only check the most recent adjustment (transaction) which gave rise to the claim being selected for quality checking.

2.8.9 Management Response

Local Authorities are entitled to receive an accuracy bonus from the DWP to reflect safe stewardship of the Housing Benefit and Council Tax Benefit schemes. At the current time, the Audit Commission are auditing the 2010/2011 final subsidy claim for Thanet (a claim of just under £80M) where a final accuracy bonus will be determined and agreed.

The impact of accuracy on the financial position of both the customer and the authority are monitored and reported on a regular basis. Early indications show that a bonus will also be due for the current financial year. Bonuses have so far been received for the years 2007/2008, 2008/2009 and 2009/2010, with the 2010/2011 decision due imminently.

3.0. **FOLLOW UP OF AUDIT REPORT ACTION PLANS:**

3.1 As part of the period's work, seven follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstanding	
a)	Officer Code of Conduct	Substantial	Substantial	H	0	H	0
				M	1	M	1
				L	2	L	2
b)	Complaints Monitoring	Substantial	Substantial	H	0	H	0
				M	0	M	0
				L	1	L	0
c)	Car Parking	Reasonable	Reasonable	H	1	H	0
				M	0	M	0
				L	0	L	0
d)	Cemeteries and Crematoria	Reasonable	Reasonable	H	1	H	0
				M	1	M	0
				L	0	L	0
e)	Members' Code of Conduct and Standards Arrangements	Reasonable	Reasonable	H	1	H	1
				M	4	M	3
				L	0	L	0
f)	Waste (Vehicle Fleet) Management	Reasonable	Reasonable	H	8	H	0
				M	6	M	1
				L	0	L	0
g)	CCTV	Limited	Reasonable	H	5	H	1
				M	2	M	0
				L	4	L	1

3.2 Details of any individual High priority recommendations outstanding after follow-up are included at Appendix 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now

being escalated for the attention of the s.151 officer and Member's of the Governance Committee.

The purpose of escalating outstanding high-risk matters is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

4.0 WORK-IN-PROGRESS:

4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Capital, Treasury Management, Main Accounting System, Budgetary Control, ICT Physical and Environmental Controls, Inventories of Portable Assets, Insurance, Debtors, Business Rates, Payroll, SSP and SMP, Housing Rent Setting and Collection, Employee Health and Safety, Housing Tenant Health and Safety, ICT Management and Finance Controls, Business Continuity and East Kent Housing Governance Arrangements .

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2011-12 internal audit plan was agreed by Members at the meeting of this Committee on 15th March 2010.

5.2 The Head of the Audit Partnership meets on a monthly basis with the Section 151 Officer or their nominated representative to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments have been made to the plan during the course of the year as some high profile projects or high-risk areas have been requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 3.

6.0 FRAUD AND CORRUPTION:

There are no known instances of fraud or corruption to bring to Members attention at the present time.

7.0 UNPLANNED WORK:

There was no unplanned work arising during the period quarter to bring to Members attention at the present time.

8.0 INTERNAL AUDIT PERFORMANCE

8.1 For the six months to 30th September 2011, 204.33 chargeable days were delivered against the planned target of 342 which equates to 67.19% plan completion.

8.2 The financial performance of the EKAP is on target and there are no concerns to highlight at this time.

8.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has established a range of performance indicators which it records and measures. The performance against each of these indicators for the first quarter of 2011-12 is attached as Appendix 5. There are no concerns regarding the resources engaged or outputs achieved at this time, and the

East Kent Audit Partnership has performed well against its targets for the 2011-12 financial year.

- 8.4 The EKAP audit maintains an electronic client satisfaction questionnaire which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service. Current feedback arising from the customer satisfaction surveys is featured in the Balanced Scorecard attached as Appendix 4.

Attachments:

- Appendix 1 Summary of High priority recommendations outstanding after follow-up.
- Appendix 2 Summary of services with Limited / No Assurances
- Appendix 3 Progress to 30th September 2011 against the agreed 2011-12 Audit Plan.
- Appendix 4 EKAP Balanced Scorecard of Performance Indicators to 30th September 2011.
- Appendix 5 Assurance statements

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP - APPENDIX 1

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
Members' Code of Conduct and Standards Arrangements:		
<p>The Council should consider the establishment of a voluntary Standards Committee and associated Local Code of Conduct for elected Members ahead of the abolition of the existing Standards Board regime.</p>	<p>Agreed in principle. Chapter Five of the Localism Bill proposes the establishment of a revised Standards Framework by Local Authorities to promote and maintain high standards of conduct. The Standards Committee will be an advisory body to the council, not a statutory body with no voting rights for Independent Members.</p> <p>Next steps: Further consultation with the Standards Committee and Group Leaders to establish how a voluntary code of conduct could work.</p> <p>Following the May elections, new councillors will be trained on the 2007 Code of Conduct. Estimated timescale for the establishment and adoption of a voluntary code is November 2011 by which time more details of the Localism Bill will be available.</p> <p>Responsibility: Monitoring Officer. Target Date: November 2011.</p>	<p>Initial meeting of Standards Working Party arranged for 30 Nov 2011. However no detail available from Secretary of State.</p> <p>Changes made to the Localism Bill in the House of Lords have delayed progress of the bill through Parliament.</p>
CCTV:		
<p>To ensure that the operation of the CCTV system complies with the Thanet CCTV Code of Practice - Monitoring Procedures, the existing lay visitors should be reminded of their duty to carry out inspections or if they are unable to fulfil this role they should resign and strenuous efforts should be made to recruit new lay visitors.</p>	<p>The existing Lay Visitors are to be replaced by members of the crime and disorder scrutiny group.</p> <p>Proposed Completion Date: October 2011</p> <p>Responsibility: Enforcement Services Manager</p>	<p>We are in the process of appointing new lay visitors and new procedures will be up and running in the New Year.</p> <p align="center">Recommendation Outstanding</p> <p>Revised Implementation date - February 2012.</p>

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED – APPENDIX 2

Service	Reported to Committee	Level of Assurance	Management Action	Follow-up Action Due
Equality and Diversity	March 2011	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-Progress

PROGRESS TO DATE AGAINST THE AGREED 2011-12 AUDIT PLAN – APPENDIX 3

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2011	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	8	8	0.25	Work-in-Progress
Treasury Management	8	8	0.24	Work-in-Progress
Main Accounting System	8	8	0.19	Work-in-Progress
Budgetary Control	10	10	0.2	Work-in-Progress
Insurance	8	8	0.32	Work-in-Progress
RESIDUAL HOUSING SERVICES:				
Homelessness	6	6	5.97	Work-in-Progress
Right to Buy	7	8.17	8.17	Finalised - Substantial
GOVERNANCE RELATED:				
Anti-Money Laundering	5	3.39	3.39	Finalised - Substantial
Complaints Monitoring	8	9.46	9.46	Finalised - Substantial
RIPA	8	7.5	7.5	Finalised – Substantial
Partnerships	10	5	3.04	Finalised
Climate Change	8	8	2.46	Finalised - Reasonable
Business Continuity	6	6	0.17	Quarter 4
Risk Management	10	0.17	0.17	Postpone until Quarter 1 of 2012-13
Corporate Advice/SMT	2	2	1.41	Work-in-Progress throughout 2011-12
s.151 Officer Meetings and Support	9	9	3.72	Work-in-Progress throughout 2011-12
Governance & Audit Committee Meetings and Report Preparation	12	12	4.97	Work-in-Progress throughout 2011-12
Audit Plan and Preparation Meetings	9	9	0.2	Work-in-Progress throughout 2011-12
CONTRACT RELATED:				
Receipt & Opening of Tenders	6	6.51	6.51	Finalised - Substantial
SERVICE LEVEL:				
Private Sector Housing – HMO and Selective Licensing	10	10.92	10.92	Finalised - Reasonable
Community Safety	10	12.14	12.14	Finalised - Substantial
CCTV	8	10.94	10.94	Finalised – Limited Reasonable after follow-up

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2011	Status and Assurance Level
Dog Wardens and Litter Enforcement	8	0	0	Postpone until Quarter 1 of 2012-13
Electoral Registration & Election Management	10	13.41	13.41	Finalised
Pest Control	8	7.7	7.7	Finalised - Reasonable
Ramsgate Townscape Heritage Grants	8	7.38	7.38	Finalised - Reasonable
Inventories of Portable Assets	8	8	0.34	Work-in-Progress
Land Charges	8	8	4.21	Finalised - Substantial
Licensing	10	9.88	9.88	Finalised - Reasonable
Maritime – Port Operations and Pricing Structure	20	18	17.52	Finalised - Reasonable
Regeneration	10	0	0	Postpone until Quarter 1 of 2012-13
Visitor Information Arrangements	8	0	0	Postpone until Quarter 1 of 2012-13
OTHER :				
Liaison With External Auditors	3	1	0.5	Work-in-Progress throughout 2011-12
Follow-up Reviews	27	17.73	9.18	Work-in-Progress throughout 2011-12
Carry forward from last year	25.47	25.47	25.47	Completed
UNPLANNED WORK:				
Maritime - Electricity VAT Query	0	0.91	0.91	Finalised
Council Offices - Cleaning Stock Controls	0	1.52	1.52	Finalised
Election Duty	0	1	1	Polling Duty – May 2011 District Elections and Referendum
FINALISATION OF 2010-11 AUDITS:				
Procurement	-15.47	31.45	11.12	Finalised - Substantial
Car Parks			8.98	Finalised - Reasonable
Coastal Protection			0.2	Finalised - Reasonable
Waste (Vehicle Fleet) Management			2.46	Finalised - Reasonable
Cemeteries and Crematoria			3.69	Finalised - Reasonable
Housing Benefits Quarterly Testing – Quarter 3 of 2010-11			4.66	Finalised – Not Applicable
Contract Monitoring and Management			0.34	Finalised - Reasonable
EAST KENT HR PARTNERSHIP:				
Absence Management, Flexi and Annual Leave	5	5	0	Quarter 4

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2011	Status and Assurance Level
Payroll, SMP and SSP	5	5.35	5.35	Work-in-Progress
Employee Expenses	5	4	0	Quarter 4
HR Systems Development	5	0	0	Contingency
Employee Health and Safety	8	8	1.67	Work-in-Progress
TOTAL - THANET DISTRICT COUNCIL RESIDUAL DAYS	342	342	229.83	67.20% Complete as at 30-09-2011
EK SERVICES:				
Housing Benefits - Overpayments	5	5	0.06	Quarter 4
Housing Benefits – Fraud Investigations	5	5	0.13	Work-in-Progress
Housing Benefit Testing	20	20	16.8	2010-11 Quarter 4 – Finalised 2011-12 Quarter 1 – Finalised 2011-12 Quarter 2 – WIP 2011-12 Quarter 3 – Qtr 4
Business Rates	8	8	0.55	Work-in-Progress
Customer Services/Gateway	5	5	0.23	Quarter 4
Debtors and Rechargeable Works	5	5	0.06	Quarter 4
ICT – Management & Finance Controls	5	5	0.06	Quarter 4
ICT – Physical & Environment Controls	5	5	0.06	Work-in-Progress
ICT – Internet & e-mail Controls	5	5	2.81	Quarter 4
Total EK Services	63	63	20.76	
EAST KENT HOUSING:				
Governance Arrangements	3	3	0.25	Work-in-Progress
Internal Controls and Finance	3	3	0	Quarter 4
Interfaces with Finance and ICT Systems	2	2	0	Quarter 4
Audit Committee/Follow-up work	1	1	0.3	Work-in-Progress throughout 2011-12
Rent Setting, Collection & Debt Management	8	8	0.21	Work-in-Progress
Fire and Gas Safety Inspections	0	8	0.15	Work-in-Progress
Tenancy & Estate Management	8	0	0.1	Postponed until 2012-13 to accommodate the Fire and Gas safety audit instead in 2011-12.
Total East Kent Housing	25	25	1.01	
UNPLANNED ADDITIONAL WORK				
Interreg Grant – Customer Services (Mosaic)	4	4	1.26	First Level Controller sign off charged to project

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2011	Status and Assurance Level
Interreg Grant – Tudor House	4	4	1.48	First Level Controller sign off charged to project
Interreg Grant – Maritime (Off-Shore Wind Farm)	4	4	0.38	First Level Controller sign off charged to project
Interreg Grant – Maritime (Yacht Valley)	4	4	2.76	First Level Controller sign off charged to project

BALANCED SCORECARD – QUARTER 2

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2011-12 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2011-12 Actual</u>	<u>Target</u>
	Quarter 2				
Chargeable as % of available days	86%	80%	Cost per Audit Day (Reported Annually)		£300.15
Chargeable days as % of planned days					
CCC	53.13%	50%			
DDC	50.42%	50%			
SDC	54.36%	50%			
TDC	67.19%	50%			
EKS	22.47%	50%			
EKH	6.77%	50%			
Overall	49.29%	50%			
Follow up/ Progress Reviews;					
• Issued	43	-			
• Not yet due	41	-			
• Now overdue for Follow Up	7	4			
Percentage compliance with the CIPFA Code for Internal Audit 2006	97%	97%			

BALANCED SCORECARD – QUARTER 2

<u>CUSTOMER PERSPECTIVE:</u>	<u>2011-12 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2011-12 Actual</u>	<u>Target</u>
	Quarter 2				
Number of Satisfaction Questionnaires Issued;	58		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	23		Percentage of staff holding a relevant higher level qualification	33%	33%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	13%	13%
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner • The audit report was 'Excellent or Very Good' • That the audit was worthwhile. 	100%	100%	Number of days technical training per FTE	0.95	3.5
	83%	90%	Percentage of staff meeting formal CPD requirements	33%	33%
	87%	100%			



AUDIT ASSURANCE

Definition of Audit Assurance Statements

Substantial Assurance

From the testing completed during this review a sound system of control is currently being managed and achieved. All of the necessary, key controls of the system are in place. Any errors found were minor and not indicative of system faults. These may however result in a negligible level of risk to the achievement of the system objectives.

Reasonable Assurance

From the testing completed during this review most of the necessary controls of the system in place are managed and achieved. There is evidence of non-compliance with some of the key controls resulting in a marginal level of risk to the achievement of the system objectives. Scope for improvement has been identified, strengthening existing controls or recommending new controls.

Limited Assurance

From the testing completed during this review some of the necessary controls of the system are in place, managed and achieved. There is evidence of significant errors or non-compliance with many key controls not operating as intended resulting in a risk to the achievement of the system objectives. Scope for improvement has been identified, improving existing controls or recommending new controls.

No Assurance

From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

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QUARTERLY GOVERNANCE PROGRESS REPORT

To: **Governance and Audit Committee – 13 December 2011**

Main Portfolio Area: **Business Services**

By: **Business Support and Compliance Manager**

Classification: **Unrestricted**

Ward: Not applicable

Summary: To provide Governance and Audit Committee with a progress report on governance related issues.

For Information and Decision

1.0 Introduction and Background

1.1 This report provides Governance and Audit Committee with an update on governance related issues. The items covered in this report are:

- 2.1 Corporate risk register
- 2.2 Annual Governance Statement 2010/11 action plan
- 2.3 Governance Framework and Local Code of Corporate Governance annual review

2.0 The Current Situation

2.1 Corporate risk register

2.1.1 Attached at **annex 1** is a copy of the corporate risk register. Governance and Audit Committee need to be confident that the risk management process is being followed, such as ensuring reviews are being undertaken and target dates for implementing control measures are met.

2.2 Annual Governance Statement 2010/11 action plan

- 2.2.1 For the period 2010/11 the council prepared an Annual Governance Statement (AGS) which was agreed by Governance and Audit Committee on the 29 September 2011.
- 2.2.2 Within the Annual Governance Statement 2010/11 areas of concern identified from the numerous assessments into our governance arrangements were detailed within Section 6 'Significant governance issues'.
- 2.2.3 The council proposed to take steps to address these matters and report on the action plan to this Committee on a regular basis. The action plan is attached at **annex 2** for Members information.

2.3 Governance Framework and Local Code of Corporate Governance annual review

2.3.1 The Governance Framework (version 6) has undergone a review and is attached at **annex 3** with track changes for Members ease.

2.3.2 The Local Code of Corporate Governance (version 6) has also been reviewed and is attached at **annex 4**. The updates that have been made take into account any changes to processes, source documents or best practice guidelines, comments on actions throughout the previous year and any plans for improvement intended within the forthcoming period.

3.0 Options

3.1 That Members note the content of annex 1, the Corporate Risk Register and identify any issues on which they require more clarification.

3.2 That Members note the content of annex 2, the Annual Governance Statement 2010/11 action plan and identify any issues on which they require more clarification.

3.3 That Members approve the changes to the Governance Framework (annex 3) and Local Code of Corporate Governance (annex 4).

4.0 Corporate Implications

4.1 Financial

4.1.1 There are no financial implications arising directly from this report.

4.2 Legal

4.2.1 There are no legal implications arising directly from this report.

4.3 Corporate

4.3.1 The Annual Governance Statement Action Plan is a corporate document that addresses the areas of improvement identified as necessary through the Annual Governance Statement process.

4.4 Equity and Equalities

4.4.1 There are no equity or equalities issues arising from this report.

4.5 Risks

4.5.1 Failure to undertake these processes will impact on the council's approach to Corporate Governance.

5.0 Recommendation(s)

5.1 That Members note the content of annexes 1 and 2 and identify any issues on which they require more clarification.

5.2 That Members approve the changes to the Governance Framework and Local Code of Corporate Governance (annexes 3 and 4).

6.0 Decision Making Process

6.1 These recommendations do not involve the making of a key decision and may be taken by the Governance and Audit Committee.

Future Meeting if applicable:	Date: December 2012 (for annual review)
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Contact Officer:	Nikki Morris, Business Support and Compliance Manager, DDI 01843 577625
Reporting to:	Barry Mileham, Business Information and Improvement Manager, DDI 01843 577620
Service Manager:	Sarah Carroll, Business Services Manager, DDI 01843 577188

Annex List

Annex 1	Corporate Risk Register
Annex 2	Annual Governance Statement 2009/10 action plan
Annex 3	Governance Framework (Version 5)
Annex 4	Local Code of Corporate Governance (Version 5)

Background Papers

Title	Details of where to access copy
Annual Governance Statement 2009/10	Members Portal, Council website (www.thanet.gov.uk) and hard copy within Corporate Resources, first floor, Cecil Street Offices, Margate
Delivering Good Governance in Local Government guidance and framework (CIPFA / SOLACE documents)	Within Corporate Resources, first floor, Cecil Street Offices, Margate

Corporate Consultation Undertaken

Finance	Not applicable
Legal	Not applicable
Communications	Not applicable

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Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
BUS0003	The Council relies on staff consistently working for longer than their contracted hours Next Review: 30/03/2012 (Reviewed every 4 months) Risk Status: Treat	Increasingly due to staff numbers having reduced to make budget savings	Increased sickness absence Increased levels of overtime requests Potential health and safety issues Breach of contract Impact on service delivery Staff dissatisfaction Recruitment and retention issues Impact on VfM	Carroll, Sarah	9 P(3) I(3)	9 P(3) I(3)	<p>Undertake Investors in People health check <i>Implemented</i> Target Date: 31/03/2012 Next Review: 01/03/2012 (Reviewed every 3 months)</p> <p>Use Managers Exchange to share best practice with Managers and address corporate issues <i>In Progress</i> (10% complete) Target Date: 31/03/2012 Next Review: 01/03/2012 (Reviewed every 3 months)</p> <p>Design and deliver a staff survey <i>In Progress</i> (25% complete) Target Date: 31/03/2012 Next Review: 25/02/2012 (Reviewed every 3 months)</p> <p>Review flexi-time policy <i>Implemented</i> Target Date: Next Review: 01/04/2012 (Reviewed every 4 months)</p> <p>Deliver training to managers on revised policies <i>In Progress</i> (25% complete) Target Date: 31/03/2012 Next Review: 03/02/2012 (Reviewed every 4 months)</p>	Carroll, Sarah Carroll, Sarah Carroll, Sarah Carroll, Sarah	4 P(2) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
BUS010002	Limited internal specialist support available (such as engineers, property, legal) at peak times. Next Review: 30/03/2012 (Reviewed every 6 months) Risk Status: Treat	Possible claim against the Council under professional / officials indemnity	Delays in service delivery Unable to meet targets Non completion of corporate plan objectives Wasted resources Stop doing certain things Dissatisfaction / complaints Drop in standards	Mileham, Barry	4 P(2) I(2)	4 P(2) I(2)	<p>Shared Services <i>Implemented</i> Target Date: Next Review: 01/06/2012 (Reviewed every 6 months)</p> <p>Recruitment /appointment process <i>Implemented</i> Target Date: Next Review: 01/06/2012 (Reviewed every 6 months)</p> <p>Take into account when drafting budget savings proposals <i>Implemented</i> Target Date: Next Review: 30/05/2012 (Reviewed every 6 months)</p> <p>Provide support to new appointments (within development of succession planning) <i>Approved (0% complete)</i> Target Date: Next Review: 01/03/2012 (Reviewed every 3 months)</p>	Chadwick, Sophie Carroll, Sarah Martin, Sarah Mileham, Barry	2 P(1) I(2)
BUS020001	Managers may not have or use performance information effectively as a management tool Next Review: 30/03/2012 (Reviewed every 4 months) Risk Status: Treat	Council doesn't have or make best use of performance information for service outcomes	Resources used for wrong priorities Missed opportunities (to save and improve) Unable to achieve key targets Performance is managed ineffectively	Carroll, Sarah	6 P(3) I(2)	6 P(3) I(2)	<p>Training of managers on the benefits of performance management <i>In Progress (80% complete)</i> Target Date: 01/04/2012 Next Review: 02/04/2012 (Reviewed every 4 months)</p> <p>Work to change the culture of management around performance management <i>In Progress (30% complete)</i> Target Date: 30/03/2012 Next Review: 11/12/2011 (Reviewed every 5 months)</p>	Tebbett, Stephen Mileham, Barry	4 P(2) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
BUS030001	The Council is involved in a number of partnerships including a shared services programme with other LAs, and there is a reliance on these to deliver in a number of areas. There are concerns however around the level of resourcing required, the robustness of the management and governance around these and the ability / willingness of partners to participate fully Next Review: 15/01/2012 (Reviewed every 3 months) Risk Status: Treat	Shared service programme fails to deliver effectively to improve services and save money in shared areas - for example, TDC invests more time and resource into partnerships than the benefit received	Financial loss Wasted resources, or loss of funding Inability to meet targets Differing priorities - so effort is expended on other/lower priorities Expend extra effort to manage partnership arrangements Dissatisfaction/Frustration and loss of confidence Need to unwind and reverse strategic direction Failure of statutory responsibilities Partners direction changes adversely Unitary model imposed Political unrest	Carroll, Sarah	9 P(3) I(3)	9 P(3) I(3)	<p>Strategic Business Case <i>Implemented</i> Target Date: Next Review: 01/06/2012 (Reviewed every 3 months)</p> <p>Establish shared service implementation plan <i>In Progress</i> (10% complete) Target Date: 31/03/2012 Next Review: 01/02/2012 (Reviewed every 2 months)</p>	Chadwick, Sophie Chadwick, Sophie	3 P(1) I(3)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
BUS030002	Procurement and contract management / monitoring are increasingly important and there is a need to measure and monitor effectiveness and value for money (VFM) on key contracts Next Review: 13/01/2012 (Reviewed every 4 months) Risk Status: Treat	Fail to adequately manage / monitor key contracts	Impact on VFM Tenant satisfaction falls Impact on reputation from tenants and marketplace Key contract fails Significant amount of time required to manage situation	Paton, Karen	9 P(3) I(3)	3 P(1) I(3)	<p>Review processes (easing internal bureaucracy AND ensuring compliance, and make sure processes are effective) <i>Proposed</i> (0% complete) Target Date: Next Review: 01/01/2012 (Reviewed every 1 months)</p> <p>Strengthen process for capturing contract details aligned with budget information <i>Implemented</i> Target Date: 01/12/2011 Next Review: 13/03/2012 (Reviewed every 4 months)</p> <p>Increase the resource for monitoring compliance with CSOs <i>Implemented</i> Target Date: 01/12/2011 Next Review: 01/04/2012 (Reviewed every 4 months)</p> <p>Contract Management Training <i>In Progress</i> (25% complete) Target Date: Next Review: 01/03/2012 (Reviewed every 3 months)</p> <p>Periodic refresh of the Contract Register <i>Implemented</i> Target Date: Next Review: 30/03/2012 (Reviewed every 4 months)</p>	<p>Paton, Karen</p> <p>Paton, Karen</p> <p>McGonigal, Sue</p> <p>Paton, Karen</p> <p>Paton, Karen</p>	2 P(1) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
BUS030003	The Council is involved in a number of partnerships and there is a reliance on these to deliver in a number of areas. There are concerns however around the level of resourcing required, the robustness of the management and governance around these and the ability / willingness of partners to participate fully Next Review: 11/03/2012 (Reviewed every 4 months) Risk Status: Treat	Council invests more time and resource into partnerships than the benefit received Disinvestment in partnerships	Wasted resources Differing priorities Effort expended on other / lower priorities Direction of partnership changes Expend extra effort to manage partnership arrangements Frustration Unable to meet targets Loss of funding Loss of confidence Withdrawal of partners	Carroll, Sarah	6 P(3) I(2)	6 P(3) I(2)	<p>On-going work at CEx level for increasing partnership working <i>In Progress</i> (50% complete) Target Date: Next Review: (Reviewed every 0 months)</p> <p>Use the performance management process to monitor the achievements of partnerships <i>In Progress</i> (50% complete) Target Date: 31/03/2012 Next Review: 01/03/2012 (Reviewed every 3 months)</p> <p>Record the governance arrangements and agreed benefits / purpose of partnerships <i>In Progress</i> (10% complete) Target Date: 30/03/2012 Next Review: 03/01/2012 (Reviewed every 1 months)</p> <p>Request outline business case to be produced to highlight resource requirements up front <i>Implemented</i> Target Date: Next Review: 30/03/2012 (Reviewed every 6 months)</p>	McGonigal, Sue Chadwick, Sophie Chadwick, Sophie Carroll, Sarah	2 P(1) I(2)
BUS030005	Partners financial difficulties Partners political difficulties Partners dissatisfied with performance/quality of service Next Review: 24/02/2012 (Reviewed every 3 months) Risk Status: Tolerate	Partner(s) decide to withdraw from a shared service	Cancellation of projects Additional financial responsibilities for remaining partners Reduction of service quality/performance	Chadwick, Sophie	8 P(4) I(2)	8 P(4) I(2)			8 P(4) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
CML0001	Health and safety risk assessments not having been completed recently. Next Review: 31/01/2012 (Reviewed every 4 months) Risk Status: Treat	Member of staff injured undertaking Council duties	Possible corporate manslaughter Failure of statutory requirements Insurance claim against the Council Loss of reputation Adverse media	Seed, Mark	9 P(3) I(3)	9 P(3) I(3)	<p>Liaise with EKHRP to review H&S risk assessment process <i>In Progress</i> (75% complete) Target Date: 31/01/2012 Next Review: 27/12/2011 (Reviewed every 4 months)</p> <p>Liaise with EKHRP to implement recommendations from 2009 internal audit <i>In Progress</i> (75% complete) Target Date: 31/01/2012 Next Review: 31/01/2012 (Reviewed every 4 months)</p>	Seed, Mark Seed, Mark	3 P(1) I(3)
CML020001	Concerns that the Council is not investing sufficiently in the upkeep of its physical assets due to lack of financial resources. Lack of investment in parks & open spaces or other leisure facilities, the Port, and the Crematorium. Next Review: 27/09/2011 (Reviewed every 2 months) Risk Status: Treat	Council has more property than it can afford. This is due to the repairs deficit, of over 4 million pounds. And community/ political tension over many potential asset disposals. Further during recession, our tenants in community buildings are requesting reduced rents, creating more budget pressures.	Gradual deterioration in quality and utility Decrease in value of property Loss of income Potential health and safety issues Political impact Loss of reputation Adverse publicity Impact on Vfm Complaints	Seed, Mark	12 P(3) I(4)	12 P(3) I(4)	<p>Draft and Implement Asset Management Strategy <i>In Progress</i> (40% complete) Target Date: Next Review: 27/09/2011 (Reviewed every 2 months)</p>	Seed, Mark	4 P(2) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
CML050001	Emergency Planning roles are ill defined. Business Continuity Plans are not sufficiently drafted or robustly tested; or are not sufficiently understood across the organisation. Next Review: (Reviewed every 2 months) Risk Status: Treat	A business continuity incident occurs and the organisation fails to respond effectively	Confusion occurs over responsibilities, and Council doesn't contribute as required Lack of clear understanding links to mixed messages internally and externally Impact on key services Service failure Impact on vulnerable people Potential health and safety issues Possible corporate manslaughter Drop in standards Possible breach of contract	Humber, Mike	16 P(4) I(4)	6 P(2) I(3)	<p>Review and revise the council's BCP <i>Superseded</i> (80% complete) Target Date: Next Review: 31/03/2013 (Reviewed every 2 months)</p> <p>Test the effectiveness of the BCP <i>Superseded</i> (60% complete) Target Date: Next Review: 31/03/2013 (Reviewed every 2 months)</p> <p>Review and revise the Council's BCP's <i>In Progress</i> (10% complete) Target Date: Next Review: 04/12/2011 (Reviewed every 2 months)</p> <p>Test the effectiveness of the BCP's <i>In Progress</i> (10% complete) Target Date: Next Review: (Reviewed every 0 months)</p>	Morgan, Paul Morgan, Paul Morgan, Paul Morgan, Paul	3 P(1) I(3)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
CRS0001	There are corporate standards, policies and procedures which need to be understood and applied consistently throughout the Council. The organisation has a history of focusing on delivery, not corporateness and there could be tensions, particularly with capacity constraints around key areas of focus. Next Review: 13/07/2011 (Reviewed every 4 months) Risk Status: Treat	Inconsistent application of corporate standards, policies and procedures	Some areas more robust than others Poorly tracked decisions Possible litigation Financial loss Qualified accounts Impact on Use of Resources Impact on management	Patterson, Harvey	8 P(4) I(2)	8 P(4) I(2)	<p>Reinforce the need to follow corporate policy & processes <i>In Progress</i> (50% complete) Target Date: Next Review: 13/07/2011 (Reviewed every 4 months)</p> <p>Implement QA and compliance testing programmes <i>Proposed</i> (0% complete) Target Date: Next Review: 13/07/2011 (Reviewed every 4 months)</p> <p>Manager / Officer Handbook <i>In Progress</i> (20% complete) Target Date: Next Review: 16/01/2012 (Reviewed every 4 months)</p> <p>Ensure corporate standards, policies and procedures are included in change programme <i>Approved</i> (0% complete) Target Date: Next Review: 01/03/2012 (Reviewed every 3 months)</p> <p>Review/amend induction to ensure overview of corporate standards, policies and procedures is included <i>Approved</i> (0% complete) Target Date: Next Review: 01/03/2012 (Reviewed every 3 months)</p> <p>Ensure corporate communications processes reinforce corporate standards, policies and procedures <i>Approved</i> (0% complete) Target Date: Next Review: 01/03/2012 (Reviewed every 3 months)</p>	<p>Patterson, Harvey</p> <p>Patterson, Harvey</p> <p>Morris, Nikki</p> <p>Mileham, Barry</p> <p>Mileham, Barry</p> <p>Mileham, Barry</p>	2 P(1) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
CTY010003	TDC do not respond to a Child Protection issue. Next Review: 05/01/2012 (Reviewed every 6 months) Risk Status: Treat	Staff are not adequately trained to recognise a potential safeguarding issue. TDC do not comply with the KSCB Annual Review and Section 11 Audit.	The child's welfare is at risk. TDC are non-compliant with The Childrens' Act 1989 and 2004.	Wason, Janice	9 P(3) I(3)	3 P(1) I(3)	<p>Work with HR to ensure adequacy of policies and processes for CRB checks <i>Approved (0% complete)</i> Target Date: 31/05/2012 Next Review: 24/02/2012 (Reviewed every 3 months)</p> <p>KSCB Annual Review and Section 11 Audit Completed <i>In Progress (20% complete)</i> Target Date: 31/03/2012 Next Review: 07/01/2012 (Reviewed every 12 months)</p> <p>All staff trained to recognise a child at risk and the LA procedure <i>In Progress (75% complete)</i> Target Date: 31/03/2012 Next Review: 07/01/2012 (Reviewed every 6 months)</p> <p>Report to Governance Board periodically on number of referrals <i>Approved (0% complete)</i> Target Date: Next Review: (Reviewed every 0 months)</p>	Chadwick, Sophie Phippin, Sarah Phippin, Sarah Phippin, Sarah	3 P(1) I(3)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
FIN0001	The Medium Term Financial Strategy contains a number of plans and assumptions around income and expenditure however there are a number of issues which if they occurred could impact on the plan. This could include issues around the capital programme, pay settlement, pension fund or government legislation changes. This may also include the possibility of one of the council's major customers going out of business. This is further impacted by the current economic volatility - 'credit crunch'. Next Review: 18/01/2012 (Reviewed every 2 months) Risk Status: Tolerate	Assumptions made differ from actual or something unexpected significantly impacts on the plan	Impact on reserves Requirement for remedial action Supplementary precept Need to prioritise / rationalise some areas Stop doing certain things Impact on service delivery Complaints Adverse media	Martin, Sarah	12 P(4) I(3)	6 P(2) I(3)	<p>Implement reviews to identify efficiencies and economies <i>Implemented (0% complete)</i> Target Date: 31/10/2012 Next Review: 24/02/2012 (Reviewed every 3 months)</p> <p>Regularly monitor outstanding debt position <i>Superseded</i> Target Date: Next Review: 18/01/2012 (Reviewed every 2 months)</p> <p>Regular review of Council's financial position, including review with managers & clear communication of position <i>In Progress (70% complete)</i> Target Date: Next Review: 18/01/2012 (Reviewed every 2 months)</p> <p>Set up process to deliver savings <i>Superseded</i> Target Date: Next Review: 18/01/2012 (Reviewed every 2 months)</p>	<p>Martin, Sarah</p> <p>Martin, Sarah</p> <p>Martin, Sarah</p> <p>Martin, Sarah</p>	4 P(2) I(2)

Risk Register

Risk Ref	Cause	Trigger	Consequence	Assigned To	Uncntrl'd Rating	Current Rating	Control Measures	Assigned To	Residual Rating
FIN0004	The current economic climate may result in individuals and/or criminal fraternities taking greater risks and/or using more innovative technologies in order to obtain monies by illegal means. Next Review: 05/01/2012 (Reviewed every 6 months) Risk Status: Treat	The Council may not have sufficient resource dedicated to anti-fraud measures to deal with any increase in fraudulent activity; or may not have the capacity to keep up to date with new fraudulent methods.	Increase in incidence of successful frauds against the Council	Martin, Sarah	12 P(4) I(3)	6 P(3) I(2)	<p>ensure anti-fraud policies remain fit for purpose <i>In Progress</i> (50% complete) Target Date: 30/04/2012 Next Review: 21/03/2012 (Reviewed every 6 months)</p> <p>Raise staff awareness <i>In Progress</i> (80% complete) Target Date: Next Review: 05/03/2012 (Reviewed every 6 months)</p> <p>provide regular training to managers re fraud awareness <i>In Progress</i> (75% complete) Target Date: 30/09/2012 Next Review: 21/12/2011 (Reviewed every 3 months)</p> <p>carry out checks of ghost employees <i>Approved</i> (0% complete) Target Date: 30/04/2012 Next Review: 21/03/2012 (Reviewed every 6 months)</p>	<p>Martin, Sarah</p> <p>Martin, Sarah</p> <p>Martin, Sarah</p> <p>Martin, Sarah</p>	3 P(3) I(1)

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GV Governance Statement Action Plan: November 2011 Update

Action Ref & Description	Action Owner	Start Date	Due Date	Stage	Latest Update
 GV01 Review Scheme of Delegation (CRS)	Patterson, Harvey	Sep 11	Nov 11	In Progress	The reviewed Scheme of Delegations is to go to the Governance Board on 5 January 2012.
 GV02 Review staff agst Child Protection training (CTY01)	Wason, Janice	Aug 11	Mar 12	Not Started	Project being reviewed due to cost and staffing implications - in-house training being considered as part of reducing costs.
 GV03 Behaviours: Objectives, Targets, Needs Agreed (CTY01)	Mileham, Barry	Jul 11	Mar 12	Not Started	When behavioural 'family groups' have been formulated, a programme of activity will be rolled out.
 GV04 Behaviours: Establish core behaviours into job families (BUS01)	Mileham, Barry	Jul 11	Mar 12	In Progress	Core competencies have been established. Now the family groups for core behaviours need to be formulated.
 GV05 Formal Procurement Programme (BUS03)	Paton, Karen	Nov 11	Mar 13	In Progress	The initial expenditure analysis is underway. A new council wide health and safety policy has been confirmed by SMT, together with a revised risk assessments and associated guidance. These are supported by individual health and safety maps that have been provided to all managers across the council at team meetings, as well as improved guidance and checklists for undertaking health and safety inspections. These are all being promoted on the council's intranet and linked to a health and safety awareness week in early December to stress the changes to managers and staff and the need to have inspections and risk assessments up to date.
 GV06 New Risk Assessment Format Adopted (CML)	Seed, Mark	Sep 11	Mar 12	Completed	Intend to go through collaboration agreement with legal services to clarify the Council's responsibilities as host, by the end of January 2012.
 /07 Clarify roles of TDC, EK Services & HRP (BUS03)	Chadwick, Sophie	Sep 11	Feb 12	Not Started	Subject to final audit sign off expected in December 11, it is felt that we have now achieved almost total compliance with the requirements identified in the original audit.
 GV08 Ensure Compliance with DPA (CRS01)	Cordes, Gary	Oct 11	Dec 11	In Progress	The Internal Communications Strategy is currently being drafted and will include methods of communication with satellite sites. The strategy is due to go to SMT on 13th December 2011.
 GV09 Review Corporate Info Communication with Managers (BUS01)	Wingate, Justine	Oct 11	Dec 11	In Progress	The new Manager's Exchange programme has commenced with the first meeting held on 21st November 2011. This Exchange Forum will be utilised to communicate corporate information and policy, gather feedback on this and provide information to be cascaded to staff. The feedback and ideas from this meeting will also inform discussion at SMT.
 GV10 Implement Business Hub (BUS01)	Mileham, Barry	Apr 11	Mar 12	Not Started	A report went to SMT (01/11/11). SMT requested more information. This was supplied to SMT on 17/11/11. A report will be going to the Employee Council in December to start the consultation process.

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Annex 2
Agenda Item 10

GV11 Member role descriptions & CPD programme (CRS03)	Back, Glenn	Jul 11	Nov 11	Completed	Role descriptions have been adopted by Council and will be built into constitution at next update. At direction of Corporate & Regulatory Services Manager, no action is being taken in respect of CPD.
GV12 Monitor Key Controls on outsourced payroll (FIN01)	Martin, Sarah	Apr 11	Mar 12	In Progress	Finance are working closely with KCC to ensure all relevant key controls are in place

Thanet District Council

Governance Framework

Version 6
December 2011



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Thanet District Council would like to acknowledge CIPFA / SOLACE in providing the 'Delivering Good Governance in Local Government' framework and guidance documents

Foreword

Good governance is important to all officers and members of Thanet District Council. It is a key responsibility for the Leader and Chief Executive, and it is also important for other Members of Cabinet, full Council and Senior Management Team, and in particular the Governance and Audit Committee who are responsible for monitoring and providing assurance on our governance arrangements.

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Good management, good performance and good financial controls all lead to good governance, and enable us to engage with our public and ultimately demonstrate good outcomes for our community. We can pursue our ambitions as set out in the Interim Corporate Plan 2011/12 effectively, whilst demonstrating our governance principles and management processes through the Local Code of Corporate Governance.

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The Local Code of Corporate Governance has been prepared in line with principles of the CIPFA / SOLACE framework Delivering Good Governance in Local Government, and will be reported on through an Annual Governance Statement showing the effectiveness of our current arrangements and any improvements that can be made for the future.

Councillor Robert Bayford
Leader of the Council

Sue McGonigal
Chief Executive

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Introduction

Governance is about how we ensure that we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Good governance leads to:

- effective leadership
- good management,
- good performance,
- good stewardship of public money,
- good public engagement and,
- ultimately, good outcomes for our citizens and service users.

Good governance enables us to pursue our vision and corporate objectives effectively as well as underpinning these with mechanisms for the control and management of risk. Governance must be owned by all stakeholders, including senior management and members, thus forming the intrinsic core of the council. It should remain embedded in the culture of the council and applied within a transparent framework of legislative requirements, governance principles and management processes.

The Local Code defines the principles that underpin the governance of this authority. We will test our arrangements by:

- Reviewing our existing governance arrangements against the Local Code.
- Maintaining an up-to-date Local Code of Corporate Governance, including arrangements for ensuring its ongoing application and effectiveness.
- On an annual basis, prepare an Annual Governance Statement in order to report publicly on the extent to which we comply with the Local Code, including how we have monitored the effectiveness of our governance arrangements in the year, and on any planned changes in the coming period.

Principles behind Governance

The Cadbury Report (1992) identified three fundamental principles of corporate governance as:

Openness: An open approach is required to ensure all interested parties are confident in the organisation itself. Being open in the disclosure of information leads to effective and timely action and lends itself to necessary scrutiny.

Integrity: This is described as both straightforward dealing and completeness. It should be reflected in the honesty of an organisation's annual report and its portrayal of a balanced view. The integrity of reports depends on the integrity of those who prepare and present them which, in turn, is a reflection of the professional standards within the organisation.

Accountability: This is the process whereby individuals are responsible for their actions. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure.

The Cadbury report defined these three principles in the context of the private sector, and, more specifically, of public companies, but they are as relevant to public service bodies as they are to private sector entities.

The Nolan Committee (1995) identified and defined seven general principles of conduct which should underpin public life, and recommended that all public service bodies draw up codes of conduct incorporating these principles. These principles of public life are:

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

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

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

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

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

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

Leadership: Holders of public office should promote and support these principles by leadership and example.

The Relevant Authorities (General Principles) order 2001 outlined three additional principles of conduct to those identified by the Nolan Committee:

Respect for others: Holders of public office should promote equality by not discriminating unlawfully against any person, and by treating people with respect, regardless of their age, religion, gender, sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers and its other employees.

Duty to uphold the law: Holders of public office should uphold the law, and on all occasions, act in accordance with the trust that the public is entitled to place in them.

Stewardship: Holders of public office should do whatever they are able to do to ensure that their authorities use their resources prudently and in accordance with the law.

Effective Governance

An effective governance framework will demonstrate the following attributes:

- A clear vision of our purpose and intended outcomes for citizens and service users that is clearly communicated, both within the council and externally.
- Arrangements are in place to review our vision and its implications for our governance arrangements.
- Arrangements exist for measuring the quality of services for users, for ensuring they are delivered in accordance with our objectives and for ensuring that they represent the best use of resources.
- The roles and responsibilities of the executive, non-executive, scrutiny and officer functions are clearly defined and documented, with clear delegation arrangements and protocols for effective communication.
- Codes of conduct defining the standards of behaviour for members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation.
- Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks.
- The core functions of the Governance and Audit Committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities* (2005), are undertaken by members.
- Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All reports are considered for legal issues before submission to members.
- Arrangements for whistleblowing and for receiving and investigating complaints from the public are in place and are well publicised.
- Arrangements exist for identifying the development needs of members and senior officers in relation to their strategic roles, and are supported by appropriate training.
- Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
- Governance arrangements with respect to partnerships and other group working are reflected in the authority's overall governance arrangements.

Annual Governance Statement

The Chief Executive, (S151 Officer), ~~Service Managers, the~~ Monitoring Officer, Internal Audit and managers across the authority will have a role to play in this process. The overall assurance given is not a pass or fail. It is a narrative statement pointing to the council's strengths and weaknesses.

The Annual Governance Statement will include the following information:

- an acknowledgement of our responsibility for ensuring there is a sound system of governance (incorporating the system of internal control);
- an indication of the level of assurance that the systems and processes that comprise our governance arrangements can provide;
- a brief description of the key elements of our governance framework, including reference to group activities where those activities are significant;
- a brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements;
- an acknowledgement of the improvements that have been undertaken during the year;
- a plan of proposed actions to be taken, to deal with any significant governance issues.

Completion of the statement should flow from the normal business planning and review processes of the Council, Governance and Audit Committee, Standards Committees and the planned work of Internal Audit. The Service Plan is one of the central mechanisms for each ~~Service Manager~~ managing their own area of activity and therefore sits at the centre of the governance process.

Governance is integral to the whole business management process and not an add-on. Hence it uses existing documents and procedures and the risks and control framework. In particular, it links to performance reporting as good governance promotes good service but poor service performance reflects a failure of governance. Effective internal controls are an important part of the governance process. Through their audit assurance work, Internal Audit will provide an opinion on the effectiveness of the systems of internal control.

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Annual Governance Statement Preparation

The Annual Governance Statement that the Leader and Chief Executive will be required to sign will be compiled from the following:

Internal Control Opinion

The Assurance Statement from the East Kent Audit Partnership, which will be compiled from the following evidence:

- The Internal Audit review of this council's governance arrangements;
- The Assurance Framework, built from the audit assurance statements on individual audits; and
- An assessment of the control and risk framework.

Governance and Internal Control Framework

- Comment and recommendations from the Monitoring Officer and Section 151 Officer who have responsibility to oversee the operation of the governance framework and the Local Code of Corporate Governance; and contribute to the annual assessment process.
- Confirmation from ~~Service Managers~~ via an evidenced Managers Assurance Statement which has been discussed and approved by the Portfolio Holder.
- The Annual Reports from the Standards Committee, Overview and Scrutiny Panel and Governance and Audit Committee.
- The ~~Corporate and Regulatory Services Manager~~ (Monitoring Officer) and Democratic Services Manager on the council's annual review of the Constitution.
- The annual statement of the council's ~~Corporate and Regulatory Services Manager~~ giving an opinion on the council's compliance with relevant laws and regulations, and its legal obligations and requirements.
- The annual statement of the Head of the East Kent HR Partnership giving an opinion on compliance with policies and procedures with regard to the management of staff, staff conduct and ethical standards, sickness levels, training and health and safety.
- The annual statement of the ~~Business Support and Compliance Manager~~ giving an opinion on compliance with the council's Risk Management Strategy.
- The ~~Chief Executive's~~ (Section 151 Officer) review of the Effectiveness of the council's Internal Audit arrangements

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The Monitoring Officer and the S151 Officer will review the internal control opinion and principles framework evidence, including service assurance statements, the audit review of Corporate Governance, the Constitutional review, performance reporting, risk management arrangements and the individual audit and risk management assessments. This will ensure that all the necessary evidence is in place, there is consistency of reporting and that suitable action is being taken to address weaknesses.

The Draft Annual Governance Statement will be prepared, based on the internal control framework, core and supporting principles, internal and external reviews and audit evidence provided. This will be considered by the Governance ~~Board~~ including the Chief Executive, and then Governance and Audit Committee will provide the final review, evaluation and approval for signature ~~by the end of June~~.

The Governance and Audit Committee will monitor the overall governance process and ensure that the process is robust and agreed actions identified are properly implemented. The final ~~Annual Governance Statement~~ will then be signed before the end of ~~September~~ by the Leader and Chief Executive based on a clear evidence trail.

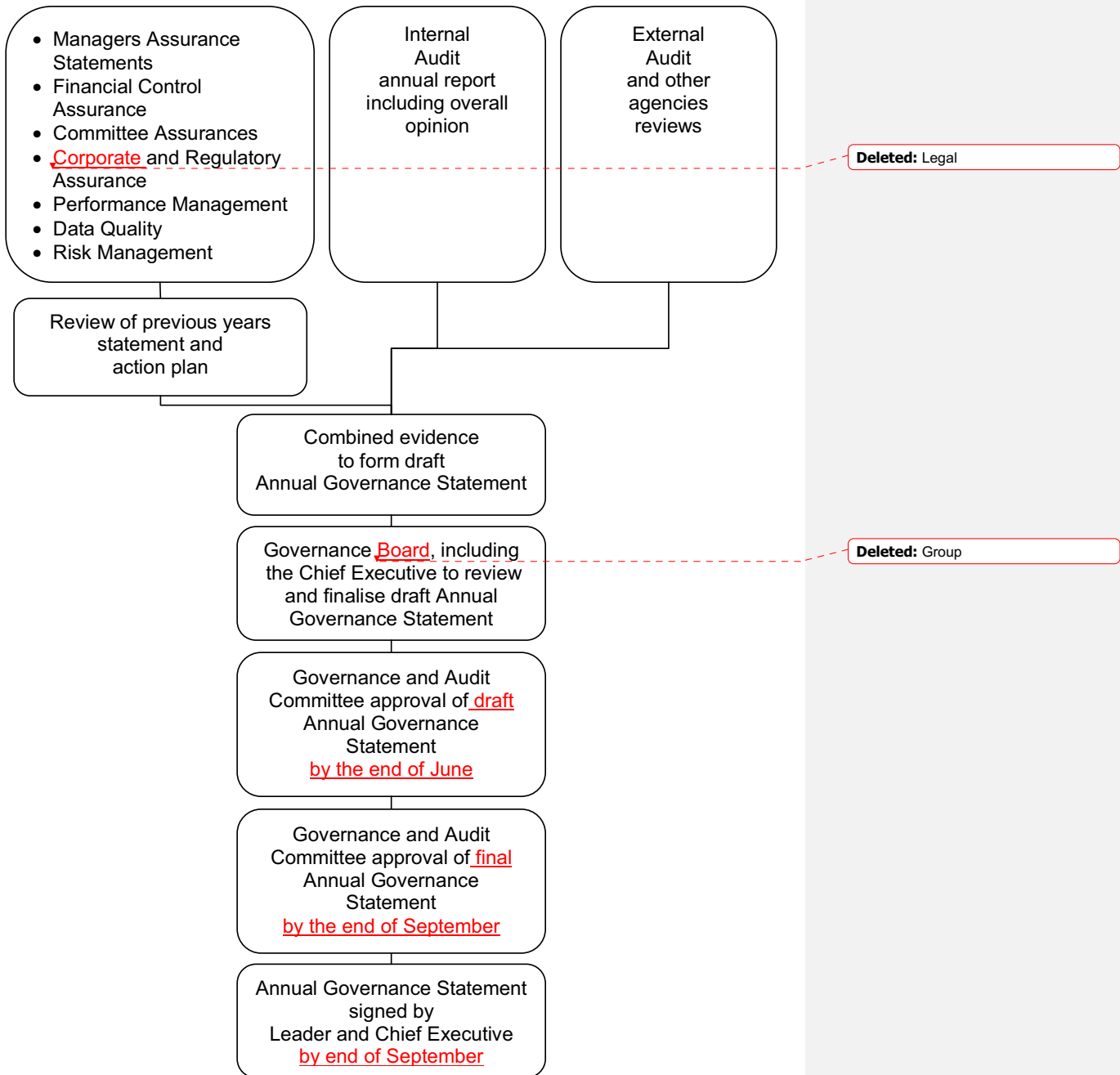
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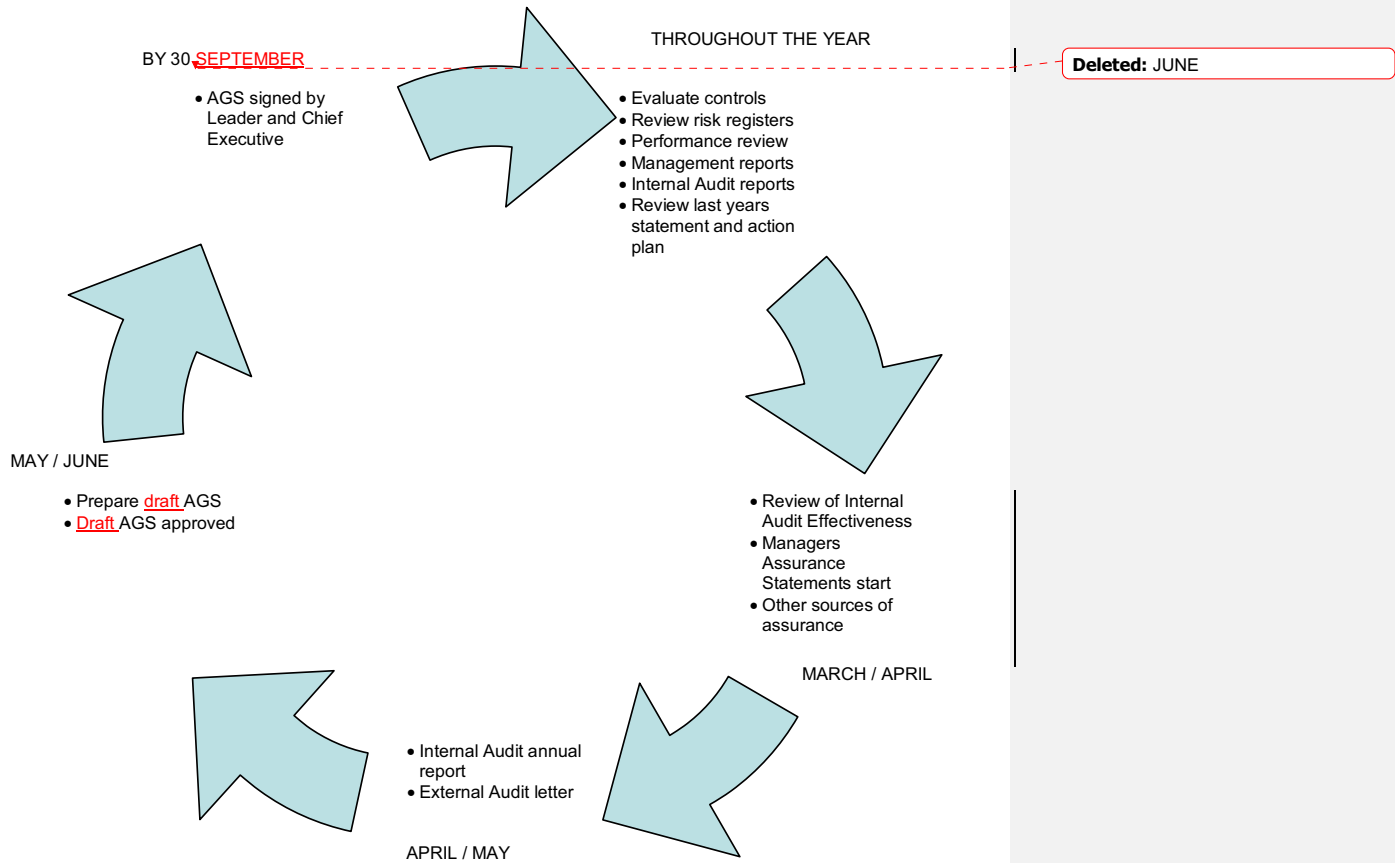
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Annual Governance Statement Process



Annual Governance Statement Timetable



Annual Review and Reporting

The Section 151 Officer and Monitoring Officer have been given responsibility to oversee the implementation and monitor the operation of the Local Code of Corporate Governance, and through the Governance **Board** and the East Kent Audit Partnership will periodically review these arrangements and each will contribute to the annual assessment process. The review of our governance arrangements is an ongoing process.

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Annually, there will be a review of the effectiveness of the council's system of internal control, which shall inform the Annual Governance Statement, which the Leader and Chief Executive will be required to sign.

The outcome of the annual review is reported internally to the Governance and Audit Committee, and externally through the Annual Governance Statement **accompanying** the published accounts, this provides an assurance that:

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- governance arrangements are adequate and operating effectively in practice, and
- where the review has revealed gaps, action is planned that will ensure effective governance in future.

Following the annual review of the Governance Framework and Local Code of Corporate Governance all members and officers of the council will be notified through appropriate means, such as members briefings **and** staff development sessions, as examples.

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Deleted: 'Staff matters' and 'TDC News'

Document History

Version	Date	Agreed by	Minute ref
V1	10 Nov 2004 20 Jan 2005 17 Feb 2005	Cabinet Standards Council	CR/74 75 84
V2	5 Nov 2007 12 Dec 2007 31 Jan 2008 21 Feb 2008	Governance Group Governance and Audit Committee Cabinet Council	GG/07-08/4 R189 C16 86
V3	10 Nov 2008 9 Dec 2008 12 Mar 2009 23 Apr 2009	Governance Group Governance and Audit Committee Cabinet Council	Gov05 (10/11/08) R191 54 30.
V4	16 Nov 2009 8 Dec 2009	Governance Group Governance and Audit Committee	Gov07 51.
V5	7 Dec 2010 13 Jan 2011	Governance Group Governance and Audit Committee	GOV04 117b
V6	8 Nov 2011 13 Dec 2011	Governance Board Governance and Audit Committee	

Thanet District Council

Local Code of Corporate Governance

Version 6
December 2011



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Thanet District Council would like to acknowledge CIPFA / SOLACE in providing the 'Delivering Good Governance in Local Government' framework and guidance documents

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

- **Supporting Principle:** exercise strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcome for citizens and service users.

- **The council is required to:** develop and promote the authority's purpose and vision.

We will do this through the following:

- Thanet Vision 2030
- Thanet Strategy
- Corporate Plan
- Service plans
- Sustainable Community Strategy
- Thanet Community Safety Plan
- Information Exchange

- **The council is required to:** review on a regular basis the authority's vision for the local area and its implications for the authority's governance arrangements

We will do this through the following:

- Local Code of Corporate Governance
- Thanet Vision 2030
- Thanet Strategy
- Corporate Plan
- East Kent Joint Arrangements Committee

- **The council is required to:** ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners

We will do this through the following:

- Partnership Framework
- Local Code of Corporate Governance
- East Kent Joint Arrangements Committee
- East Kent Joint Management Team
- Individual service collaboration agreements and supporting SLA's for all East Kent Shared Services

- **The council is required to:** publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance

We will do this through the following:

- Annual performance report
- State of the District report
- 'Your Services – Your Council Tax' publication
- Statement of Accounts
- Medium Term Financial Plan

- **Supporting principle:** ensure that users receive a high quality of service whether directly, or in partnership or by commissioning
- **The council is required to:** decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available

We will do this through the following:

- Service plans
- Annual performance report
- Monthly performance monitoring
- Senior Management Team
- Performance presentations to Performance Board
- Star Chamber
- Performance Board

- **The council is required to:** put in place effective arrangements to identify and deal with failure in service delivery

We will do this through the following:

- Customer feedback system
- Appraisal process
- Improvement Forum
- Performance reporting
- Performance Management Framework
- Performance Board

- **Supporting principle:** ensure that the authority makes best use of resources and that tax payers and service users receive excellent value for money

- **The council is required to:** decide how value for money is to be measured and make sure that the authority has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions

We will do this through the following:

- Medium Term Financial Plan
- Value for Money (Efficiency) Strategy
- Improvement Forum
- Improvement Board
- Performance reporting
- Audit reports
- Value for Money audits

2. Members and officers working together to achieve a common purpose with clearly defined functions and roles

- **Supporting principle:** ensure the effective leadership throughout the authority and being clear about Executive and Non-Executive functions and of the roles and responsibilities of the Scrutiny function
 - **The council is required to:** set out a clear statement of the respective roles and responsibilities of the Executive and of the Executive's Members individually and the authority's approach towards putting this into practice

We will do this through the following:

 - Constitution
 - Record of decision making and supporting materials
 - **The council is required to:** set out a clear statement of the respective roles and responsibilities of other authority members, members generally and of senior officers

We will do this through the following:

 - Job descriptions / specifications
 - Publication of Senior Management Team pay and member allowances
 - Committee terms of reference
 - East Kent Joint Arrangements Committee
 - East Kent Joint Scrutiny Committee
- **Supporting principle:** ensure that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard
 - **The council is required to:** determine a Scheme of Delegation and reserve powers within the Constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required

We will do this through the following:

 - Constitution
 - Local Code of Corporate Governance
 - Member / officer protocol
 - Scheme of Delegation
 - Senior Management Team/Cabinet
 - **The council is required to:** make a Chief Executive or equivalent responsible and accountable to the authority for all aspects of operational management

We will do this through the following:

 - Constitution
 - Codes of Conduct
 - Core values and priorities
 - Scheme of Delegation
 - Job descriptions / specifications
 - Performance management system
 - Register of Interests
 - Whistleblowing Code
 - Gifts and hospitality register

- **The council is required to:** develop protocols to ensure that the Leader and Chief Executive negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained

We will do this through the following:

- Scheme of Delegation
- Member / officer protocol

- **The council is required to:** make a senior officer (the Section 151 Officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control

We will do this through the following:

- Section 151 provision
- Statutory reports
- Job descriptions / specifications
- Reports to members / officers on financial matters
- Standing Orders
- Financial Procedure Rules
- Scheme of Delegation
- Annual review of the effectiveness of the council's internal audit arrangements report
- Contract with East Kent Audit Partnership
- Internal Audit Plan

- **The council is required to:** make a senior officer (usually the Monitoring Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with

We will do this through the following:

- Monitoring Officer provision
- Job descriptions / specifications
- Scheme of Delegation
- Standing Orders

- **Supporting principle:** ensuring relationships between the authority, its partners and the public are clear so that each knows what to expect of the other

- **The council is required to:** develop protocols to ensure effective communication between members and officers in their respective roles

We will do this through the following:

- Member / officer protocol

- **The council is required to:** set out the terms and conditions for remuneration of members and officers and an effective structure for managing the process, including an effective remuneration panel (if applicable)

We will do this through the following:

- Pay and conditions policies and practices

- **The council is required to:** ensure that effective mechanisms exist to monitor service delivery

We will do this through the following:

- Appraisal process
- East Kent HR Partnership HR system / i-Trent
- East Kent HR Partnership Service Level Agreements
- Budget monitoring
- Single Data List (previously National indicators)
- Local indicators
- Corporate Plan
- Performance reporting

- **The council is required to:** ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated

We will do this through the following:

- Thanet Vision 2030
- Thanet Strategy
- Corporate Plan
- Service plans
- Star Chamber
- Medium Term Financial Plan
- Performance Management Framework
- Annual budget and Council Tax consultation
- Public consultation and engagement
- Policy Board

- **The council is required to:** when working in partnership, ensure that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority

We will do this through the following:

- Partnership Framework
- East Kent Joint Arrangements Committee
- East Kent Joint Scrutiny Committee

- **The council is required to:** when working in partnership:
 - ensure that there is clarity about the legal status of the partnership
 - ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions

We will do this through the following:

- Partnership Framework
- Partnership Register
- Collaboration agreements and supporting SLA's

3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- **Supporting principle:** ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance
- **The council is required to:** ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect

We will do this through the following:

- Whistleblowing Code
- Appraisal process
- Codes of Conduct
- Talent management programme
- Governance Board

- **The council is required to:** ensure that standards of conduct and personal behaviour expected of members and staff, or work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols

We will do this through the following:

- Codes of Conduct
- Performance management system
- Appraisal process
- Customer feedback system
- Anti-Fraud and Corruption Policy
- Member / officer protocol
- Core values and priorities
- Improvement Plan

- **The council is required to:** put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice

We will do this through the following:

- Standing Orders
- Codes of Conduct
- Financial regulations
- Gifts and hospitality register
- Declaration of interest protocols

- **Supporting principle:** ensuring that organisational values are put into practice and are effective
- **The council is required to:** develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicate these with members, staff, the community and partners

We will do this through the following:

- Codes of Conduct
 - Investors in People Status
 - Improvement Plan
 - Staff consultations
 - Staff and member development briefings
 - Staff conference
 - Appraisal process
 - Core values and priorities
- **The council is required to:** put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice

We will do this through the following:

- Codes of Conduct
 - Report template
 - Professional body guidance documents (eg CIPFA)
 - Policy Board
- **The council is required to:** develop and maintain an effective Standards Committee

We will do this through the following:

- Committee terms of reference
 - Independent chair of Standards
 - Regular reporting to the council
- **The council is required to:** use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority

We will do this through the following:

- Internal audit check of compliance and approved procedures and policies
 - Approved procedures and policies
 - Thanet Compact
 - Kent Compact
 - Partnership Framework
- **The council is required to:** in pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively

We will do this through the following:

- Thanet Compact
- Kent Compact
- Partnership Framework
- Individual partnerships / contractors show expected outcomes
- East Kent Joint Arrangements Committee

4. Taking informed and transparent decisions which are subject to effective Scrutiny and managing risk

- **Supporting principles:** being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny
 - **The council is required to:** develop and maintain an effective Scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible

We will do this through the following:

 - Scrutiny Panel reports, minutes and working group papers
 - **The council is required to:** develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based

We will do this through the following:

 - Decision making protocols
 - Record of decision making and supporting materials
 - **The council is required to:** put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice

We will do this through the following:

 - Codes of Conduct
 - Declaration of interest protocols
 - **The council is required to:** develop and maintain an effective Audit Committee which is independent of the Executive and Scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee

We will do this through the following:

 - Governance and Audit Committee terms of reference
 - Annual review of the effectiveness of the Governance and Audit Committee and Annual Report
 - Training Development Plan for members and officers
 - **The council is required to:** ensure that effective, transparent and accessible arrangements are in place for dealing with complaints

We will do this through the following:

 - Customer feedback system
 - You Said, We Did
 - Report of Ombudsmen findings
- **Supporting principle:** having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants / needs
 - **The council is required to:** ensure that those making decisions whether for the authority or the partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications

We will do this through the following:

- Report template
- Approved procedures and policies
- Member / officer protocol
- Partnership Framework

- **The council is required to:** ensure that proper professional advice on matters that have legal and financial implications is available and recorded well in advance of decision making and used appropriately

We will do this through the following:

- Use of 'legal' and 'financial' implications in report

- **Supporting principle:** ensuring that an effective risk management system is in place

- **The council is required to:** ensure that risk management is embedded into the culture of the authority, with members and managers at all levels recognising that risk management is part of their jobs

We will do this through the following:

- Risk Management Strategy
- Risk Management Process
- Up to date risk register
- Governance Board

- **The council is required to:** ensure that effective arrangements for whistleblowing are in place to which officers, staff and all those contracting with or appointed by the authority have access

We will do this through the following:

- Whistleblowing Code
- Core values and priorities

- **Supporting principle:** using their legal powers to the full benefit of the citizens and communities in their area

- **The council is required to:** actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine but also strive to utilise their powers to the full benefit of their communities

We will do this through the following:

- Constitution
- Monitoring Officer provision
- Section 151 provision
- Standing Orders

- **The council is required to:** recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on authorities by public law

We will do this through the following:

- Monitoring Officer provision

- **The council is required to:** observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of administrative law - rationality, legality and natural justice - into their procedures and decision making process

We will do this through the following:

- Monitoring Officer provision
- Job descriptions / specifications

5. Developing the capacity and capability of members and officers to be effective

- **Supporting principle:** making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles
 - **The council is required to:** provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis

We will do this through the following:

 - Training Development Plan for members and officers
 - Induction programmes
 - Staff and member development briefings
 - Job descriptions / specifications
 - Internal Communicators Network
 - **The council is required to:** ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority

We will do this through the following:

 - Job descriptions / specifications
 - Continual Professional Development
 - Talent management programme
 - Personal Development Plans
 - Service plans
- **Supporting principle:** developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group
 - **The council is required to:** assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively

We will do this through the following:

 - Training Development Plan for members and officers
 - **The council is required to:** develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed

We will do this through the following:

 - Training Development Plan for members and officers
 - **The council is required to:** ensure that effective arrangements are in place for reviewing the performance of the Executive as a whole and of individual members and agreeing an action plan which might, for example, aim to address any training or development needs

We will do this through the following:

- Performance management system
- Appraisal process
- Member role descriptions
- Training Development Plan for members and officers

- **Supporting principle:** encouraging new talent for membership of the authority so that best use can be made of individuals' skills and resources in balancing and renewal

- **The council is required to:** ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority

We will do this through the following:

- Partnership Framework
- Stakeholders' forums' terms of reference
- Area forums' roles and responsibilities
- Residents' panel
- Community Portal
- Equality Impact Assessments

- **The council is required to:** ensure that career structures are in place for members and officers to encourage participation and development

We will do this through the following:

- Talent management programme
- Change management programme

6. Engaging with local people and other stakeholders to ensure robust local public accountability

- **Supporting principle:** exercising leadership through a robust Scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develop constructive accountability relationships
 - **The council is required to:** make clear to themselves, all staff and the community to whom they are accountable and for what

We will do this through the following:

 - Constitution
 - East Kent Joint Scrutiny Committee
 - Committee terms of reference
 - **The council is required to:** consider those institutional stakeholders to whom they are accountable and assess the effectiveness of the relationship and any changes required

We will do this through the following:

 - Committee terms of reference
 - **The council is required to:** produce an annual report on the activity of the Scrutiny function

We will do this through the following:

 - Overview and Scrutiny annual report
- **Supporting principle:** taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning
 - **The council is required to:** ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that they operate effectively

We will do this through the following:

 - Sustainable Community Strategy
 - Corporate Plan
 - Public consultation and engagement
 - Processes for dealing with competing demands within the community
 - Thanet Community Safety Partnership Open Forums
 - **The council is required to:** hold meetings in public unless there are good reasons for confidentiality

We will do this through the following:

 - Public meetings
 - **The council is required to:** ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands

We will do this through the following:

- Residents' panels
 - Community forums
 - Equality Impact Assessments
 - Thanet Community Safety Partnership Open Forums
 - Community Database
- **The council is required to:** establish a clear policy on the types of issues they will meaningfully consult on or engage with the public and service users about including a feedback mechanism for those consultees to demonstrate what has changed as a result

We will do this through the following:

- Partnership Framework
 - Communication Strategy
 - Community Database
- **The council is required to:** on an annual basis, publish a performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period

We will do this through the following:

- Annual performance report
 - Statement of Accounts
 - Medium Term Financial Plan
 - Corporate Plan
- **The council is required to:** ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so

We will do this through the following:

- Constitution
 - Local Code of Corporate Governance
 - Internet protocol
 - Communication Strategy
 - Publication Scheme
 - Freedom of Information process
- **Supporting principle:** making best use of human resources by taking an active and planned approach to meet responsibility to staff
 - **The council is required to:** develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making

We will do this through the following:

- Trade Union recognition agreement
- Improvement Forum
- Communication Strategy
- Employee Council terms of reference

Supporting Evidence

The table below provides the supporting evidence for the source documents, good practices adopted and the processes that Thanet District Council has in place.

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
Annual Budget and Council Tax Consultation	Yes	Each year the council undertakes a consultation on the spending priorities for Thanet District Council.
Annual performance report	Yes	At the end of each year the council produces an annual performance report that details key performance and achievements over the past year.
Annual review of the effectiveness of the council's Internal Audit arrangements report	Yes	The auditors are independent to the management of the council and have direct access to the Chair of the Governance and Audit Committee if required. The review of the effectiveness of the council's internal audit arrangements is important in order to add credence to the assurances gained for the Annual Governance Statement.
Annual review of the effectiveness of the Governance and Audit Committee and Annual Report	Yes	This report summarises the achievements of the Governance and Audit Committee against its terms of reference and details the impact that it has made on the overall system of internal control in operation for that period. The outcome is reported on to Governance and Audit Committee and is taken to Full Council each year in an annual report.
Anti-Fraud and Corruption Policy	Yes	An Anti-Fraud and Corruption Policy is in place and has been communicated to the authority and is reviewed on a regular basis. This is also highlighted through the induction programme.
Appraisal process	Yes	The appraisal system is designed to ensure that everyone knows what they are required to do and how this helps us achieve our goals, as well as how performance will be assessed.
Approved procedures and policies	Yes	There are numerous approved procedures and policies in place throughout the council. The council has in place a Publication Scheme, which facilitates the proactive release of this type of information and plays a crucial role in supporting and providing greater openness and transparency across the public sector.
Area forums' roles and responsibilities	Yes	The Thanet Compact was developed jointly by Thanet District Council and its statutory and third sector partners to improve the way the two sectors work together. It was refreshed in 2010 following the General Election to incorporate the Big Society ethos. The Compact contains commitments and undertakings by both sectors on how they will work together more effectively. The Thanet Compact is now facilitated by Thanet Voluntary Community Sector Forum (TVCSF).

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
Audit reports	Yes	These can be viewed through the agenda for Governance and Audit Committee. For each audit review, management agrees a report, and where appropriate, an action plan detailing proposed action(s) and implementation dates relating to each recommendation.
Budget monitoring	Yes	Adequate arrangements are in place to ensure budget managers are kept informed of their budget responsibilities.
Change management programme	Yes	<p>In support of the significant organisational change, East Kent HR Partnership organised a Change Programme.</p> <p>The half day programmes:</p> <ul style="list-style-type: none"> • support people in understanding the impact of change and to provide some tools for managing personal change and supporting others, and • support leaders and managers of people in understanding the impact of change, to define the role of the people manager and to provide tools for managing personal change and supporting the team.
Codes of Conduct	Yes	There are Member and Officer Codes of Conduct in place within the Constitution which are reviewed regularly.
Committee terms of reference	Yes	The terms of reference for all Committees are detailed within the Constitution.
Communication Strategy	Yes	The council has a Communications Strategy in place which was approved by Corporate Management Team.
Community Database	Yes	The council has a Community Database of approximately 1,000 local groups, organisations and clubs who are communicated with on a regular basis. This database is managed by the Community Development Team, and contains a wide variety of interest groups and organisations including a number of harder to reach and more vulnerable groups e.g. young/old people, disability groups, ethnic minorities.
Community Forums	Yes	The council has regular representation at a number of local fora, these include the Senior Citizens Forum, the Thanet Disability Forum, Engage Youth Forum etc. These groups are generally externally co-ordinated and represent a number of the more vulnerable community groups. Officers attend to provide a channel of communication between these groups and the council. Feedback is then used to help improve the service the council provides to specific groups in the community and to ensure that they have a voice in council consultations and campaigns.

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
Community Portal	Yes	The council has a Community Portal of approximately 400 local groups and organisations. This portal is self managed so members are able to update any details or information about the group they represent and to promote specific activities or events. As above these groups represent a number of more vulnerable people within the community.
Constitution	Yes	The Constitution is regularly reviewed and updated.
Continual Professional Development	Yes	Maintenance of CPD records for officers in line with their professional body.
Contract with East Kent Audit Partnership	Yes	Outlines the level of service to be provided by Internal Audit.
Core values and priorities	Yes	<p>Prioritising the council's efforts to ensure that resources are directed to those areas that can make the biggest difference, the focus will be on:</p> <ul style="list-style-type: none"> • Prosperity: Attracting employment, especially by supporting tourism and the green economy • Place: Keeping Thanet beautiful by making the place clean, green and a healthy place to be • People: Working together to make Thanet safe and improve the quality of life for all • Performance: Delivering services we are proud of; that make a difference and provide value for money for our residents <p>The council will conduct its business in accordance with the following core values:</p> <p>We will be:</p> <ul style="list-style-type: none"> • Fair • Respectful and considerate • Focussed on quality • Interested in listening to your views • Measured and thoughtful • Committed to do the right thing, the right way at the right time
Corporate Plan	Yes	<p>The council's Interim Corporate Plan will come to an end in March 2012. Work has already begun in preparing a new plan to take its place. It is anticipated that this will be a rolling plan (rather than a fixed term 4 year plan) enabling it to tie in more closely to the budget setting process.</p> <p>The new Corporate Plan will be influenced by a variety of pieces of work. These include the recently produced State of the District report which sets out in depth some of the key facts and figures about Thanet and its people and shows how the district compares to other areas.</p>

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
Customer feedback system	Yes	Thanet District Council wants to provide the best service it can to the community and has a Customer Feedback process in place, which includes complaints, compliments, service requests, member contact and comments. Service improvements are taking place as a direct result of customer feedback received and are published on the Web and Members Portal.
Decision making protocols	Yes	Decision making process is detailed within the council's Constitution.
Declaration of interest protocols	Yes	There are formal protocols in place for both members and officers available on request.
East Kent HR Partnership HR System / i-Trent	No	There are currently system development progress delays due to issues encountered.
East Kent HR Partnership Service Level Agreements	Yes	The HR function is provided by the East Kent HR Partnership and Payroll is provided by Kent County Council. Collaboration agreements / SLA's have been agreed. A project group and strategic board are in place. Within the corporate restructure Thanet has the role of Contracts and Partnerships Relationship Manager to act in a client management and commissioning role to set, monitor and review the service standards provided by the shared service.
East Kent Joint Arrangements Committee (EKJAC)	Yes	EKJAC has agreed procedure rules and terms of reference, operating arrangements and administrative processes and also proposed arrangements for the EK Joint Scrutiny Committee looking at shared services. The operating arrangements allow the strategic aims of each participating authority to be achieved without compromising any other party.
East Kent Joint Management Team	Yes	In order to progress actions from the East Kent Joint Arrangements Committee, a Joint Management Team has been established.
East Kent Joint Scrutiny Committee	Yes	<p>The East Kent Joint Scrutiny Committee meets;</p> <ul style="list-style-type: none"> • To monitor, review and scrutinise the actions and decisions of the East Kent Joint Arrangements Committee; • To make recommendations for re-consideration of any decisions made or actions taken and to make recommendations for improvement and/or changes in responsibilities and functions of the East Kent Joint Arrangements Committee; • To prepare reports and recommendations to the parties on the performance and delivery of shared services provided by the East Kent Joint Arrangements Committee; • To propose an annual budget for the East Kent Joint

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
		<p>Scrutiny Committee in accordance with the requirements of the parties;</p> <ul style="list-style-type: none"> To prepare an annual report to the parties on the performance of these arrangements; and To facilitate the exchange of information about the work of the East Kent Joint Scrutiny Committee and to share information and outcomes from reviews.
Employee Council terms of reference	Yes	The council has a Trade Union Recognition Agreement, agreed by Management, Unison and GMB. The Employee Council, the recognised collective bargaining unit, meets on a regular basis and remains a key forum for discussing issues and maintaining effective employer/union relationships.
Equality Impact Assessments	Yes	The council is currently reviewing its approach to Equalities to ensure compliance with the requirements of the Public Sector Equality Duty.
Financial Procedure Rules	Yes	Financial Procedure Rules are detailed within the council's Constitution.
Financial regulations	Yes	Related Party Transaction returns can be viewed within the Financial Statement.
Freedom of Information process	Yes	Thanet Council routinely publishes a great deal of information and the management process for FOI requests includes a check to ensure information is published if possible. Information may be able to be found through the council's Publication Scheme or elsewhere on the website. However, if the information that is wanted cannot be found a request can be made through the 'Freedom of Information' process.
Gifts and Hospitality Register	Yes	A Gifts and Hospitality Register is in place with Democratic Services for members and officers.
Governance and Audit Committee terms of reference	Yes	The terms of reference for the Governance and Audit Committee are prepared in line with CIPFA guidance and are reviewed on a regular basis.
Governance Board	Yes	The Governance Board meet on a six weekly basis. The purpose of the Board is to support the council by monitoring and reviewing the risk, control and governance processes which have been established and address any upcoming processes as required.
Improvement Board	Yes	SMT Board that provides a regular opportunity to consider areas of improvement in council services and corporate processes and to consider recommendations for implementation.
Improvement Forum	Yes	The Improvement Forum will shortly be superseded by a new corporate wide initiative to encourage staff to think differently about how they work and submit improvement ideas through team meetings, on-line and physical suggestion boxes and informal networking meetings on

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
		specific topics. This new approach will be supported by a dedicated area on the Intranet which will also have updates on innovative projects around the council as well as an expertise exchange function in a later phase.
Improvement Plan	Yes	The Improvements Plan looks at the behaviours and values for the council and how we embed these in the culture, and also reflect them in policies and procedures.
Independent chair of Standards	Yes	The Standards Committee promote and maintain high standards of conduct by councillors and co-opted members. The Committee is chaired by an independent member.
Individual partnerships / contractors show expected outcomes	Yes	The council is reviewing the Partnership Register which collects all relevant partnership details. It also has in place a contracts register which includes contracts above a certain minimum value, currently £75k over the contract duration.
Individual service collaboration agreements and supporting SLA's for all East Kent Shared Services	Yes	These set out the service level expectations for all shared services.
Induction programmes	Yes	This process has been reviewed and a booklet produced to support the individuals induction.
Information Exchange	Yes	SMT meeting to discuss emerging issues, matters of importance and urgent decisions.
Internal Audit check of compliance and approved procedures and policies	Yes	The East Kent Audit Partnership report on a regular basis to the Governance and Audit Committee. This includes quarterly reports and an annual report.
Internal Audit Plan	Yes	To undertake a regular appraisal of the effectiveness of internal controls in place.
Internal Communicators Network	No	The Group is under review as part of the new Internal Communications Strategy.
Internet protocol	Yes	The council encourages the use of electronic communication via the Internet and email wherever possible. In accordance with its Code of Practice, it will look to enable its transactions to be undertaken electronically.
Investors in People Status	Yes	In September 2011 the council underwent an internal review which will enable us to create an action plan in order to achieve the standard. In the meantime the council retains that status for two years and will then be re-assessed.

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
Job descriptions / specifications	Yes	Job descriptions are in place for all staff including the Chief Executive (Section 151 Officer) and Monitoring Officer, all of which have been reviewed as part of the senior management structural changes which are published on the Internet. An agreed job description template and guidance is in place for the council.
Kent Compact	Yes	The Thanet Compact is implemented within the District and is working well and moving forward at a good pace. But as well as this, we also remain involved in the Kent Partners Compact and attend their committee meetings to be able to share best practice. The Kent Compact are currently undergoing a refresh in line with the national Compact refresh following the May 2010 elections.
Local Code of Corporate Governance	Yes	The Local Code of Corporate Governance has been prepared in line with CIPFA guidelines. It is reviewed on an annual basis and approved by Governance and Audit Committee.
Local indicators	Yes	Local indicators are captured and monitored through the performance management system.
Medium Term Financial Plan	Yes	The council has in place a Medium Term Financial Plan for the period 2011 to 2016, which sets out the council's strategic approach to the management of its finances and presents indicative budgets and Council Tax levels for the medium term.
Member / officer protocol	Yes	Protocol on member / officer relations in place within the Constitution.
Member role descriptions	Yes	Member role descriptions have been approved by Council and now form part of the council's constitutional arrangements.
Monitoring Officer provision	Yes	Officer's responsibilities in place within the Constitution.
Monthly performance monitoring	Yes	Monthly performance monitoring is undertaken looking at local PI's, key action plans and projects. A monthly update is provided by each service to the Performance Board.
Overview and Scrutiny annual report	Yes	The Overview and Scrutiny Panel (OSP) make an annual report to the Annual Meeting of Council. This report summarises the key achievements of the Overview and Scrutiny Panel during the previous year and indicates the Panels' suggested priorities for the forthcoming year.
Partnership Framework	Yes	The Partnership Framework is currently under review but will demonstrate the governance arrangements that we are committed to as a council and allows our partners and the public to see the key principles and standards that we aim to achieve.

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
Partnership Register	Yes	The Partnership Register is being reviewed but will capture pertinent information for each partnership including which Corporate Plan objective it is linked to, what type of partnership (strategic or operational), the purpose of the partnership, the organisations involved, insurance considerations and if group accounts are required.
Pay and conditions policies and practices	Yes	The senior management structure is currently made up of a Chief Executive and five Service Managers. The council used an independent review body to recommend appropriate salary levels which considered job size and general market position in this region for similar posts. Recommendations were approved through the General Purposes Committee.
Performance Board	Yes	SMT Board that develops the council's business plans and undertakes performance management to assess progress against plans and identifies and commits to appropriate remedial action.
Performance Management Framework	Yes	The Performance Management Framework is available to view through the council's intranet site alongside the Data Quality Framework. Both documents are reviewed on a regular basis.
Performance management system	Yes	The council's performance management system is used to collate the vast majority of data required for the Performance Board presentations.
Performance presentations to Performance Board	Yes	Every month each SMT member presents a set of slides to the Performance Board on the performance of their service. Presentations alternate on a monthly basis. In the first month they cover general performance. In the second month they cover financial performance.
Performance reporting	Yes	Monthly performance monitoring of management indicators, progress against projects and action plans is in place through the Performance Board. A corporate performance pack is produced each quarter for Cabinet.
Personal Development Plans	Yes	As part of the appraisal process all officers have a Personal Development Plan which is then discussed at performance reviews.
Policy Board	Yes	SMT Board that shapes and sets the policy framework and operating arrangements for the council.
Processes for dealing with competing demands within the community	Yes	The council undertook a consultation on the spending priorities for Thanet District Council.

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
Professional body guidance documents (eg CIPFA)	Yes	There are various professional bodies across the authority and these can be viewed upon request.
Public consultation and engagement	Yes	<p>The council regularly communicates, engages and consults on the services it provides to ensure that our customers, local residents, partners and staff have an opportunity to have their say on the planning, delivery and improvement of our services.</p> <p>All consultation is identified from objectives set out in the Service Plans and links directly to Thanet District Council's Corporate Plan and Vision. Each consultation is carried out in accordance with the council's corporate consultation guide and is fully evaluated on completion.</p> <p>The council carries out a regular programme of consultation each year with its residents which is used to identify priorities for the council to measure satisfaction. As well as this regular programme of consultation, the council also carries out ad-hoc consultation in response to one off campaigns or initiatives.</p> <p>Some consultations are full community wide campaigns ensuring the council engages with a wide audience across the whole of Thanet. Other consultations are targeted specifically to certain groups/council customers.</p> <p>Consultations completed so far:</p> <ul style="list-style-type: none"> • Article 4 Directives HMO • Air Quality Monitoring area extension • How the council communicates with residents • Gateway customer satisfaction (carried out every 6 months) <p>Consultations on-going:</p> <ul style="list-style-type: none"> • Margate Football Club proposals • Asset Management consultations • Community Safety Open Forums • Gateway customer satisfaction (carried out every 6 months) <p>Consultations still to be carried out this year:</p> <ul style="list-style-type: none"> • Budget • Night time flying • Extension to Cliftonville Conservation Area • Corporate Plan • Housing Strategy

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
Public meetings	Yes	Detailed within the Constitution - members of the public and press may only be excluded either in accordance with the Access to Information Rules in Part 4 of this Constitution or Rule 28 (Disturbance by Public). In the case of Planning Committee, for important cases, extra rooms are made available with a live televised link.
Publication of Senior Management Team pay and member allowances	Yes	The council publishes information about the salaries and expenses of the Chief Executive and other members of the Senior Management Team. The job purpose and principle duties and accountabilities of all Senior Management Team and statutory appointments are also published. Member allowances are also published in accordance with Regulation 15(3) of the Local Authorities (Member Allowances) (England) Regulations 2003 in respect of basic, special responsibility, co-optees', travelling and subsistence and dependant carers' allowances.
Publication Scheme	Yes	<p>The Publication Scheme sets out the classes of information which Thanet District Council publishes, or intends to publish, which has been approved by the Information Commissioner. The Publication Scheme lists:</p> <ul style="list-style-type: none"> • How to get hold of information, • Indicates if there is a charge for information. <p>The Publication Scheme is regularly reviewed and updated as new items are published. More information is added as we understand better what information is wanted.</p>
Record of decision making and supporting materials	Yes	Thanet Council's Democratic Services Unit is responsible for maintaining the minutes of Council and other committee meetings as a true record of past decisions.
Register of Interests	Yes	There is a process in place for members and officers to declare an interest which could bring about a conflict with the council's interests.
Regular reporting to the council	Yes	Thanet District Council holds meetings on a regular basis which are minuted as a true record of proceedings.
Report of Ombudsmen findings	Yes	An annual report is presented to Senior Management Team on the findings of Ombudsmen complaints and is published on the council's website.
Report template	Yes	A report template is in place for Thanet District Council which requests the author to consider legal, governance and financial implications.
Reports to members / officers on financial matters	Yes	Financial Services report on a regular basis to SMT and Cabinet on financial matters, including significant variances which are clearly identified in these reports.

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
Residents' panels	Yes	Community Matters is a consultative panel of Thanet residents, which aims to give local people a chance to have their say about life in the District and about local public services. Thanet District Council sets up and runs the panel. The former Residents' Panel has run for five years and is currently being refreshed in line with best practice. This is to ensure that its members are still as statistically representative of Thanet and to give more residents the opportunity to get involved. A core group of 150 members from the former panel have agreed to be kept on as an 'experts panel'.
Risk Management Process	Yes	The council has a Risk Management Process in place which is reviewed on an annual basis and ratified by the Governance and Audit Committee.
Risk Management Strategy	Yes	The council first approved its Risk Management Strategy in 2004 and since 2006 it has been reviewed annually.
Scheme of Delegation	Yes	A Scheme of Officer Delegation is in place within the Constitution which is reviewed annually.
Scrutiny Panel reports, minutes and working group papers	Yes	Thanet Council's Democratic Services Unit is responsible for maintaining the minutes of Council and other Committee meetings as a true record of past decisions.
Section 151 provision	Yes	Detailed within the officers responsibilities in the Constitution.
Senior Management Team	Yes	From May 2011 the Senior Management Team meetings were changed. SMT meet every Tuesday, the first part of the meeting is dedicated to 'Information Exchange / Urgent Business' and is then followed by an SMT Board which meet on a rotational basis. The Boards are: <ul style="list-style-type: none"> • Governance Board • Improvement Board • Performance Board • Policy Board
Senior Management Team / Cabinet	Yes	Provides a regular opportunity to discuss emerging issues, matters of importance and urgent decisions with Cabinet Members.
Service Plans	Yes	Service Plans are in place, they are reviewed annually in line with the Corporate Plan refresh and budget setting process. The Service Planning process is being reviewed for 2011/12 and service aims, actions and performance indicators will be captured and monitored through the performance system.
Single Data List (previously National indicators)	Yes	There is no longer a national indicator set (it was removed in March 2011). A minority of indicators from this set were carried forward to the Single Data List for local government. Unless identified specifically by services as being useful management indicators, the

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
		items on the single data list are not used by TDC for performance management purposes. The list is purely used to help us identify the returns we need to make to central government.
Staff and member development briefings	Yes	Staff development sessions take place on a monthly basis, with member sessions every quarter. In addition to this, training is delivered to members of the Governance and Audit Committee on finance, risk and governance issues.
Staff conference	No	Following consultation with staff, the current format for the annual staff conference has been discontinued. A new approach is now under review as part of the Internal Communications Strategy.
Staff consultations	Yes	<p>Staff are consulted on specific issues, projects and initiatives on an on-going basis. Consultations are generally carried out by an online survey or staff poll (on TOM) although paper copies of each survey are always available on request and are promoted to those staff without access to computers. Consultations include regular surveys as well as one off surveys. Major public consultations are also promoted to TDC staff as part of a regular update in the staff information sessions.</p> <p>A staff survey is currently undertaken annually which will be delivered by the East Kent HR Partnership.</p>
Stakeholders' forums' terms of reference	Yes	The council has revised it's framework and membership for progressing equalities, which has been agreed by the Senior Management Team.
Standing Orders	Yes	Prescribed and other Standing Orders are detailed in the Constitution.
Star Chamber	Yes	<p>Star Chamber sessions were held in July-September 2011 where service managers were asked to justify their service. They were asked about every part of their spending, where service cuts could be made and whether their service could be delivered in a different way.</p> <p>An action plan has been developed from the Star Chamber meetings and managers will be required to implement the actions that they have been allocated.</p>
State of the District report	Yes	<p>A 'State of the District' report has been compiled which summarises recent data for key indicators of social wellbeing in Thanet, comparing the most recently available data with other districts and county averages.</p> <p>The information in the report requires updating and we aim to add other new data sources into the report. We are hoping to develop a single approach to publishing the</p>

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
		results of the report on the Thanet website within the next year.
Statement of Accounts	Yes	The Statement of Accounts are approved by the Governance and Audit Committee. This meets the statutory requirement under the Accounts and Audit Regulations. Anticipated future requirements for the financial position of the council are published in the annual budget and Medium Term Financial Plan.
Statutory reports	Yes	Statutory reports can be viewed through the council's agenda and minutes page.
Sustainable Community Strategy	Yes	A Sustainable Community Strategy for East Kent, was adopted by the council.
Talent management programme	No	The council has commissioned the EK HR Partnership to provide a talent management programme for Senior Management. This will be delivered during 2012/13.
Thanet Compact	Yes	<p>The Compact provides a framework for improving working relations between local public and Voluntary and Community Sector (VCS) organisations to strengthen relationships between partners for mutual advantage by establishing codes of practice that set out what partners can expect from each other. By following the codes and working within the "spirit" of the Compact, partner relations will change for the better and it will improve how partners engage, behave and work together at individual, organisational and partnership level.</p> <p>The Thanet Compact was developed jointly by Thanet District Council and its statutory and third sector partners to improve the way the two sectors work together. It was refreshed in 2010 following the General Election to incorporate the Big Society ethos. The Compact contains commitments and undertakings by both sectors on how they will work together more effectively. The Thanet Compact is now facilitated by Thanet Voluntary Community Sector Forum (TVCSF).</p>
Thanet Community Safety Partnership Open Forums	Yes	<p>Thanet Community Safety Partnership have a statutory duty to consult with local people on crime, anti-social behaviour and disorder issues.</p> <p>In April 2011 the partnerships engagement plan was changed with Partners and Communities Together Panels (PACT) being replaced by one quarterly open forum headed by senior managers, along with four regional neighbourhood panels.</p> <p>Every panel has a police lead and a council officer lead and at all of the four panels elected members also attend. Representation from other partners such as Kent</p>

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
		Fire and Rescue Service, local youth groups or officers from other police or council departments are invited by the lead officer to attend the panels when there is a need resulting from a particular issue.
Thanet Community Safety Plan	Yes	Annual plan setting out achievements and priorities for tackling anti-social behaviour, domestic abuse, managing offenders and public safety.
Thanet Strategy	Yes	This strategy details the council's priorities and core values for taking the council to a new level.
Thanet Vision 2030	Yes	This document sets out future plans for what Thanet will look and be like in 2030. It was consulted on widely with TDC staff and members, the residents' panel, TDC partners and stakeholders including Kent County Council, Police, NHS, Manston Airport, Highways Agency and Transeuropa.
Trade Union recognition agreement	Yes	This agreement recognises GMB and Unison for the purpose of collective bargaining, and has been approved by SMT. The council complies with legislation on collective and individual consultation.
Training Development Plan for members and officers	Yes Yes	Member Briefing sessions are programmed on a quarterly basis to ensure issues such as equalities, child protection and other governance processes are communicated as necessary to members. Proposals for a learning and development programme for Members are being developed by Democratic Services. The Senior Management Team have agreed post entry requirements for 2011. Personal development needs are discussed at Appraisal. Other training drivers, such as strategic priorities and legislative requirements are utilised to inform the council's corporate training requirements which are then communicated to EK HR Partnership to deliver the council's training programme. Additionally the council has undertaken an liP audit which will inform the training delivery plan.
Up to date risk register	Yes	The council uses the JCAD Risk system which enables officers to take responsibility for risks and control measures assigned to them and review these on a regular basis. Periodic workshops are held to refresh managers understanding of risk management and to challenge / update the corporate risk register.

Source documents / good practice / processes in place:	In place Yes / No	Comments / Plans for improvement
Use of 'legal' and 'financial' implications in report	Yes	The council has a report template in place, and also guidance notes to help with the report writing process. There is a process in place for the Finance and Legal Departments demonstrate that they have been consulted upon and have signed off the report. Such consultation is mandatory for all executive decisions.
Value for Money (Efficiency) Strategy	Yes	A Value for Money (Efficiency) Strategy has been approved that outlines the steps that will be taken over the medium term to maximise the gains realisable from efficiency measures, and to provide evidence of the council's performance in achieving Value for Money. Such an approach will strengthen the council's corporate processes for managing its resources and achieving value for money that will bring benefits to the cost and quality of the services it delivers.
Value for Money audits	Yes	In addition to key control audits the East Kent Audit Partnership have been carrying out Value for Money audits.
Whistleblowing Code	Yes	The council has a Whistleblowing Code in place that is proactively communicated to staff, members and those contracting with the council.
You Said, We Did	Yes	Service improvements are taking place as a direct result of customer feedback received and are published on the Web and Members Portal.
Your Services – Your Council Tax publication	Yes	A collaborative document produced by district councils, including Thanet, which also featured information from the Fire Service and Police on Council Tax spend.

Document History

Version	Date	Agreed by	Minute ref
V1	10 Nov 2004	Cabinet	CR/74
	20 Jan 2005	Standards	75
	17 Feb 2005	Council	84
V2	5 Nov 2007	Governance Group	GG/07-08/4
	12 Dec 2007	Governance and Audit Committee	R189
	31 Jan 2008	Cabinet	C16
	21 Feb 2008	Council	86
V3	10 Nov 2008	Governance Group	Gov05 (10/11/08)
	9 Dec 2008	Governance and Audit Committee	R191
	12 Mar 2009	Cabinet	54
	23 Apr 2009	Council	30
V4	16 Nov 2009	Governance Group	Gov07
	8 Dec 2009	Governance and Audit Committee	51.
V5	7 Dec 2010	Governance Group	Gov04
	13 Jan 2011	Governance and Audit Committee	117.
V6	8 Nov 2011	Governance Board	TBC
	13 Dec 2011	Governance and Audit Committee	TBC

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT

To: **Governance & Audit – 13th December 2011**

Main Portfolio Area: **Finance and Corporate Services**

By: **Treasury and Capital Accountant**

Classification: **Unrestricted**

Summary: **To inform Governance & Audit about the Treasury Management activity in the first half of 2011-12, and for the approval of any change to the prudential indicators.**

For Information

1.0 Introduction and Background to the Report

1.1 Revisions to the regulatory framework of treasury management during 2009 introduced a requirement that the Council receive a mid year treasury review, in addition to the forward looking annual treasury strategy and backward looking annual treasury report that were required previously.

This report meets that requirement and only discusses the treasury management activity for the first half of this financial year. It also incorporates the needs of the Prudential Code to ensure adequate monitoring of the capital expenditure plans and the Council's prudential indicators (PI's). The treasury strategy and PI's were previously reported to Council on 24th February 2011.

The capital expenditure plans and prudential indicators for capital expenditure are set out initially, as these provide the framework for the subsequent treasury management activity. The actual treasury management activity follows the capital framework (and the position against treasury management indicators shown at the end).

The underlying purpose of the report supports the objective in the revised CIPFA Code of Practice on Treasury Management and the CLG Investment Guidance. These state that Members receive and adequately scrutinise the treasury management service.

The underlying economic environment remains difficult for the Council, foremost being the improving, but still challenging, concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term and with high quality counterparties. The downside of such a policy is that investment returns remain low.

The Chief Executive can report that the basis of the treasury management strategy, the investment strategy and the Prudential Indicators are not materially changed, except for the borrowing need in line with capital expenditure.

- 1.2 This report is structured to highlight the key changes to the Council's capital activity (the prudential indicators {PI's}), the economic outlook and the actual and proposed treasury management activity (borrowing and investment).

The Key Prudential Indicators part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the PIs and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

2.0 Key Prudential Indicators

2.1 Capital Expenditure (PI)

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service £m	2011/12 Original Estimate	Current Position	2011/12 Revised Estimate
General Fund	10.065	6.375	6.375
HRA	3.266	3.534	3.534
Total	13.331	9.909	9.909

The original estimate reflects the capital budgets that were approved by Council on 24th February 2011. The current position is the current capital budget, as approved by Cabinet on 17th November 2011 and the revised estimates reflects the capital expenditure that is expected by 31st March 2012. The capital expenditure budget has been significantly reduced due mainly to the re-profiling of the Dreamland project and slippage of the Yacht Valley, Waste transfer station and business services projects and savings brought about by the reduced estimate of capital receipts during the year.

2.2 Impact of Capital Expenditure Plans - Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure £m	2011/12 Original Estimate	Current Position	2011/12 Revised Estimate
Supported	0	0	0
Unsupported	13.331	9.909	9.909
Total spend	13.331	9.909	9.909
Financed by:			
Capital receipts	0.760	0.050	0.076
Capital grants	4.452	5.233	5.233
Capital Reserves	3.116	3.459	3.459
Revenue	1.000	1.141	1.141
Total Financing	9.328	9.883	9.909
Borrowing Need	4.003	0.026	0.000

The reduction in the borrowing need is due to the re-profiling of the Dreamland and slippage of the Yacht Valley, Waste transfer station and business services projects and savings brought about by the reduced estimate of capital receipts during the year.

2.3 **Changes to the Capital Financing Requirement (PI), External Debt and the Operational Boundary (PI)**

The table in 2.5 below shows the CFR, which is the underlying external need to borrow for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

2.4 **Prudential Indicator – Capital Financing Requirement**

We are on target to achieve the forecast Capital Financing Requirement.

2.5 **Prudential Indicator – External Debt / the Operational Boundary**

	2011/12 Original Estimate	Current Position	2011/12 Revised Estimate
Prudential Indicator – Capital Financing Requirement			
CFR – Non Housing	23.502	N/A	19.202
CFR – Housing	23.966	N/A	23.966
Total CFR	47.468	N/A	43,168
<i>Net movement in CFR</i>	3.306	N/A	(0.697)
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	26.646	30.646	27.646
Other long term liabilities*	0.000	3.418	3.418
Total Debt 31 March	26.646	34.064	31.064

* - On balance sheet PFI schemes and finance leases etc.

2.6 Limits to Borrowing Activity

The first key control over the treasury activity is a PI to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose*. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2011/12 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2011/12 Original Estimate	Current Position	2011/12 Revised Estimate
Gross Borrowing	30.646	30.646	27.646
Plus Other Long Term liabilities*	3.418	3.418	3.418
Less Investments	6.000	12.000	12.000
Net Borrowing	28.064	22.064	19.064
CFR* (year end position)	47.468	43.168	43.168

* - Includes on balance sheet PFI schemes and finance leases etc.

The Chief Executive (S151) reports that no difficulties are envisaged for the current or future years in complying with this Prudential Indicator.

A further PI controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt £m	2011/12 Original Indicator	Current Position	2011/12 Revised Indicator
Borrowing	36.000	36.000	36.000
Other long term liabilities*	15.000	15.000	15.000
Total	51.000	51.000	51.000

* - Includes on balance sheet PFI schemes and finance leases etc.

These limits were approved by Council on 7th October 2010 as a result in changes to the accounting treatment of the Spine Road and car park leases.

2.7 Interest Rate Movements and Expectations

The Euro zone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Euro zone response, left commentators concerned over the potential impact of sovereign default and resulting effect on the Euro zone banking sector. The approval by various countries of the €440bn bail out fund in September has brought temporary

relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.

This, coupled with political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poor's, has led to a much more difficult and uncertain outlook for the world economy.

Growth prospects in the US, UK and the Euro zone have been lower than expected, with future prospects similarly cut. Whilst not a central view, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011/12 as a consequence.

As set out above, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low.

Short-term rates are expected to remain low due to slow growth in the UK, with a low Bank Rate to continue for at least 24 months, coupled with a further extension of quantitative easing. This will keep investment returns depressed.

2.8 Medium-Term Rate Estimates

Annual Average %	Bank Rate	Money Rates			PWLB Rates*	
		3 month	1 year	5 year	25year	50 year
2009/10	0.5	0.7	1.3	3.0	4.4	4.5
2010/11	0.5	0.7	1.5	2.4	4.2	4.3
2011/12	0.5	0.7	1.5	2.3	4.2	4.3
2012/13	0.5	0.75	1.7	2.5	4.4	4.5
2013/14	1.25	1.40	2.4	2.9	4.8	4.9
2014/15	2.5	2.6	3.3	3.7	5.2	5.3

3.0 Treasury Strategy 2011/12 – 2013/14

3.1 Debt Activity during 2011/12

The expected borrowing need is set out below:

	2011/12 Original Estimate	Current Position	2011/12 Revised Estimate
CFR (year end position)	47.468	43.168	43.168
Less Other Long Term Liabilities*	3.418	3.418	3.418
Net Adjusted CFR (y/e position)	44.050	39.750	39.750
Borrowed at 30/09/11	30.646	30.646	27.646
Under/(over) borrowing	13.404	9.104	12.104
Expected need	0.000	0.000	0.000
Total Borrowing	30.646	30.646	27.646

* - Includes on balance sheet PFI schemes and finance leases etc.

The Council is currently under-borrowed to address investment counterparty risk and the cost of carry on investments (investments yield up to 1.05%, long term borrowing rates are approximately 3.4%). There is interest rate risk, as longer term borrowing rates may rise. This position is being carefully monitored.

During the first half of 2011/12 the Council has taken advantage of borrowing rates to repay maturing debt. The details are as follows:

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£4m	Fixed interest rate	3.31%	10 years

The revised budget position for debt charges is:

Debt charges	2011/12 Original Estimate	Current Position	2011/12 Revised Estimate
Borrowing	1.554	1.449	1.449
Other long term liabilities*	0.000	0.000	0.000
Total	1.554	1.449	1.449

Debt charges are due to reduce over coming years as the Council re-borrows to finance maturing debts which are currently at significantly higher interest rates than currently.

4.0 Investment Strategy 2011/12 – 2013/14

4.1 Key Objectives

The objectives of the Council's investment strategy are safeguarding the repayment of the principal and interest of its investments on time – the investment return being a secondary objective. Following on from the economic background above, the current investment climate has one overriding risk consideration, that of counterparty risk. As a result of these

underlying concerns, officers continue to implement an operational investment strategy which tightens the controls already in place in the approved investment strategy.

4.2 Current Investment Position

The Council held £25.954m of investments as at 30th September 2011, and the constituent parts of the investment position were as follows:

Sector	Country	Up to 1 year	1 - 2 years	2– 3 years
Banks	UK	£12.964m	Nil	Nil
Money Market Funds	UK	£12.990m	Nil	Nil
Total		£25.954m	£0m	£0m

The revised budget position for investment income is:

Interest Receivable	2011/12 Original Estimate	Current Position	2011/12 Revised Estimate
Income	0.145	0.089	0.145
Total	0.145	0.089	0.145

4.3 Risk Benchmarking

A regulatory development is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature. These were first set in the Treasury Strategy Report on 25th February 2010.

The current position against the benchmarks originally approved is discussed below.

4.4 Security

The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, was set as follows:

- 0.05% historic risk of default when compared to the whole portfolio.

The Chief Executive can report that the investment portfolio was maintained within this overall benchmark during this year to date.

4.5 Liquidity

In respect of this area the Council set liquidity facilities/benchmarks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £5m available with a week's notice.

- Weighted Average Life benchmark is expected to be 0.3 years, with a maximum of 1.0 year.

The Chief Executive can report that liquidity arrangements were adequate during the year to date.

Yield - Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate.

The Chief Executive can report that return to date averages 0.89%, against a 7 day LIBID to end August 2011 of 0.4825%.

The security benchmarks for each individual year were set as:

Benchmarks	1 year	2 years	3 years	4 years	5 years
Maximum (current)	0.05%	0%	0%	0%	0%
Maximum (revised)	0.05%	0%	0%	0%	0%

The Chief Executive can report that these benchmarks were not breached during the year to date.

Note: The benchmarks are an average risk of default measure, and would not constitute an expectation of loss against a particular investment. The benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members. As this data is collated, trends and analysis will be collected and reported. Where counterparty is not credit rated a proxy rating will be applied.

5.0 Treasury Management Indicators

5.1 Actual and estimates of the ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (financing costs net of interest and investment income) against the net revenue stream.

	2011/12 Original Indicator	2011/12 Revised Indicator
Non-HRA	3%	5.5%
HRA	9%	10.5%

We are on target to achieve the original forecast for ratio of financing costs to net revenue.

6.0 Treasury Management Prudential Indicators:

6.1 Upper Limits on Variable Rate Exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

Upper Limits on Fixed Rate Exposure – Similar to the previous indicator, this covers a maximum limit on fixed interest rates.

Both of these are shown in the below table:

	2011/12 Original Indicator	Current Position	2011/12 Revised Indicator
Prudential indicator limits based on debt only			
Limits on fixed interest rates	51.000	51.000	51.000
Limits on variable interest rates	51.000	51.000	51.000
Prudential indicator limits based on investments only			
Limits on fixed interest rates	35.000	35.000	35.000
Limits on variable interest rates	35.000	35.000	35.000

The changes to these prudential indicators have already been amended and approved as part of the report sent to Council on 7th October 2010.

6.2 Maturity Structures of Borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate loans (those instruments which carry a fixed interest rate for the duration of the instrument) falling due for refinancing.

	2011/12 Original Indicator	Current Position	2011/12 Revised Indicator
Maturity Structure of fixed borrowing			
Under 12 months	25%	9.79%	20%
12 months to 2 years	30%	2.03%	25%
2 years to 5 years	40%	9.79%	35%
5 years to 10 years	50%	16.32%	45%
10 years to 20 years	45%	27.74%	45%
20 years to 30 years	45%	13.13%	45%
30 years to 40 years	50%	6.53%	50%
40 years to 50 years	50%	0%	50%
50 years and above	50%	14.67%	50%

The original and revised indicators in the above table give the upper limit of fixed borrowing. The current position shows the actual percentage of fixed rate debt the authority has within each maturity span. None of the upper limits have been breached and no changes to the current indicators are required.

6.3 Total Principal Funds Invested

These limits are set to reduce the need for early sale of an investment, and show limits to be placed on investments with final maturities beyond each year-end.

	2011/12 Original Indicator	Current Position	2011/12 Revised Indicator
Maximum principal sums invested > 364 days¹	£0	£0	£0

This authority does not currently place investments for more than one year due to the credit, security and counterparty risks of placing such investments. As such, this indicator was set to nil and does not require alteration.

8.0 Options

8.1 That Members note the content of this report and agree the prudential indicators that are shown.

9.0 Corporate Implications

9.1 Financial

9.1.1 There are no financial implications arising directly from this report.

9.2 Legal

9.2.1 The Council is legally obliged to have regard to the relevant CIPFA codes of practice and to any guidance issued by the Secretary of State.

9.3 Corporate

9.3.1 The Council continues to ensure it has strong risk management processes with regard to its treasury activities to protect the Council's limited financial resources.

9.4 Equity and Equalities

9.4.1 There are no equity or equalities issues arising from this report.

9.5 Risks

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

10.0 Recommendation(s)

10.1 The Governance and Audit Committee is asked to recommend the following to Council:

“Note the report, the treasury activity and recommend approval of any changes to the prudential indicators. “

11.0 Decision Making Process

11.1 Under the treasury Management Code of Practice it is required that the Governance and Audit Committee note this report before it is sent to Council for approval.

Contact Officer:	Clive Bowen, Capital and Treasury Accountant, DDI 01843 577225
Reporting to:	Sarah Martin, Financial Services Manager DDI 01843 577617

12.0 Corporate Consultation Undertaken

12.1

Finance	Sarah Martin and Nicola Walker
Legal	Peter Reilly

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BUDGET AND RENT SETTING REPORT AND TREASURY MANAGEMENT STRATEGY REPORT 2012/13-2014/15

To: **Governance and Audit Committee – 13th December 2011**

Main Portfolio Area: **Finance and Corporate Services**

By: **Treasury and Capital Accountant**

Classification: **Unrestricted**

Summary: This report is to provide the Governance and Audit Committee with the proposed Treasury Management Strategy Report for 2012-13 for their approval.

For Decision

1.0 Introduction and Background

1.1 This report outlines the Council's prudential indicators for 2012/13 – 2014/15 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:

- The reporting of the **prudential indicators**, setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities – as per section 2.0 of this report). The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Management Code of Practice;
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year. Also within section 2.0 of this report);
- The treasury management strategy statement which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and is shown in section 3.0 of this report;
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG Investment Guidance and is also shown in section 3.0 of this report.

The above policies and parameters provide an approved framework within which the officers undertake the day to day capital and treasury activities.

2.0 The Capital Prudential Indicators 2012/13 – 2014/15

2.1 Introduction

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, reflecting the outcome of the Council's underlying capital appraisal systems. This report updates currently approved indicators and introduces new indicators for 2014/15.

Within this overall prudential framework there is an impact on the Council's treasury management activity as it will directly impact on borrowing or investment activity. As a consequence the treasury management strategy for 2012/13 to 2014/15 is included as section 3.0 within this report, to complement these indicators. Some of the prudential indicators are shown in the treasury management strategy to aid understanding.

A key issue facing the Council is the impact of planned HRA reform. This would essentially end the impact of the housing subsidy system and will see the HRA as a stand alone business, without any impact arising from housing reform. The legislation has yet to be enacted, but the Council will need to approve revised limits in expectation of the reform going ahead.

The Council currently pays into the HRA subsidy system, but will have HRA debt redeemed as part of the HRA reform. This will reduce debt costs, although future income from the HRA subsidy system will cease. The change is expected to be beneficial for the Council.

2.2 The Capital Expenditure Plans

The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This unsupported capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax and rents);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources.

This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants, or revenue resources etc.), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

The key risks to the plans are that the level of Government support has been estimated and therefore may be subject to change. Similarly some estimates for other

sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to the poor condition of the property market.

Due to the current financial restrictions the authority is facing, the capital programme has been revised to ensure that the projects of highest corporate priority and that are income generating are completed first. All other projects are to remain on hold but are kept in order of priority so that should the capital receipts exceed expectations, then the first project on that reserve list will be started.

The Council is asked to approve the summary capital expenditure projections below. This forms the first prudential indicator:

Capital Expenditure £m	2011/12 Original	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Non-HRA	10.065	6.375	8.045	1.554	1.554
HRA	3.266	3.534	2.740	2.400	2.650
Total	13.331	9.909	10.785	3.954	4.204
Financed by:					
Capital receipts	0.760	0.076	1.675	0.475	0.475
Capital grants	4.452	5.233	2.809	1.079	1.079
Capital reserves	3.116	3.459	2.140	1.900	2.150
Revenue	1.000	1.141	0.600	0.500	0.500
Net financing need for the year	4.003	0.000	3.561	0.000	0.000

2.3 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

Following accounting changes the CFR includes any other long term liabilities (e.g. finance leases and PFI schemes) that are brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for this scheme. The Council currently has £3.185m of such schemes within the CFR.

The Council is asked to approve the CFR projections below:

£m	2011/12 Original	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Capital Financing Requirement					
CFR – Non Housing	23.502	19.209	22.111	21.364	20.424
CFR - Housing	23.966	23.966	23.388	23.388	23.388
HRA Settlement	0	(0.578)	0	0	0
Total CFR	47.468	42.597	45.499	44.752	43.812
Movement in CFR	3.306	(1.266)	2.902	(0.747)	(0.939)

Movement in CFR represented by					
Net financing need for the year (above)	4.003	0.000	3.561	0.000	0.000
HRA Settlement	0	(0.578)			
Less MRP/VRP and other financing movements	(0.697)	(0.688)	(0.659)	(0.747)	(0.939)
Movement in CFR	3.306	(1.266)	2.902	(0.747)	(0.939)

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

CLG Regulations have been issued which require full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils to replace existing Regulations, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG Regulations (Option 1);

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and Finance Leases) the MRP policy will be:

- **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (Option 3);

This option provides for a reduction in the borrowing need over the asset's life approximately.

Principal repayments of any loan will impact on the balance sheet by reducing the Council's long term liabilities and also its cash balances. The key issue for the Council is whether it has sufficient cash balances at the time to make the repayment. This will need to be considered before any new borrowing is pursued.

The Minimum Revenue Provision (MRP) charge to the General Fund is the amount shown in the accounts for the principal debt repayment, that hits the bottom line, and

so is part of the Council Tax calculations. By using the asset life method, the MRP spreads the cost over more financial years so that the impact on the General Fund is reduced.

However, the interest that must be paid on borrowing is a true cost to the general fund. This must be budgeted for and where borrowing is required for capital projects, an income stream will need to be identified to pay for this.

No revenue charge is currently required for the HRA. However under HRA reform the HRA will be required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact, regulations will allow the Major Repairs Allowance to be used as a proxy for depreciation for the first five years.

2.4 The Use of the Council's Resources and the Investment Position

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2011/12	2011/12	2012/13	2013/14	2014/15
£m	Original	Revised	Estimate	Estimate	Estimate
Fund balances	1.883	2.177	2.177	2.177	2.177
Capital receipts	0.760	0.076	1.675	0.475	0.475
Earmarked reserves	2.197	4.500	3.990	3.470	3.170
Total Core Funds	4.840	6.753	7.842	6.122	5.822
Working Capital*	19.405	20.554	18.878	18.130	17.191
Under/over borrowing	13.405	8.554	10.878	10.130	9.191
Expected Investments	6.000	12.000	8.000	8.000	8.000

*Working capital balances shown are estimated year end; these may be higher mid year

2.5 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

2.6 Actual and Estimates of the ratio of financing costs to 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 (the amount to be met from local taxpayers and central government grant, and rent income for the HRA).

%	2011/12	2011/12	2012/13	2013/14	2014/15
	Original	Revised	Estimate	Estimate	Estimate
Non-HRA	3.0%	5.5%	4.0%	4.0%	4.0%
HRA	9.0%	10.5%	11.5%	11.5%	11.5%

The estimates of financing costs include current commitments and the proposals in this budget report.

2.7 Estimates of the incremental impact of capital investment decisions on the Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the Band D Council Tax

£m	Original 2011/12	Proposed Budget 2011/12	Forward Projection 2012/13	Forward Projection 2013/14	Forward Projection 2014/15
Council Tax - Band D	0	0	0	0	0.

2.8 Estimates of the incremental impact of capital investment decisions on Housing Rent levels

Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Incremental impact of capital investment decisions Housing Rent levels

£	Original 2010/11	Proposed Budget 2010/11	Forward Projection 2011/12	Forward Projection 2012/13	Forward Projection 2013/14
Weekly Housing Rent levels	0	0	0	0	0

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

3.0 Treasury Management Strategy 2012/13-2014/15

3.1 The treasury management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in section 2.0 consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the revised Code of Practice on Treasury Management on the 25 February 2010.

As a result of adopting the Code, the Council also adopted a Treasury Management Policy Statement (21 August 2003). This adoption is the requirements of one of the prudential indicators.

The Constitution requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities;

3.2 Debt and Investment Projections 2012/13 – 2014/15

The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. The expected maximum debt position during each year represents the Operational Boundary prudential indicator, and so may be different from the year end position. The table also highlights the expected change in investment balances.

£m	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
External Debt				
Debt at 1 April	27.646	27.068	30.625	30.625
Expected change in debt	0.000	3.557	0.000	0.000
HRA settlement	(0.578)			
Debt at 31 March	27.068	30.625	30.625	30.625
Operational Boundary	37.000	43.000	42.000	41.000
Investments				
Total Investments as at 31 March	12.000	8.000	8.000	8.000
Investment change	0.000	(4.000)	0.000	0.000

The related impact of the above movements on the revenue budget is:

£m	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Revenue Budgets				
Interest on Borrowing	1.449	1.396	1.365	1.365
Related HRA Charge	1.252	1.206	1.179	1.179
Net General Fund Borrowing Cost	0.197	0.190	0.186	0.186
Investment income	0.145	0.145	0.145	0.153

3.3 Limits to Borrowing Activity

Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits

For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and the following two financial years (the relevant comparative figures are highlighted). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

£m	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
External Loans	27.068	30.625	30.625	30.625
Plus Other long term liabilities	3.185	3.185	3.185	3.185
Gross Borrowing	30.253	33.810	33.810	33.810
Less Investments	12.000	8.000	8.000	8.000
Net Borrowing	18.253	25.810	25.810	25.810
CFR*	43.175	45.499	44.752	43.812

* - Under the Prudential Code revision any falls in the CFR are ignored.

The Section 151 Officer reports that the Council has complied with this prudential indicator in the current financial year and does not envisage difficulties in the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The Authorised Limit is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

The Council is asked to approve the following Authorised Limit:

Authorised limit £m	2011/12 Revised	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Borrowing	36.000	36.000	36.000	36.000
Less HRA Settlement	(0.578)			
Other long term liabilities	15.000	14.000	13.000	12.000
Total	50.422	50.000	49.000	48.000

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £m	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Total	28.349	28.138	28.138	28.138

3.4 Expected Movement in Interest

The Council has appointed Sector as its Treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Sector Central view.

Medium-Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

This challenging and uncertain economic outlook has several key treasury management implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2012/13;
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

3.5 **Borrowing Strategy 2012/13 – 2014/15**

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high and will be maintained for borrowing excluding the HRA reform settlement.

Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was 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 will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.*

Draft figures for the HRA reform settlement suggest that the Council will be in receipt of a one off settlement payment to be paid direct to PWLB to top slice existing PWLB Loans. In the event that the final settlement changes and there is a requirement to payover a debt settlement to the department of Communities and Local Government, the authority's borrowing strategy will need to be reviewed and any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.6 **Treasury Management Limits on Activity**

There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the limits:

£m	2012/13	2013/14	2014/15
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates:			
• Debt only	50.000	49.000	48.000
• Investments only	35.000	35.000	35.000
Limits on variable interest rates			
• Debt only	50.000	49.000	48.000
• Investments only	35.000	35.000	35.000
Maturity Structure of fixed interest rate borrowing 2012/13			
	Lower	Upper	
Under 12 months	0%	25%	
12 months to 2 years	0%	30%	
2 years to 5 years	0%	40%	
5 years to 10 years	0%	50%	
10 years to 20 years	0%	45%	
20 years to 30 years	0%	45%	
30 years to 40 years	0%	50%	
40 years to 50 years	0%	50%	
50 years and above	0%	50%	
Maximum principal sums invested > 364 days for 2012-13, 2013-14, 2014-15			
Principal sums invested > 364 days	£0	£0	£0

3.7 Policy on Borrowing in Advance of Need

Borrowing in advance of need – The Council has some flexibility to borrow funds this year for use in future years. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Section 151 Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Borrowing in advance will be made within the constraints that:

- The authority would not look to borrow more than 18 months in advance of need.

Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

3.8 Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching

from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reason for any rescheduling to take place will include:

- The generation of cash savings and /or discounted cash flow savings;
- Helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

As part of the HRA reform the Council will receive monies from the CLG in the form of debt redemption. Under this scenario a proportion of the HRA debt will be repaid by the CLG on 28 March 2012. The Council will not have any influence over this debt redemption and so a proportion of each PWLB loan will be repaid automatically.

All rescheduling will be reported to Cabinet, at the earliest meeting following its action.

4.0 Investment Strategy 2012/13 – 2014/15

4.1 Key Objectives

The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective. Following the economic background above, the current investment climate has one over-riding risk, counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which tightens the controls already in place in the approved investment strategy.

4.2 Risk Benchmarking

A development in the revised Codes and the CLG Investment Guidance is the consideration and approval of security and liquidity benchmarks. Yield benchmarks are currently widely used to assess investment performance. Discrete security and liquidity benchmarks are new requirements to the Member reporting, although the application of these is more subjective in nature. Additional background in the approach taken is attached in section 6.0 of this report.

These benchmarks are simple guides to maximum risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

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

- **0.05% historic risk of default when compared to the whole portfolio.**

Liquidity – In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m

- Liquid short term deposits of at least £5m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 1.0 years.

Yield - Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	0.05%	0.00%	0.00%	0.00%	0.00%

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

4.3 Investment Counterparty Selection Criteria

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- **It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.**
- **It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.**

The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered high quality the Council may use rather than defining what its investments are.

The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

Credit rating information is supplied by our treasury consultants on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to a counterparty at the minimum Council criteria will be removed from the list, with all others being reviewed in the light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) are:

- Banks 1 – Good Credit Quality – the Council will only use banks which:
 - i. Are UK banks; and/or
 - ii. Are non-UK and domiciled in a country which has a minimum Sovereign long term rating of AAA
 and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
 - i. Short Term – F1
 - ii. Long Term – A
 - iii. Individual/Financial Strength – C (Fitch/Moody's only)
 - iv. Support – 3 (Fitch only)
- Banks 2 – Guaranteed Banks with suitable Sovereign Support – In addition, the Council will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:
 - (a) wholesale deposits in the bank are covered by a government guarantee;
 - (b) the government providing the guarantee is rated “AAA” by all three major rating agencies (Fitch, Moody's and Standard & Poors); and
 - (c) the Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.
- Banks 3 – Eligible Institutions - The organisation was considered an Eligible Institution for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary short and long term ratings required in Banks 1 above. These institutions were subject to suitability checks before inclusion.
- Banks 4 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank Subsidiary and Treasury Operations – the Council will use these where the parent bank has the necessary ratings outlined above.
- Building Societies – the Council will *use* all Societies which:
 - i. meet the ratings for banks outlined above
- Money Market Funds – AAA
- UK Government (including gilts and the DMADF)
- Local Authorities, Parish Councils etc
- Supranational institutions

A limit of 0% will be applied to the use of Non-Specified investments as it is the Council's policy not to invest for longer than a one year period at this time.

4.4 **Country and sector considerations**

Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in Banks 1 above. In addition:

- no more than 10% will be placed with any non-UK country at any time;
- limits in place above will apply to Group companies;
- Sector limits will be monitored regularly for appropriateness.

4.5 Use of additional information other than credit ratings

Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

4.6 Time and Monetary Limits applying to Investments

The time and monetary limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch, Moody's, Standard & Poor's respectively	Money Limit	Time Limit
Upper limit Category	F1+, P1, A1+	£6m	1 yr
Middle Limit Category	F1, P1, A1	£5m	1 yr
Debt Management Account Deposit Facility	-	No Limit	6 months
Money Market Funds	AAA	£5m	1 yr
Guaranteed Organisations (Eligible Institutions)	-	£4m	1 yr

The proposed criteria for Specified and Non-Specified investments are shown in section 5.0 for approval.

In the normal course of the Council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will not be used by the Council.

4.7 Economic Investment Considerations

Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.5% Bank Rate remaining flat but with the possibility of a rise in mid/late-2013. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve

this base criteria above, under exceptional current market conditions the Section 151 Officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to “normal” conditions. Similarly the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

4.8 Sensitivity to Interest Rate Movements

Future Council accounts will be required to disclose the impact of risks on the Council’s treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to the estimated treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

£m	2012/13 Estimated + 1%	2012/13 Estimated - 1%
Revenue Budgets		
Interest on Borrowing	0.038	(0.038)
Net General Fund Borrowing Cost	0.038	(0.038)
Investment income	0.193	(0.193)

4.9 Performance Indicators

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate

The results of these indicators will be reported in the Treasury Annual Report.

4.10 Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. This Council has addressed this important issue by:

- a. Using our treasury management consultants to provide training for our Members as appropriate. The last training course was held on the 14th June 2011. Members may also attend the basic treasury management training course held by Sector in London.

- b. The officer responsible for the daily treasury management function has completed the CIPFA certificate qualification. They have also attended a refresher course with Sector in London on 25 November 2011.

5.0 Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management

- 5.1 The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

5.2 Annual Investment Strategy

The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

- 5.3 **Specified Investments** – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this

covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum short term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies.

This criteria is:

	Fitch, Moody's, Standard & Poor's respectively	Money Limit	Time Limit
Upper limit Category	F1+, P1, A1+	£6m	1 yr
Middle Limit Category	F1, P1, A1	£5m	1 yr
Debt Management Account Deposit Facility	-	No Limit	6 months
Money Market Funds	AAA	£5m	1 yr
Guaranteed Organisations (Eligible Institutions)	-	£4m	1 yr

5.4 Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as Specified above). The Council do not use non-specified investments.

5.5 The Monitoring of Investment Counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Sector as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

5.6 Use of External Fund Managers

It is the Council's policy not to use external fund managers for any part of its investment portfolio.

5.7 Policy on the use of External Services Providers

The Council uses Sector as its treasury management consultants. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings/market information service comprising the three main credit rating agencies;

Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review.

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

The Council uses the ICD Portal to invest or redeem trades in its Money Market Funds (MMFs). The portal provides advanced reporting tools so that the authority can assess its exposure to certain banks or countries, which is vital in the current Eurozone crisis.

Some investments via the ICD portal are made via JP Morgan who act as a clearing house for three of the five MMFs the Council currently uses. The Clearing house allows the authority to make several investments in different MMFs but only requires one payment to the clearing house, therefore saving the authority costs in CHAPs fees.

6.0 Security, Liquidity and Yield Benchmarking

6.1 Benchmarking and Monitoring Security, Liquidity and Yield in the Investment Service

A proposed development for Member reporting is the consideration and approval of security and liquidity benchmarks.

These benchmarks are targets and so may be breached from time to time. Any breach will be reported, with supporting reasons in the Annual Treasury Report.

Yield – These benchmarks are currently widely used to assess investment performance. Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate

Security and liquidity benchmarks are already intrinsic to the approved treasury strategy through the counterparty selection criteria and some of the prudential indicators. However they have not previously been separately and explicitly set out for Member consideration. Proposed benchmarks for the cash type investments are below and these will form the basis of future reporting in this area. In the other investment categories appropriate benchmarks will be used where available.

Liquidity – This is defined as “having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its

business/service objectives” (CIPFA Treasury Management Code of Practice). In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £5m available with a week’s notice.

The availability of liquidity and the term risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio – shorter WAL would generally embody less risk. In this respect the proposed benchmark is to be used:

- WAL benchmark is expected to be 0.5 years, with a maximum of 1.0 years.

Security of the investments – In context of benchmarking, assessing security is a much more subjective area to assess. Security is currently evidenced by the application of minimum credit quality criteria to investment counterparties, primarily through the use of credit ratings supplied by the three main credit rating agencies (Fitch, Moody’s and Standard and Poors). Whilst this approach embodies security considerations, benchmarking levels of risk is more problematic. One method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council’s investment strategy. The table beneath shows average defaults for differing periods of investment grade products for each Fitch/Moody’s Standard and Poors long term rating category over the period 1990 to 2009.

Years	1	2	3	4	5
AAA	0.00%	0.01%	0.05%	0.10%	0.17%
AA	0.03%	0.06%	0.08%	0.14%	0.20%
A	0.08%	0.22%	0.37%	0.52%	0.70%
BBB	0.24%	0.68%	1.19%	1.79%	2.42%
BB	1.22%	3.24%	5.34%	7.31%	9.14%
B	4.06%	8.82%	12.72%	16.25%	19.16%
CCC	24.03%	31.91%	37.73%	41.54%	45.22%

The Council’s minimum long term rating criteria is currently “A” meaning the average expectation of default for a one year investment in a counterparty with a “A” long term rating would be 0.08% of the total investment (e.g. for a £1m investment the average loss would be £300). This is only an average - any specific counterparty loss is likely to be higher - but these figures do act as a proxy benchmark for risk across the portfolio.

The Council’s maximum security risk benchmark for the whole portfolio, when compared to these historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio.

And in addition that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	0.05%	0%	0%	0%	0%

These benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members in the Investment Annual Report. As this data is collated, trends and analysis will be collected and reported. Where a counterparty is not credit rated a proxy rating will be applied.

7.0 Options

7.1 That the Governance and Audit Committee:

- Approve the Treasury Management Strategy 2012-13 and recommend that it is approved by Full Council.
- Do not approve the Treasury Management Strategy 2012-3 and do not recommend that it is approved by Full Council, thereby not complying with the Treasury Management Code of Practice.

8.0 Corporate Implications

8.1 Financial

8.1.1 The Financial Implications are highlighted within the report.

8.2 Legal

8.2.1 There are no legal implications arising directly from this report.

8.3 Corporate

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

8.4 Equity and Equalities

8.4.1 There are no equity or equalities issues arising from this report.

9.0 Recommendation(s)

9.1 The Governance and Audit Committee is recommended to approve each of the key elements of these reports, and recommend these to Council:

1. The Prudential Indicators and Limits for 2012/13 to 2014/15, including the Authorised Limit Prudential Indicator.
2. The Minimum Revenue Provision (MRP) Statement contained which sets out the Council's policy on MRP.
3. The Treasury Management Strategy 2012/13 to 2014/15 and the treasury Prudential Indicators.
4. The Investment Strategy 2012/13 contained in the treasury management strategy and the detailed criteria.

10.0 Decision Making Process

10.1 Under the treasury Management Code of Practice it is required that the Governance and Audit Committee note this report before it is sent to Council for approval.

10.2 Following the Governance and Audit Committee's approval, this report must go to Council as part of the Medium Term Financial Strategy.

Council	Date: 19/01/2011
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Contact Officer:	Clive Bowen, tel: 01843 577225
Reporting to:	Sarah Martin, tel: 01843 577617

11.0 Corporate Consultation Undertaken

Finance	Nicola Walker
Legal	Peter Reilly

THANET DISTRICT COUNCIL DECLARATION OF INTEREST FORM

Do I have a personal interest?

You have a **personal interest** in any business of your authority where it relates to or is likely to affect:

- a) An interest you must **register**.
- b) An interest that is not on your register, but where the well-being or financial position or you, members of your family (spouse; partner; parents; in laws; step/children; nieces and nephews), or people with whom you have a close association (friends; colleagues; business associates and social contacts that can be friendly and unfriendly) is likely to be affected by the business of your authority more than it would affect the majority of:
 - Inhabitants of the ward or electoral division affected by the decision (in the case of the authorities with electoral divisions or wards.)
 - Inhabitants of the authority's area (in all other cases)

These two categories of personal interests are explained in this section. If you declare a personal interest you can remain in the meeting, speak and vote on the matter, unless your personal interest is also a prejudicial interest.

Effect of having a personal interest in a matter

You must declare that you have a personal interest, **and the nature of that interest**, before the matter is discussed or as soon as it becomes apparent to you except in limited circumstances. Even if your interest is on the register of interests, you must declare it in the meetings where matters relating to that interest are discussed, unless an exemption applies.

When an exemption may be applied

An exemption applies where your interest arises solely from your Membership of, or position of control or management on:

1. Any other body to which you were appointed or nominated by the authority.
2. Any other body exercising functions of a public nature (e.g. another local authority)

Is my personal interest also a prejudicial interest?

Your personal interest will also be a **prejudicial interest** in a matter if all of the following conditions are met:

- a) The matter does not fall within one of the **exempt categories** of decisions
- b) The matter affects **your financial interests** or relates to a **licensing or regulatory matter**.
- c) A member of public, who knows the relevant facts, would **reasonably think your personal interest is so significant** that it is likely to prejudice your judgement of the public interest.

What action do I take if I have a prejudicial interest?

- a) If you have a **prejudicial interest** in a matter being discussed at a meeting, you must declare that you have a prejudicial interest as the nature of that interest becomes apparent to you.
- b) You should then leave the room, **unless members of the public are allowed to make representations, give evidence or answer questions about the matter**, by statutory right or otherwise. If that is case, you can also attend the meeting for that purpose.
- c) However, you must immediately leave the room once you have finished or when the meeting decides that you have finished (if that is earlier). You cannot remain in the public gallery to observe the vote on the matter.

d) In addition you must not seek to **improperly influence** a decision in which you have a prejudicial interest.

This rule is similar to your general obligation not to use your position as a Member improperly to your or someone else's advantage or disadvantage.

What if I am unsure?

If you are in any doubt, Members are strongly advised to seek advice from the Monitoring Officer or the Democratic Services Manager well in advance of the meeting.

DECLARATION OF PERSONAL AND, PERSONAL AND PREJUDICIAL INTERESTS

MEETING

DATE..... **AGENDA ITEM**

IS YOUR INTEREST:

PERSONAL

PERSONAL AND PREJUDICIAL

NATURE OF INTEREST:

.....
.....
.....

NAME (PRINT):

SIGNATURE:

Please detach and hand this form to the Committee Clerk when you are asked to declare any interests.