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Date: **30 November 2015**
Ask For: **James Clapson**
Direct Dial: **(08143) 577200**
Email: **james.clapson@thanet.gov.uk**

GOVERNANCE AND AUDIT COMMITTEE

9 DECEMBER 2015

A meeting of the Governance and Audit Committee will be held at **7.00 pm on Wednesday, 9 December 2015** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillors: Buckley (Vice-Chairman), Ashbee, Campbell, Connor, Day, Dexter, Edwards, I Gregory, G Hillman, Jaye-Jones, Larkins, Game and Taylor-Smith.

A G E N D A

Item No

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTEREST**

   'To receive any declarations of interest. Members are advised to consider the advice contained within the Declaration of Interest Form attached 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 and then take the prescribed course of action.'

3. **MINUTES OF PREVIOUS MEETING** (Pages 1 - 6)

   To approve the Minutes of the Governance and Audit Committee meeting held on 24/09/2015, copy attached.

4. **ANNUAL AUDIT LETTER** (Pages 7 - 12)

5. **PROGRESS REPORT AND EMERGING ISSUES UPDATE** (Pages 13 - 28)

6. **INTERNAL AUDIT QUARTERLY UPDATE REPORT** (Pages 29 - 52)

7. **ANNUAL GOVERNANCE STATEMENT ACTION PLAN QUARTERLY UPDATE** (Pages 53 - 58)

8. **REVIEW OF CORPORATE APPROACH TO RISK MANAGEMENT** (Pages 59 - 90)

9. **MID-YEAR TREASURY MANAGEMENT REPORT** (Pages 91 - 106)

10. **TREASURY MANAGEMENT STRATEGY 2016/17** (Pages 107 - 130)

Item No	Subject
11.	**APPOINTMENT OF EXTERNAL AUDITORS AND AN AUDITOR PANEL - LOCAL AUDIT AND ACCOUNTABILITY ACT 2014** (Pages 131 - 136)

Declaration of Interests Form

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 24 September 2015 at 7.00 pm in Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Present: Councillors Buckley, Campbell, Connor, Day, Dexter, Edwards, I Gregory, Larkins and Partington

In Attendance: Councillors Taylor-Smith, Ashbee, Collins, Smith and L Fairbrass

1. APOLOGIES FOR ABSENCE

Apologies were received from Councillors Munday and Hillman, for whom Councillors J Fairbrass and Jaye-Jones were substitute respectively. Councillor Taylor was also present to occupy the UKIP seat made vacant due to recent changes in political membership.

As apologies had been received from the Chairman Councillor Munday, the Vice Chairman Councillor Buckley was in the Chair.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF PREVIOUS MEETING

(a) **Minutes of the Governance and Audit Committee meeting held on 24 June 2015**

It was noted that the word 'competition' should be replaced by the word 'completion' in the fourth bullet point of item four, the Annual Internal Audit Report.

Subject to this amendment, Councillor Campbell proposed, Councillor I Gregory seconded and Members agreed the minutes of the meeting held on 24 June 2015.

(b) **Minutes of the Extraordinary Governance and Audit Committee meeting held on 2 September 2015**

Councillor Jaye-Jones proposed, Councillor I Gregory seconded and Members agreed the minutes of the extraordinary meeting held on 2 September 2015.

4. INTERNAL AUDIT UPDATE REPORT

Simon Webb, Deputy Head of East Kent Audit Partnership (EKAP), introduced the report during which he noted that ten internal audit assignments had been completed in the quarter.

Mr Webb highlighted that the audit of Your Leisure had been given a split assurance of reasonable and no assurance, and invited Larissa Reed, Interim Director of Community Services to address the committee to comment on the findings. Ms Reed advised that Officers were aware of the shortfalls identified by the EKAP and work was underway to address them.

In response to comments and questions it was noted that:

- Historically, responsibility for the Council's relationship with Your Leisure had been with the Head of Property, however this had now been moved into the Directors remit.
- A number of suggestions from the audit had already been adopted, such as the establishment of a single point of contact and minuting of meetings with action points to improve accountability and decision making.
- Options to fund maintenance and repairs would include methods to access external funding, and Ms Reed intended to submit a report for consideration by the senior management team in the next three weeks. Options would then be presented to Cabinet.

Mr Webb noted that the equality and diversity audit had found limited assurance. This was largely a result of a lack of staff resource, however senior officers had committed to an action plan intended to increase the assurance level to reasonable.

In response to questions and comments it was noted that:

- The report identified that only one third of an officers role was dedicated to equality and diversity, this could limit progress against the equality agenda and limit any benefits gained.

Mr Webb highlighted from the Follow up of Audit Action Plans, that overtime within Waste and Recycling, despite some improvement, continued to have a limited level of assurance. Gavin Waite, Director of Operational Services was invited to address the committee regarding the audit findings.

Mr Waite advised that there were now three new managers and two additional supervisors in position. Additionally, there were a number of new measures in place that appeared to be having a positive impact. Mr Webb noted that there would be a follow up review to establish if there had been an improvement, and suggested that this should take place after three months to allow any changes to become evident.

Mr Webb advised that a follow up review on absence management had taken longer than initially expected, however he anticipated it to be included in the December meeting update.

Members noted that the number of post-audit questionnaires completed was low at only 17%. It was suggested that completion of the questionnaires should be mandatory.

Christine Parker, Head of East Kent Audit Partnership agreed that the Summary of High Priority Recommendations Outstanding After Follow Up table in Appendix 1 would include the name of the head of service rather than 'Not recorded' in cases where the previously listed officer had left the Council.

Ms Parker advised that 15 days had been allocated to an Employee Health and Safety audit in quarter two.

Councillor Taylor-Smith spoke under Council Procedure Rule 24.1, in response to comments and questions it was noted that:

- A number of key positions had been recruited to recently. This should improve continuity of process and accountability going forward. The recruitment included a performance monitoring expert who would produce regular monitoring data for the Corporate Management Team against EKAP's audit recommendations.

It was proposed by Councillor Campbell, seconded by Councillor Taylor and Members agreed the recommendations at paragraphs 6.1 and 6.2 of the report, namely;

6.1 That the report be received by Members.

6.2 That any changes to the agreed 2015-16 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved.

5. <u>CORPORATE RISK REGISTER QUARTERLY UPDATE</u>

Tim Willis, Director of Corporate Resources introduced the report which provided Members with an update on the Corporate Risk Register.

In response to comments and questions it was noted that:

- There would be a revised Corporate Risk Register once the new corporate priorities were agreed at full Council on 15/10/2015.

Councillor Taylor-Smith spoke under council procedure rule 24.1, in response to comments and questions it was noted that:

- The Manston airport site was previously identified separately as a risk, however is now included under the heading Major Project Management.

Members noted the report.

6. <u>FINAL ANNUAL GOVERNANCE STATEMENT</u>

Tim Howes, Director of Corporate Governance introduced the report, noting that it was an updated version of the draft statement that came before the committee on 2 September 2015.

In response to comments and questions it was noted that:

- Members would have liked to have had any changes made to the draft statement tracked, this would have allowed them to see more easily what changes had been made.

It was proposed by Councillor Larkins, seconded by Councillor Campbell and agreed the recommendation at paragraph 6.1 of the report be approved, namely:

6.1 That Members approve the Annual Governance Statement for 2014/2015 and associated action plan.

7. <u>ANNUAL GOVERNANCE STATEMENT ACTION PLAN QUARTERLY UPDATE</u>

Tim Howes introduced the report that provided progress on the Annual Governance Statement 2013/14 Action Plan.

In response to comments and questions it was noted that:

- The Council aimed to collect all money owed to it, however the Council was required to balance potential risk and reward when deciding which costs to pursue. Mr Howes would respond in writing to Cllr I Gregory regarding how this judgement was made.

Members noted the report.

8. <u>THE EXTERNAL AUDIT FINDINGS FOR THANET DISTRICT COUNCIL - YEAR ENDED MARCH 2015</u>

Terry Blackman, Engagement Manager, Grant Thornton UK LLP introduced the report noting that Grant Thornton had issued an unqualified opinion this year as the Council had demonstrated a number of improvements since undertaking the Peer Review process.

In response to comments and questions it was noted that:

- The improvements were seen as an on-going process and should continue.
- The Member/Officer Protocol would come before full Council in December.

Councillor Collins spoke under Council Procedure Rule 24.1, in response to comments and questions it was noted that:

- Mr Blackman offered to respond to Councillor Collins after the meeting as he wished to obtain advice before confirming to what extent Grant Thornton would provide indemnity insurance for Council losses.

Councillor Taylor-Smith spoke under Council Procedure Rule 24.1, in response to comments and questions it was noted that:

- Whilst the unqualified audit opinion was to be welcomed, there were still some limited areas for improvement.
- When the follow up Peer Review took place it was hoped that it would find that significant improvements had been made, with sufficient resilience to help ensure continuous improvements going forward.

Members noted the report.

9. <u>FINAL STATEMENT OF ACCOUNTS</u>

Tim Willis introduced the report, and apologised to Members, acknowledging their frustration at receiving such a large and technical document so close to the meeting date.

In response to comments and questions it was noted that:

- Members would be provided with a draft version of the Statement of Accounts well in advance of the meeting next year.
- Income generated by Building Control was dependent on work received. Over a three year cycle the department broken even.

Councillor Ashbee spoke under Council Procedure Rule 24.1, in response to comments and questions it was noted that:

- It appeared that there were no contributions surpluses for previous years in the Collection Fund Statement for Year Ending 31 March 15. Nikki Walker, Head of Finance offered to explain the reason for this to Councillor Ashbee outside of the meeting.

Councillor Taylor-Smith spoke under Council Procedure Rule 24.1, in response to comments and questions it was noted that:

- Provision for business rates had increased due to a number of appeals submitted to the Valuation Office.
- Income from Royal Sands was expected in October 2015 and once received would be included in budget monitoring for the next quarter.

In response to questions and comments from Members it was noted that:

- The majority of income generated from the car park at Dreamland would be used to fund Dreamland revenue expenditure and to fund borrowing.
- The losses identified on disposal of fixed assets, page seven of the statement, was due to the sale of council houses under the Right to Buy scheme for less than the full market value.
- In 2014/15 there were no costs for capital grants and contributions budgeted against actual expenditure incurred, shown on page eight of the statement, this was due to delays to the compulsory purchase of the Dreamland site.
- Money received from the New Homes Bonus scheme was regarded as a revenue stream.
- A question asked by Councillor Dexter regarding the value of the Chairman's regalia would be answered outside of the meeting.

It was proposed by Councillor Campbell, seconded by Councillor Larkins and Members agreed the recommendations as set out at paragraphs 7.1 and 7.3 of the report, namely:

7.1 That Governance and Audit Committee approve the Statement of Accounts for 2014/15.

7.3 That Governance and Audit Committee note the letter of representation to Grant Thornton issued by the Chief Executive and Director of Corporate Resources

10. TREASURY MANAGEMENT UPDATE

Tim Willis introduced the report which updated Members on the Treasury Management activity that had occurred for the quarter ending 30 June 2015.

Councillor Campbell proposed, Councillor Jaye-Jones seconded and Members agreed the recommendation as set out at paragraph 11.1 of the report, namely:

11.1 That the Governance and Audit Committee approves this report.

11. ANTI-FRAUD & CORRUPTION POLICY AND ANTI-BRIBERY POLICY

Tim Willis introduced the report which provided Members with a revised Anti-Fraud and Corruption policy and Anti-Bribery policy for Members' approval.

In response to comments and questions it was noted that:

- Whistleblowing was not mentioned in the covering report, however it did form part of both policy documents.
- There were no major revisions made to either policy.

Councillor Campbell proposed, Councillor Connor seconded and Members agreed the recommendation at paragraph 4.1 of the report, namely:

4.1 Members are asked to approve the revised Anti-Fraud and Corruption Policy and Anti-Bribery Policy.

Meeting concluded: 8.35 pm

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Grant Thornton

The Annual Audit Letter for Thanet District Council

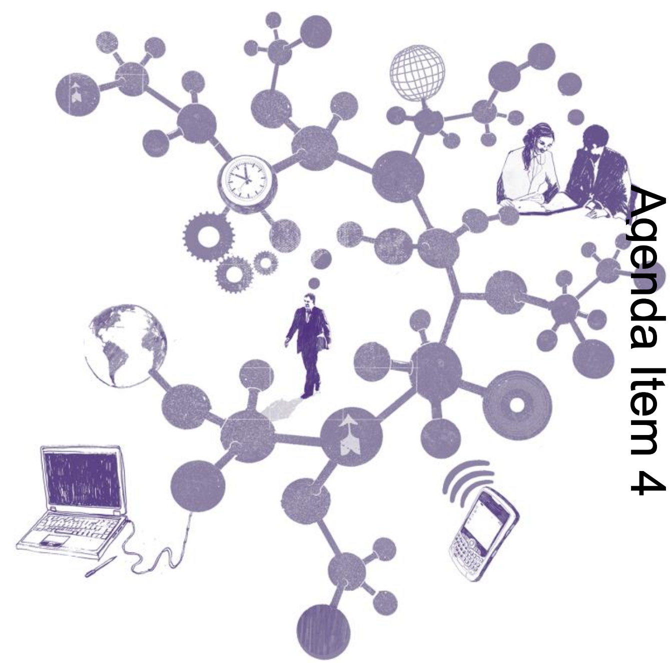
Year ended 31 March 2015

October 2015

Darren Wells
Engagement Lead
T 01293 554 120
E darren.j.wells@uk.gt.com

Terry Blackman
Engagement Manager
T 020 7728 3194
E terry.blackman@uk.gt.com

Bal Daffu
In Charge Auditor
T 020 7728 3427
E bal.s.daffu@uk.gt.com



Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Thanet District Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)	We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 19 September 2015 to the Governance and Audit Committee. The key messages reported were: • The finance team continued to prepare the accounts to a good overall standard supported by comprehensive working papers' • The audit trail for operating expenditure, however, proved to be overly complex and the Council's reported expenditure was time-consuming to audit as a result. This needs to be addressed as the Council prepares to meet the earlier accounts opinion deadline of 31 July to be introduced in 2017/18. We issued an unqualified opinion on the Council's 2014/15 financial statements on 29 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirmed that the financial statements gave a true and fair view of the financial position and of the income and expenditure recorded by the Council.
Value for Money (VfM) conclusion	We issued an unqualified VfM conclusion for 2014/15 on 29 September 2015. On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we were satisfied that in all significant respects the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015. In 2013/14 we qualified the value for money conclusion due to inadequate arrangements to promote and demonstrate the principles and values of good governance. This was primarily due to findings of the Local Government Association CPC reported in April 2014. The Council has put in place a number of measures to address the findings of the CPC and we have noted the following progress during 2014/15. *[Continued overleaf]*

Key messages

Value for Money (VfM) conclusion (continued)	• The Improvement Board has met monthly, and it work has been acknowledged by its Chair, leading members and senior officers in our interviews with them to have been of significant value in addressing the issues reported by the LGA. • A member/officer protocol has been developed to address the concerns of the CPC and foster co-operative and supportive working environment, and there has been an acknowledged improvement in working relations. • Equalities training has been delivered to councillors, and significant effort has been put into the induction of the large number of new members elected in May 2015. In our view the above developments provide sufficient evidence to justify no longer qualifying the conclusion. However, we do not contend that there are no signs of poor behaviour or that the reputation of the Council has yet been fully restored. Work needs to continue to embed good governance in the Council's proceedings to ensure there is no recurrence of the issues reported in the CPC.
Certification of housing benefit grant claim	We plan to certify the Council's 2014/15 housing benefit grant claim by the deadline of 30 November 2015 set by the Department of Work and Pensions.
Audit fee	Our fee for 2014/15 was £84,438 excluding VAT which was in line with our planned fee for the year and was unchanged from the previous year. Further detail is included within appendix B.

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Trust audit	87,495	87,495
Housing benefit grant certification fee*	35,280	35,280
Total audit fees	**122,775**	**122,775**

* Our work on the Council's Housing Benefit Return is still in progress at the report date, in line with the national timetable. Any fee variation in respect of this work will be discussed and agreed with the Council should the need arise, and will be reported to the Committee at a later date if applicable.

Fees for other services

Service	Fees £
Audit related services	
• **Pooling of housing capital receipts**	2,000
Non-audit related services	Nil

Reports issued

Report	Date issued
Audit Plan	March 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015

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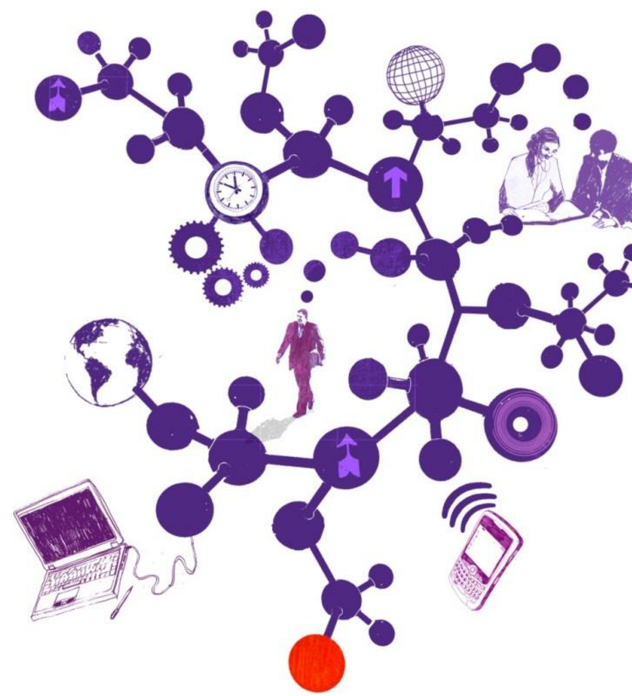
Thanet District Council
Progress report and emerging issues update

Year ended 31 March 2016

December 2015



Darren Wells
Engagement Lead
T 01293 554 120
E darren.j.wells@uk.gt.com

Terry Blackman
Engagement Manager
T 020 7728 3194
E terry.blackman@uk.gt.com

Bal Daffu
In Charge Auditor
T 020 7728 3427
E bal.s.daffu@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Contents

Introduction

This paper provides the Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (http://www.grant-thornton.co.uk/en/Services/Public-Sector/). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

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

Darren Wells	Engagement Lead	T 01293 554 120	M 07880 456 152	darren.j.wells@uk.gt.com
Terry Blackman	Audit Manager	T 020 7728 3194	M 07880 456 179	terry.blackman@uk.gt.com

Progress at December 2015

Work	Planned date	Complete?	Comments
2015-16 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.	March 2016	Not yet due	
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	Phase 1 – Planning and risk assessment: December 2015 Phase 2 – Early testing and VFM work: February – March 2016	Due to commence on 14 December Not yet due	Phase 1 of our interim audit will inform our Audit Plan to be presented to the Committee in March 2016. Phase 2 will focus on early testing to facilitate an earlier conclusion of the final accounts audit.
2015-16 final accounts audit Including: • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion.	August 2016	Not yet due	

Progress at December 2015

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2015/16 VfM conclusion has recently been subject to consultation from the National Audit Office. The consultation closed at the end of September, with finalised Auditor guidance expected in November 2015. The consultation document proposes that auditors consider whether a body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources with reference to the following criteria: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties. Once the finalised auditor guidance is available, we will carry out an initial risk assessment to determine our approach and report this in our audit plan.	Initial risk assessment: January 2016 Field work: February – March 2016 Final update and conclusion: August 2016	Not yet due	

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Emerging issues and developments

Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

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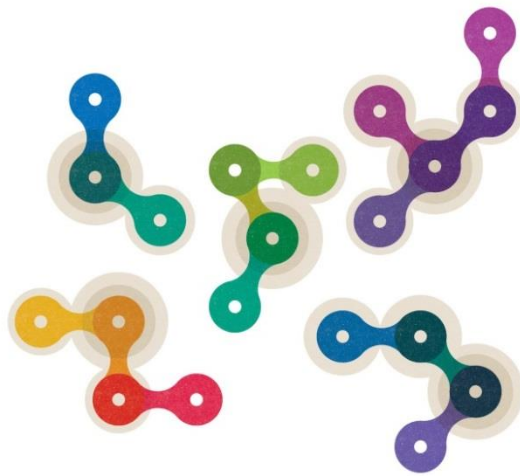


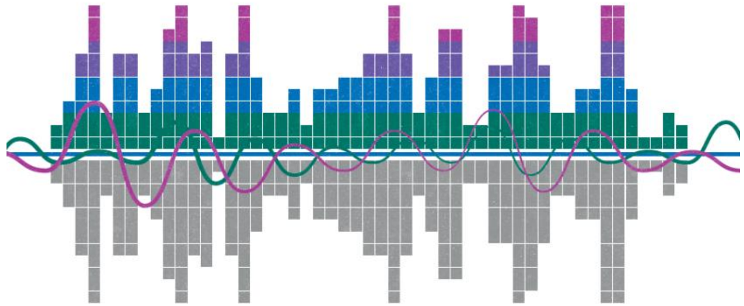
The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:
http://www.grantthornton.co.uk/en/insights/making-devolution-work/

Hard copies of our report are available from your Engagement Lead and Audit Manager.

Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.



The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.

Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

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At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website: http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf

Hard copies of our report are available from your Engagement Lead and Audit Manager.

Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton

This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at http://www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

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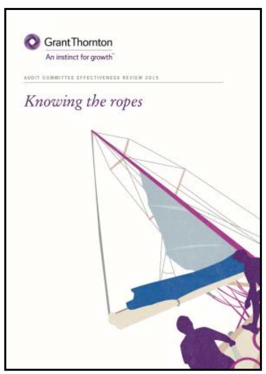
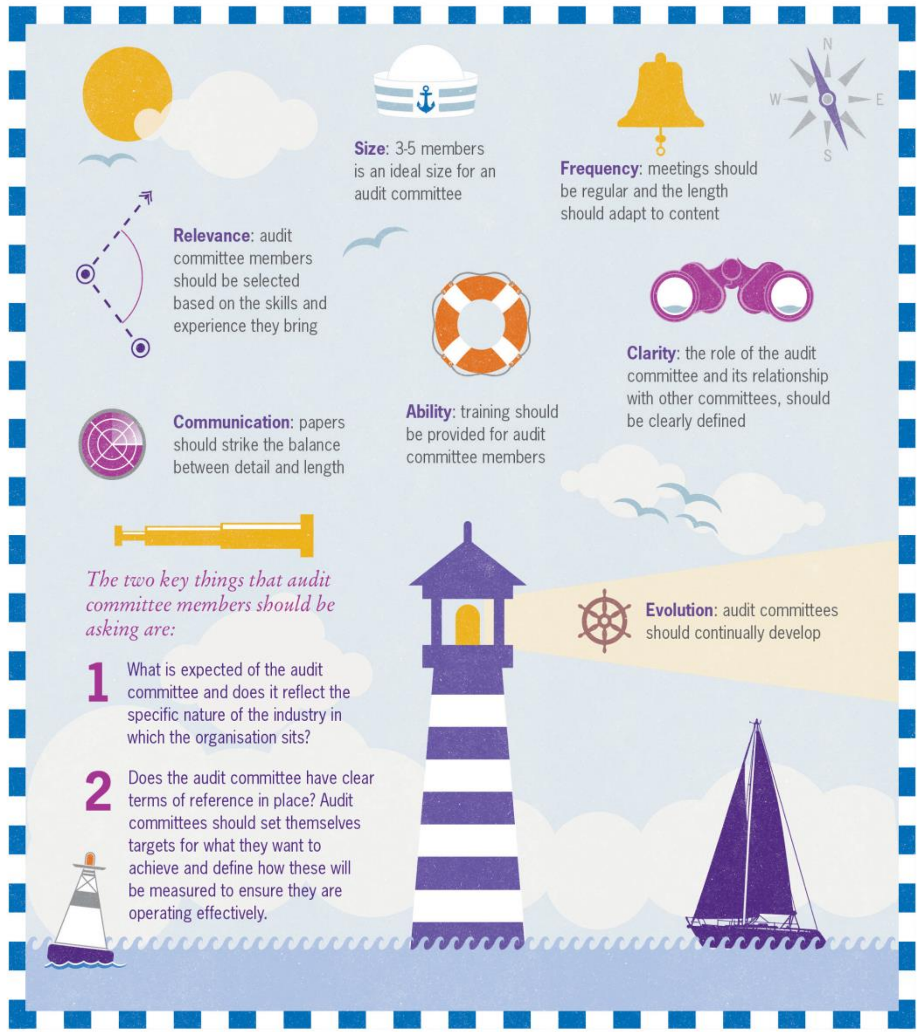
It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.





George Osborne sets out plans for local government to gain new powers and retain local taxes

Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEPs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

Challenge question

Have members:

- been briefed on the Chancellor's "devolution revolution" announcement and its likely impact on the Council?

Councils must deliver local plans for new homes by 2017

Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

Challenge question

Have members:

- been briefed on the government's new homes announcements and their likely impact on the Council?

Improving efficiency of council tax collection

Local government issues

DCLG have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax. The consultation is aimed specifically at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closes on 18 November.

The Government proposes to extend the data-sharing gateway which currently exists between HMRC and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor. The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.

Challenge question

Have members:

- been briefed on the government's council tax collection consultation and the Council's response to it?

Code of Audit Practice

National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which is due to be finalised in November 2015. The draft guidance includes the following.

- Definition of the nature of the opinion to be given – i.e. a "reasonable assurance" opinion as defined by ISAE 300 (revised)
- Definitions of what could constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

Grant Thornton submitted a response to the consultation which closed on 30 September 2015.

Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager.

Grant Thornton

INTERNAL AUDIT PROGRESS REPORT

To:	**Governance and Audit Committee: 9th December 2015**
By:	**Head of the Audit Partnership: Christine Parker**
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 2015.**

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 2015.

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 the relevant member of Senior Management Team, as well as the manager for the service reviewed.

2.2 Follow-up reviews are performed at an appropriate time, according to the priority of the recommendations, 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 Governance and 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 six internal audit assignments completed during the period, of which four concluded substantial assurance, and one concluded a split assurance which was only partially reasonable. There was one additional assignment undertaken for which an assurance opinion is not applicable as it comprised of quarterly benefit testing. Summaries of the report findings are detailed within Annex 1 to this report.

3.2 In addition, two follow-up reviews have been completed during the period.

3.3 For the six month period to 30th September 2015, 197.87 chargeable days were delivered against the planned target of 300 days which equates to 65% plan completion.

3.4 The financial performance of the EKAP is on target at the present time.

4.0 Options

4.1 That Members consider and note the internal audit update report.

4.2 That the changes to the agreed 2015-16 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 after 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 are being met from the Financial Services 2015-16 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 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 2015-16 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, Deputy Head of Audit, Ext 7190
	Tim Willis, Director of Corporate Services & s151 Officer, Ext. 7617

Annex List:

Annex 1	East Kent Audit Partnership Update Report – 09-12-2015

Background Papers:

Title	**Details of where to access copy**
Internal Audit Annual Plan 2015-16	Previously presented to and approved at the 17th March 2015 Governance and Audit Committee meeting
Internal Audit working papers	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 2015.

2.0 SUMMARY OF REPORTS

	Service / Topic	Assurance level
2.1	Food Safety	Substantial
2.2	Capital	Substantial
2.3	Bank Reconciliation	Substantial
2.4	Treasury Management	Substantial
2.5	EK Human Resources; Sickness Absence, Leave & Flexi	Reasonable/Limited
2.6	EKS – Quarterly Housing Benefit Testing (Quarter 1 of 2015-16)	Not Applicable

2.1 Food Safety – Substantial Assurance:

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and control established to reduce the incidence of food poisoning within the district through effective registration and inspection of all food businesses, investigation of food complaints, enforcement of the Food Safety and Hygiene Regulations (England) 2013 and associated legislation, provision of food hygiene training and offering advice and guidance.

2.1.2 Summary of Findings

In August 2011 a meeting was held with Food Standard Agency (FSA) officials and representatives from the Council regarding the Authority's ability to provide an effective food law enforcement service. As a result of this a FSA audit of the service took place and a report was published in November 2011 raising serious concerns.

The FSA's report raised a number of recommendations which have been reviewed periodically since that time. Extensive work has been carried out by the Authority to resolve the issues found and ensure that the service is now operating correctly. The final visit from the FSA was in February 2015 when they confirmed that they are happy with the work carried out by the Authority and no further action will be taken by them.

With the implementation of the Food Hygiene Rating Scheme in 2011, the Council signed an agreement with the FSA to implement the scheme and to follow the 'Brand Standard', under which food premises are rated from 0 to 5 for their food compliance with legal requirements. As a result of an inspection a rating is given and this is uploaded to the Food Standards Agency Website and published for the public to see.

The table below shows the ratings of food premises within the Thanet district. A significant amount of work is undertaken to work with the food business operators where the rating is low to assist them in improving their premise rating.

Premise Rating	August 2015	
0	1	0%
1	33	3%
2	20	1.5%
3	21	1.5%
4	159	13%
5	938	74%
Exempt	87	7%
Total no of premises	**1259**	

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- A procedural manual has been created to assist in all aspects of the food safety processes and this is regularly reviewed to ensure that it reflects current working practices and legislation.
- From the sample of worksheets reviewed during the audit comprehensive evidence and notes were found to be recorded on M3 to provide a clear trail of the action taken.
- Effective processes and controls have been implemented to ensure that all aspects of food safety are dealt with efficiently.

2.2 Capital – Substantial Assurance:

2.2.1 <u>Audit Scope</u>

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that there is an effective and efficient evaluation and approval procedure for capital projects and robust financial procedures to enable sufficient budgetary provision to be made available for their funding.

2.2.2 <u>Summary of Findings</u>

In February of each year the Council is required by statute to set out its budget and Council Tax levels for the forthcoming financial year.

At the same time, a Medium Term Financial Plan (MTFP) is approved by Full Council which provides indicative figures for a further four years. This provides a framework within which service decisions can be taken in the knowledge of their future affordability. Within the MTFP are details about the Capital Programme for the duration of the MTFP.

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- A properly approved Capital Strategy is in place linked to the MTFP of the organisation;
- Suitable procedures have been established to evaluate and approve capital projects;
- Capital budgets are regularly reported and monitored by Senior Management and elected Members;
- Where capital projects are to be funded from the capital receipts, calculations of sale proceeds take into consideration the current economic climate;
- Procedure notes have been established within Financial Services which document the processes to be followed in respect of Capital Applications and future monitoring, and these are reviewed on a regular basis.

Scope for improvement was however identified in the following area:

- Whilst it is understood that Project Post Implementation forms are completed and reviews are undertaken, no evidence could be provided of the reviews due to changes in ICT arrangements. Management are aware of this issue and working to address it for all future Post Implementation Reviews.

2.3 Bank Reconciliation – Substantial Assurance:

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the bank reconciliation is calculated correctly.

2.3.2 Summary of Findings

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- Procedures and working practices for the bank reconciliation process are well documented and subject to regular review;
- Suitable resources are in place to provide cover in the event of staff holidays or sickness.
- The receipts processed via income feeder systems are interfaced accurately to the cash receipting system;
- Receipts and payments clear the bank at the correct value;
- Cheque matching establishes the total of any un-presented cheques;
- Un-presented cheques are cancelled and removed from the bank reconciliation once they become 6 months old and the issuing department is made immediately aware of the expired cheque;
- Any differences on the bank reconciliation are identified and cleared within suitable timescales;
- The bank reconciliation is completed on a monthly basis; and

- Reconciliation statements are reviewed and agreed by a senior finance manager.

2.4 Treasury Management – Substantial Assurance:

2.4.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the various Treasury Management matters within the remit of the accountancy office are performed effectively & efficiently, in furtherance of the Council's Policies.

2.4.2 Summary of Findings

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

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

CIPFA defines treasury management as:

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

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

Investments:

- The organisation has a suitably approved Treasury Management policy document detailing its strategy regarding investment and borrowing.
- Investments and loans are only entered into by authorised officers and the details of such officers are held by the brokers/ counterparties. Adequate arrangements are also in place to provide cover for staff in times of sickness and holidays.
- All written investment instructions are authorised by two independent senior employees.
- Suitable processes are in place to ensure that the credit ratings of institutions in which the Council invests are monitored for changes on an ongoing basis.

- Investments are only to be made in institutions whose credit rating fulfils the requirements of the Treasury Management policy document.
- A cash flow statement is prepared daily and reviewed prior to making any investments.
- Investment thresholds in individual institutions are not exceeded.
- Documentary evidence is in place to support all investments and all telephone investments are confirmed in writing.
- All investment transactions are reviewed independently to ensure that they are bona fide and that the best rate available at the time is being received.
- The documents which support investments are held securely.
- Access and input to online investment systems is restricted to authorised personnel.
- The bank mandate is updated to reflect any changes to staff.
- Investment balances and interest received are regularly reconciled to ensure that the expected amounts are the same as the actual amounts received.
- There is adequate investment reporting procedures to ensure that investment performance is reported to Members at specific intervals.

<u>Loans:</u>

- All loan transactions are carried out in accordance with standing orders, financial regulations and the Prudential Code.
- An up-to-date borrowing policy (contained within the Treasury Management policy document) is maintained and its contents reviewed regularly and agreed by the *Director of Corporate Resources and s151 Officer.*
- There is a list of employees authorised to negotiate loans on behalf of the *Director of Corporate Resources and s151 Officer*.
- The loans register is reconciled regularly with control accounts on the financial information system.
- All loans raised and all loan repayments are made direct to and from the organisation's bank.
- All loan repayments are included on the cash flow forecast.
- The financial information system is updated promptly with all loans transactions.
- Periodic interest schedules are reconciled to the principal value of outstanding loans before payment is authorised.
- The calculation of repayment schedules is checked independently.

2.5 EK Human Resources; Sickness Absence, Leave & Flexi – Reasonable/Limited Assurance:

2.5.1 <u>Audit Scope</u>

To provide the three s.151 officers with assurance that staff absences are valid and authorised by management either in advance or in the case of sickness immediately after the event. To ensure that staff resources are adequately controlled and managed. Also to follow up on the previous audit report, which concluded Limited Assurance.

2.5.2 Summary of Findings

There is a Service Level Agreement (SLA) in place which sets out the scope and responsibly placed with EKHR. The SLA puts more responsibility with individual managers and division heads for recording Sickness, Annual Leave and Flexi. It is therefore important to understand that this particular audit spans EKHR and right across all levels of management at Dover, Canterbury and Thanet councils.

The primary findings giving rise to this split assurance opinion of Reasonable Assurance on the system of internal controls in operation for flexi recording, and Limited Assurance on the system of internal controls in operation for sickness recording and annual leave recording; are as follows:

Flexi-leave: Reasonable

- The three councils have adopted a common flexi leave policy and the records examined showed a marked improvement from the previous audit review in 2011. Where possible the councils could promote a more consistent approach to time management and time recording which could help reduce any further errors.

Sickness Absence and Annual Leave: Limited

- The obligations upon EKHR set out in the SLA differ from the obligations recorded within the Absence Management Policy and Guidance;
- The management responses from the previous audit report completed in 2011 which placed Limited Assurance on the controls in place have not made the necessary improvements required to revise the assurance level;
- There were a number of errors when reviewing the documentation in relation to sickness and annual leave samples tested;
- A lack of specific clarification over a number of key operational issues within the Absence Management Policy and the Guidance for Managers to help managers through the process;
- Errors in the calculation of some annual leave entitlements; Errors in an EKHR document used to calculate some of the annual leave entitlements, namely conversion of days to hours for certain employees within certain salary scales at Dover and Thanet;
- There are not enough controls within the Dover online sickness recording system to ensure errors are detected and corrected; however
- There were many pockets of effective control, good governance and sound practice.

Management Response:

This audit has been carried out in an environment which is planned for change. The key issues in relation to the audit are:

- The KCC iTrent system did not deliver self-service as expected to enable management view of staff sickness, or the alternative of manager level reports.
- The EKHR SLA is known to be out of date and a review/consultation has been on-going since December 2014, which recommendations presented at EKSB in July and final details being discussed at EKSB in September. The SLA will then be rewritten to align with the proposed changes in service this will give clarity and a re-establishment of roles for clients and customers.

The new East Kent People Payroll and HR service is being launched in Autumn 2015 this will give managers real time view of absence and sickness levels to support management.

Workforce Information meetings are held with each Leadership Team which focusses on management of absence (amongst other items) where focus is required, where HR wish to escalate for leadership support and discussion around individual issues and where there are concerns of a wider nature. These are held at least quarterly with CMT/SMT/MT's to support understanding and management of absence at a senior level within the authorities. (EKHR Head of EK Human Resources).

2.6 EK Services – Housing Benefit Quarterly Testing (Quarter 1 of 2015-16):

2.6.1 Background:

Over the course of 2015/16 financial year the East Kent Audit Partnership will be completing a sample check of Council Tax, Rent Allowance and Rent Rebate and Local Housing Allowance benefit claims.

2.6.2 Findings:

For the first quarter of 2015/16 financial year (April to June 2015) 40 claims including new and change of circumstances of each benefit type were selected by randomly selecting the various claims for verification.

A fail is categorised as an error that impacts on the benefit calculation. However, data quality errors are also shown but if they do not impact on the benefit calculation then for reporting purposes the claim will be recorded as a pass.

2.6.3 Audit Conclusion:

Forty benefit claims were checked and of these two (5%) had a financial error that impacted upon the benefit calculation, and in addition there were also two data quality errors

3.0. FOLLOW UP OF AUDIT REPORT ACTION PLANS:

3.1 As part of the period's work, two 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)	Car Parking Income and PCNs	Reasonable	Substantial	H M L	2 1 1	H M L	0 0 0
b)	EK Services – Council Tax	Substantial	Substantial	H M L	0 1 1	H M L	0 1 0

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 Members' of the Governance and Audit 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: External Funding Protocol, Business Continuity and Emergency Planning, Health & Safety at Work, Complaints Monitoring, Dog Warden and Street Scene Enforcement, Insurance and Inventories of Portable Assets, Mortgages, Housing Repairs and Maintenance, VAT, Employee Health and Safety, and Safeguarding Vulnerable Groups.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2015-16 internal audit plan was agreed by Members at the meeting of this Committee on 17th March 2015.

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 being investigated by the EKAP to bring to Members attention at the present time.

7.0 UNPLANNED WORK:

All unplanned work is summarised in the table contained at Appendix 3.

8.0 INTERNAL AUDIT PERFORMANCE

8.1 For the six month period to 30th September 2015, 197.87 chargeable days were delivered against the planned target of 300 days which equates to 66% plan completion.

8.2 The financial performance of the EKAP is on target at the present 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 2015-16 is attached as Appendix 5.

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 2015 against the agreed 2015-16 Audit Plan.
Appendix 4 EKAP Balanced Scorecard of Performance Indicators to 30th September 2015.
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.**
None to report this quarter		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED – APPENDIX 2			
Service	**Reported to Committee**	**Level of Assurance**	**Follow-up Action Due**
East Kent Housing – Tenant Health & Safety	September 2014	Split Assurance	Work-in-progress
East Kent Housing – Leasehold Services	March 2015	Limited	Work-in-progress
Refuse Freighter Vehicle Specification	June 2015	Limited	Work-in-progress
Garden Waste Collection Service	June 2015	Limited	Work-in-progress
Your Leisure	September 2015	Reasonable/No/No	Winter 2015-16
EK Human Resources; Sickness Absence, Leave & Flexi	December 2015	Reasonable/ Limited	Spring 2016

PROGRESS TO DATE AGAINST THE AGREED 2015-16 AUDIT PLAN – APPENDIX 3

THANET DISTRICT COUNCIL:

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2015	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	5	5	4.51	Finalised - Substantial
Treasury Management	5	5	3.46	Finalised - Substantial
Bank Reconciliation	5	5	5.38	Finalised - Substantial
External Funding Protocol	9	9	5.51	Work-in-Progress
VAT	10	10	0.17	Work-in-Progress
RESIDUAL HOUSING SERVICES:				
Housing Allocations	10	10	11.6	Finalised - Reasonable
GOVERNANCE RELATED:				
Review a sample of Corporate Risk control measures	20	0	0	Postpone until 2016-17 to allow new Risk Register to embed
Partnerships and Shared Service Monitoring	20	20	0	Quarter 4 – Brief issued
Project Management	10	0	0	Postpone until 2016-17 to accommodate finalisation of 2014-15 WIP
Corporate Advice/SMT	2	2	5.04	Work-in-progress throughout 2015-16
s.151 Officer Meetings and Support	9	9	7.1	Work-in-progress throughout 2015-16
Governance & Audit Committee Meetings and Report Preparation	12	12	8.74	Work-in-progress throughout 2015-16
2016-17 Audit Plan and Preparation Meetings	9	9	0	Quarter 4
CONTRACT RELATED:				
CSO Compliance	10	10	9.62	Finalised - Reasonable
SERVICE LEVEL:				
Safeguarding Vulnerable Groups	10	10	9.38	Work-in-Progress
2015 Post Election Review	10	10	12.58	Finalised
Food Safety	10	10	6.84	Finalised - Substantial
Health & Safety at Work	10	10	4.44	Work-in-Progress
Business Continuity and Emergency Planning	10	10	5.07	Work-in-Progress

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2015	Status and Assurance Level
Events Management	10	0	0	Postpone until 2016-17 to accommodate finalisation of 2014-15 WIP
Grounds Maintenance	10	10	0.17	Quarter 4 – Brief issued
Museums	10	10	0.17	Work-in-Progress
Commercial Properties and Concessions	10	10	12.34	Finalised – Reasonable/Limited
Planning	10	10	0.17	Quarter 4 – Brief issued
Visitor Information Arrangements	10	10	1.08	Work-in-Progress
Refuse Freighter Specification	7	7	5.73	Finalised – Limited
Street Cleansing	10	10	0.17	Quarter 4 – Brief issued
OTHER :				
Liaison With External Auditors	2	2	0	Work-in-progress throughout 2015-16
Follow-up Reviews	15	15	13.47	Work-in-progress throughout 2015-16
FINALISATION OF 2014-15 AUDITS:				
Days under delivered in 2014-15	0	4.64	0	Completed
Creditors	5	45	7.32	Finalised - Substantial
Dog Warden & Street Scene Enforcement			17.98	Finalised - Limited
Complaints Monitoring			11.39	Finalised - Limited
Insurance and Inventories of Portable Assets			1.42	Finalised - Reasonable
Garden Waste Service			0.95	Finalised – Limited
Your Leisure			12.88	Finalised – Reasonable/No/No
Dalby Square Heritage Grants			0.24	Quarter 4 of 2015-16
Car Parking and PCNs			0.30	Finalised – Reasonable
Equality and Diversity			0.88	Finalised - Limited
Absence Management			3.21	Finalised – Reasonable/Limited
Community Safety			4.36	Finalised - Substantial
EK HUMAN RESOURCES:				
Recruitment	5	5	0	Work-in-Progress
Payroll	5	5	0	Work-in-Progress

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2015	Status and Assurance Level
Employee Health & Safety	5	5	4.2	Work-in-Progress
TOTAL	**300**	**304.64**	**197.87**	**66% as at 30-09-2015**
ADDITIONAL WORK				
Royal Sands Deposit	0	2	2.08	Finalised
Interreg – PAC2	2	2	1.42	Finalised
HCA Grant	0	3	2.44	Finalised
Supplier Invoice Enquiry	0	7	6.36	Finalised
Payroll – Testing of New System	0	1	0.46	Work-in-Progress
Risk Management	50	50	12.92	Work-in-Progress throughout 2015-16

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2015	Status and Assurance Level
Planned Work:				
Audit Ctte/EA Liaison/Follow-up	6	6	7.75	Work-in-Progress throughout 2014-15
Repairs, Maintenance and Void Management	40	41.36	39.94	Work-in-Progress
Sheltered and Supported Housing	34	32.64	32.64	Finalised - Limited
Finalisation of 2014-15 Audits:				
CSO Compliance	0	0	5.53	Finalised – Reasonable Assurance
Days over delivered in 2014-15	0	-0.34	0	Completed
Total	**80**	**79.66**	**85.86**	**108% at 30-09-2015**
ADDITIONAL DAYS:				
Additional days purchased with EKAP saving from 2014-15	7.31	7.31	7.31	Utilised to Part fund the audit of repairs and maintenance

EK SERVICES:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2015	Status and Assurance Level
Planned Work:				
Housing Benefit Appeals	15	5	4.8	Finalised - Substantial
Housing Benefit Discretionary Housing Payments	15	8	7.9	Finalised – Substantial
Business Rate Reliefs	15	15	0.21	Quarter 4
Business Rate Credits	15	15	0.23	Quarter 4
Debtors	15	15	0.34	Quarter 4
ICT – PCI DSS	12	14	4.75	Quarter 3
ICT Management and Finance	12	13	0	Quarter 3
ICT Disaster Recovery	12	13	0.14	Quarter 4
Corporate/Committee/follow-up	9	12.21	6.06	Work-in-progress throughout 2015-16
Quarterly Housing Benefit Testing	40	40	21.21	Work-in-progress throughout 2015-16
Finalisation of 2014-15 audits:				

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2015	Status and Assurance Level
Finalisation of 2014-15 work-in-progress	0	0	1.48	Completed
Days over delivered in 2014-15	-9.79	0	0	Completed
Total	**150.21**	**150.21**	**47.12**	**31% as at 30-09-2015**

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APPENDIX 4

BALANCED SCORECARD – QUARTER 2

INTERNAL PROCESSES PERSPECTIVE:	**2015-16 Actual**	**Target**
	Quarter 2	
Chargeable as % of available days	91%	80%
Chargeable days as % of planned days		
CCC	70%	50%
DDC	28%	50%
SDC	54%	50%
TDC	66%	50%
EKS	31%	50%
EKH	108%	50%
Overall	54%	50%
Follow up/ Progress Reviews;		
• Issued	27	-
• Not yet due	38	-
• Now due for Follow Up	32	-
Compliance with the Public Sector Internal Audit Standards (PSIAS)	Partial	Full

FINANCIAL PERSPECTIVE:	**2015-16 Actual**	**Target**
Reported Annually		
• Cost per Audit Day	£	£321.33
• Direct Costs (Under EKAP management)	£	£412,450
• Indirect Costs (Recharges from Host)	£	£11,700
• 'Unplanned Income'	£	Zero
• Total EKAP cost	£	£424,150

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APPENDIX 4

BALANCED SCORECARD – QUARTER 2

CUSTOMER PERSPECTIVE:	**2015-16 Actual** **Quarter 2**	**Target**	**INNOVATION & LEARNING PERSPECTIVE:** **Quarter 1**	**2015-16 Actual**	**Target**
Number of Satisfaction Questionnaires Issued;	**41**		**Percentage of staff qualified to relevant technician level**	**88%**	**75%**
Number of completed questionnaires received back;	**9** **= 22%**		**Percentage of staff holding a relevant higher level qualification**	**43%**	**32%**
Percentage of Customers who felt that;			**Percentage of staff studying for a relevant professional qualification**	**25%**	**13%**
• **Interviews were conducted in a professional manner**	**100%**	**100%**	**Number of days technical training per FTE**	**0.96**	**3.5**
• **The audit report was 'Good' or better**	**100%**	**100%**			
• **That the audit was worthwhile.**	**100%**	**100%**	**Percentage of staff meeting formal CPD requirements**	**43%**	**32%**

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Appendix 5

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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THE ANNUAL GOVERNANCE STATEMENT 2014/15 ACTION PLAN

To: **Governance and Audit Committee - 9 December 2015**

By: **Director of Corporate Governance and Monitoring Officer**

Classification: **Unrestricted**

Summary: **To provide a progress report on the Annual Governance Statement 2014/15 action plan.**

For Information

1.0 Introduction and Background

1.1 This report provides Governance and Audit committee with an update on progress in implementing the Annual Governance statement 2014/15 action plan.

2.0 The Current Situation

2.1 For the period 2014/15, the Council prepared an Annual Governance Statement (AGS) which was agreed by the Governance and Audit Committee on the 24th September 2015.

2.2 Within the Annual Governance Statement 2014/15 areas of concern identified from the numerous assessments into our governance arrangements were detailed as 'Significant Governance Issues'.

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 as appendix 1 for Members' information.

3.0 Options

3.1 That Members note the content of annex 1, the Annual Governance Statement 2014/15 action plan and identify any issues where they require more clarification.

4.0 Corporate Implications

4.1 Financial and VAT

4.1.1 There are no financial issues 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 equalities issues arising directly from this report.

5.0 Recommendation

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

6.0 Decision Making Process

6.1 This is a matter for Governance and Audit Committee.

Contact Officer:	Tim Howes, Director of Corporate Governance and Monitoring Officer
Reporting to:	Madeline Homer, Chief Executive

Annex List

Annex 1	The Annual Governance Statement 2014/15 Action Plan

Corporate Consultation Undertaken

Finance	Nicola Walker, Head of Financial Services
Legal	Tim Howes, Director of Corporate Governance and Monitoring Officer

AGS Significant Issue 2014/2015	Suggested Action Heading & (Owner)	Task List	Progress November 2015
The council's reputation is of critical importance Thanet District Council has suffered in terms of its reputation. Sustained and rapid improvement in this area is critically important. Rebuilding our reputation is the most important challenge we face.	Member Development (Director of Corporate Governance)	• Member development workshops • Community Leadership Training (LGA) • Group Discipline Training • Social Media Training • Benchmark approach to Member development • Visits to other Councils focussed on specific activities • Peer support for Cabinet members	• On-going • Completed • Values/Behaviours workshops completed • Completed • Completed • In discussion via LGA • Offered to Cab Members
	Reputation (Chief Executive and Director of Corporate Resources)	• Develop measures to track changes in reputation • Consider alternative survey approaches • Conduct resident's survey (twice-yearly) • Conduct staff survey • Review media coverage	• On-going • On-going • On-going - 2 LGA surveys carried out and Annual Budget survey underway • December 2015 • On-going – monthly and quarterly media reports
Clarify what we want to achieve and how we are going to do it and then put the appropriate resources in place Work is required to prioritise within our plans and be clear about the few top priorities which need to be achieved. Once we have clarified our top priorities, we need to think about how the organisation will need to change in the future in order to deliver them. We need to communicate your top priorities clearly, consistently and repeatedly.	Review Priorities (Chief Executive)	• Cabinet agree draft priorities • Consultation on priorities with Members, Stakeholders, Staff • O & S consider revised priorities • Council approve new priorities • Communicate priorities	• Completed • Completed • Completed • Completed • On-going
	Project Management (Director of Corporate Resources)	• Review Consultants recommendations on PM • Implement standard project approach • Build PM cadre • Train staff on PM • Create new governance arrangements for PM	• Completed • Jan 2016 • Feb 2016 • Feb 2016 • Feb 2016

AGS Significant Issue 2014/2015	Suggested Action Heading & (Owner)	Task List	Progress November 2015
	ICT arrangements (Director of Corporate Resources)	• Adopt digitalisation strategy • New telephony system • Establish 'intelligent client' • Revised SLA • Rationalise asset base based on consultant recommendations	• June 2016 • June 2016 • June 2016 • June 2016 • Creating brief for consultant (on-going)
Work to improve trust, respect and visibility Develop ways in which political leaders and political groups work together formally and informally. Careful preparation, communication and consultation can often help to navigate through difficult decisions. Building trust and relationships is the key, and senior officers play a key role in this, supporting politicians so that their leadership and their administration can be effective.	(Chief Executive, Director of Corporate Governance)	• Revise Member/Officer protocol • Council adopts Member/Officer protocol • Train Members/Officers in new protocol • Review Dem Services to provide focussed support to councillors • Deliver major decisions effectively	• Completed • Feb 2016 • Post-Feb 2016 • Structure agreed new roles in evaluation • This will be assessed during the year
Develop and then implement our understanding of appropriate member and officer roles in a strong organisation We need to develop our understanding about the way in which leading politicians and senior managers can work effectively together.	Director of Corporate Governance	• Draft Revised Constitution • Review levels of delegation and empowerment • Train in scheme of delegation & roles/responsibilities • Incorporate revised sanctions • Engage with Group Leaders	• On-going ready Feb 2016 • On-going • Post Feb 2016 • Completed • Feb 16

AGS Significant Issue 2014/2015	Suggested Action Heading & (Owner)	Task List	Progress November 2015
There is a lack of clarity about the boundaries between political and managerial responsibilities. Our ambitious agenda will be supported by strengthening the top management team. We have critical vacancies to fill and a restructure to complete. We need to consider ways in which to empower and delegate more decisions to staff and add to our workforce development strategy.	Workforce Development strategy (Director of Corporate Resources)	• Appoint Dir Corp Gov; Dir Cty Svcs; Head of Fin Srvcs; Head of Op Srvcs; Head of Legal Srvcs • Reorganisations following appointments • Review ED team in light of new priorities • Develop vision for future workforce • Collect workforce data • Define workforce gap • Define workforce plan	• All appointed except Head of Financial Services • On-going • Subject to new Director • Feb 2016 • Feb 2016 • Feb 2016 • Feb 2016
Clear messages – well communicated We have many strengths in the council in which we should take pride and which could take centre stage if our reputation improved. Above all, we need to take time to communicate and celebrate the council's achievements, this is important to the staff who make things happen	(Chief Executive, Director of Corporate Resources)	• Restructure Communications team • Draft revised communications strategy • Define key stakeholders • Consult with staff and key stakeholders • Develop stakeholder engagement plan • New Staff newsletter	• Completed • Following appointment of Head of Communications • Completed • On-going-staff/key stakeholders engagement completed on new Corporate Plan • On-going • Completed
Information Governance	Refresh TDC Approach to Information Governance (Dir. Of Corporate Governance)	• Raise profile of Information Governance • Secure appropriate resources • Review Policies and Procedures • Create action plan • Secure appropriate training including e-learning • Update policies • Learn from other authorities • Use induction training	• Yet to start • Yet to start • On-going • Yet to start • Yet to start • On-going • Working with CIGG • On-going

AGS Significant Issue 2014/2015	Suggested Action Heading & (Owner)	Task List	Progress November 2015
Equalities and Diversity and our delivery of the public sector equality duty	(Director of Corporate Governance)	• Review policies • CMT appoint equality and diversity champion • Refresh section champions • Report to CMT on compliance with PSED and action plan • Obtain data on discrimination complaints and publish with equality data • Publish EIA's where appropriate • Ensure publication of all required data annually • Agree training plan including e-learning • Use surveys and the collected data • Use induction training • Review Information and Service delivery strategy	• Underway • Completed • tbc • tbc • tbc • tbc • tbc • tbc • tbc • tbc • tbc
Workplace Risk Assessments	All Service Heads	• Raise with Managers at Forum and ensure report back on progress • Encourage training including e-training • Report on progress	• Via e-learning on TOM • Monitored by CMT • Monitored by CMT
Review the delivery of the staff induction process	(Director of Corporate Resources)	• Look at corporate programme for shared learning • Include Information Management and Equalities/Diversity	• tbc • March 16
Staff exceeding contracted hours	All Service Heads	• Raise with Manager's at forum • Report from EKS	• On-going • tbc

Review of Corporate Approach to Risk Management

To:	**Governance and Audit Committee – 9 December 2015**
Main Portfolio Area:	**Corporate Resources**
By:	**Director of Corporate Resources and s.151 officer**
Classification:	**Unrestricted**
Ward:	**Not Applicable**

Summary: **The report asks Governance and Audit Committee to consider the updated Risk Management Strategy and Process documents**

<u>For Information</u>

1.0 Introduction and Background

1.1 Risk Management is a fundamental element of the Council's arrangements for ensuring goals are achieved and opportunities are taken up. To this end the Council has established its Risk Management Strategy and assigned responsibility to councillors and officers to ensure that the Council uses its resources effectively, and establishes a process to ensure all that can be reasonably done, is done, to mitigate risk. The strategy and process are reviewed regularly and are presented for adoption for the next three years, with a provision that they be revised sooner if required.

2.0 The Current Situation

2.1 The Risk Management Strategy has been reviewed and some changes have been recommended. These changes are relatively minor and are generally to reflect changes to the way the Council manages risk, following the update of the Corporate Risk Register.

2.2 Similarly some changes have been recommended to the Process documents. The recommended changes are shown as tracked changes in the documents

- Risk Management Strategy, version 12 at **Annex 1**, and
- Risk Management Process, version 9 at **Annex 2**.

2.3 The Council is in the process of refreshing its Corporate Risk Register against the freshly adopted Corporate Plan. It is intended to present the Corporate Risk Register to this committee at the next meeting, 15 March 2016.

3.0 Options

3.1 That Members note and approve the changes to the Risk Management Strategy (Annex 1) and Process (Annex 2).
3.2 That Members make any further recommended changes to the Risk Management Strategy and Process documents.

4.0 Next Steps

4.1 Subject to approval, the Risk Management Strategy and Process documents will continue to be reviewed regularly and brought to this committee every three years for approval. The Corporate Risk Register will be presented quarterly to this committee for noting. Cabinet will receive an annual report setting out the previous year's risk issues and future year's major risks; Cabinet can, of course, at any time request an update in respect of a specific risk or corporate risks.

5.0 Corporate Implications

5.1 **Financial and VAT**

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

5.2 **Legal**

5.2.1 Local Authorities must be able to demonstrate compliance with the statutory principles of good governance. Local government operates in an ever changing environment with increasing complexity. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with internal control and the management of risk.

5.3 **Corporate**

5.3.1 The documents covered within this report contribute to the council's governance arrangements that lead to good management, good performance and good financial controls and enable us to engage with the public and ultimately demonstrate good outcomes for our community.

5.4 **Equity and Equalities**

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

6.0 Recommendation(s)

6.1 **That Members approve the changes to the Risk Management Process and Strategy documents for the next three years with a provision that they be revised sooner if required.**

7.0 Decision Making Process

7.1 This recommendation does not involve the making of a key decision and may be taken by the Governance and Audit Committee.

Future Meeting if applicable:	Date:
Cabinet- Risk Management Strategy	November 2015

Contact Officer:	Christine Parker, Head of Audit Partnership DDI 01843 577189
Reporting to:	Tim Willis, Director of Corporate Resources and s.151 Officer DDI 01843 577617

Annex List

Annex 1	Risk Management Strategy (Version 12)
Annex 2	Risk Management Process (Version 9)

Background Papers

Title	**Details of where to access copy**
Risk Management Strategy	*Intranet*

Corporate Consultation Undertaken

Finance	Tim Willis, Director of Corporate Resources and s.151 Officer
Legal	Tim Howes, Director of Corporate Governance and Monitoring Officer

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Risk Management Strategy

Version 12~~1~~

December ~~November~~ 2015~~4~~

Contents

Foreword

Risk management is an important aspect of all our lives. We are exposed to risk both in terms of **threats** to service provision and from the potential of **lost opportunities**. It is essential that the council can demonstrate to our citizens that it is fully considering the implications of risk as we deliver our business for the benefit of the residents of our community.

The council introduced its first Strategy for addressing risk management in November 2004. Since then, steady progress has been made in embedding risk management throughout the council, and risk management is now an integral part of our service planning process and project management toolkit.

Ultimately, **effective risk management** will help to ensure that the council **maximises its opportunities**, and **minimises the risks it faces**, thereby improving our ability to **deliver our priorities and improve outcomes**.

Councillor Crow-Brown~~Elizabeth Green~~
Cabinet Portfolio Holder
Member Risk Management Champion

Madeline Homer
~~Acting~~ Chief Executive
Officer Risk Management Champion

Statement of Commitment

Thanet District Council is committed to adopting best practice in the identification, evaluation and cost effective control of risks to ensure that they are reduced to an acceptable level or eliminated, and also maximise opportunities to achieve the council's objectives and deliver core service provisions. It is acknowledged that some risks will always exist and will never be eliminated.

All employees must understand the nature of the risk and accept responsibility for risks associated with their area of work. In doing this they will receive the necessary support, assistance and commitment from senior management and members.

The council's risk management objectives are a long term commitment and an inherent part of good management and governance practices. The objectives need the full support of members and active participation of managers.

The council, as a corporate body, is bound by legal obligations to provide for the health and safety of its members, employees and those that it serves. The council is also obliged to protect its material assets and to minimise its losses and liabilities.

Definitions

Governance

Governance is the system by which local authorities fulfil their purpose and achieve their intended outcomes for citizens and service users and operate in an effective, efficient, economic and ethical manner. Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users.

Ensuring that the right thing, is done in the right way, for the right people, in an open, honest and timely manner.

Risk

Risk is the chance or possibility of loss, damage, injury or failure to achieve objectives caused by an unwanted or uncertain action or event. Risk management is the planned and systematic approach to the identification, evaluation and control of risk. The objective of risk management is to secure the assets and reputation of the organisation and to ensure the continued financial and organisational well-being of the council.

Risk is the **chance** of something happening that will have an **impact** on the **council's business** or **objectives**.

Risk Management

Good risk management is about identifying what might go wrong, what the consequences might be of something going wrong and finally, deciding what can be done to reduce the possibility of something going wrong. If it does go wrong, as some things inevitably will, making sure that the impact is kept to a minimum.

Risk management should ensure that an organisation makes cost effective use of a risk framework that has a series of well-defined steps. The aim is to support better decision making through a good understanding of risks and their likely impact.

Risk management should be a continuous and developing process which runs throughout the organisation's strategy and the implementation of that strategy, methodically addressing all risks surrounding the council's activities past, present and future.

The process of identifying and managing risk is to increase the probability of success and reduce the opportunity of failure.

Our Objectives

Thanet District Council is committed to establishing and maintaining a systematic approach to the identification and management of risk.

The council's risk management objectives are to:

- Ensure that risk management is clearly and consistently integrated and evidenced in the culture of the council.
- Manage risk in accordance with best practice.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Consider compliance with health and safety, insurance and legal requirements as a minimum standard.
- Prevent death, injury, damage and losses, and reduce the cost of risk.
- Inform policy and operational decisions by identifying risks and their likely impact.
- Raise awareness of the need for risk management by all those connected with the council's delivery of service.

These objectives will be achieved by:

- Clearly defining the roles, responsibilities and reporting lines within the council for risk management.
- Including risk management issues when writing reports and considering decisions.
- Continuing to demonstrate the application of risk management principles in the activities of the council, its employees and members.
- Reinforcing the importance of effective risk management as part of the everyday work of employees and members.
- Maintaining a register of risks~~ linked to the council's corporate risks linked to working in partnership~~.

- Maintaining documented procedures of the control of risk and provision of suitable information, training and supervision.
- Maintaining an appropriate system for recording health and safety incidents and identifying preventative measures against recurrence.
- Preparing contingency plans to secure business continuity where there is a potential for an event to have a major impact upon the council's ability to function.
- ~~Maintaining regular performance management of risk.~~

Our Approach

It is essential that a single risk management approach be utilised at all levels throughout the council. The council will consider and record operational risks with the service plans, and project risks within project plans. If an operational risk or project risk becomes significant enough it will be escalated via the line manager, Head of Service and Director to CMT for inclusion on the Corporate Risk Register until such time that management action is able to reduce the risk score to a desirable level. By effectively managing our risks and opportunities, which is all part of good governance, we will be in a stronger position to deliver our objectives, provide improved services to the public, work better as a partner with other organisations and achieve value for money. This approach to risk management will inform the council's business processes, including:-

- Strategic planning
- Financial planning
- Service planning
- Policy making and review
- Performance management
- Project management
- Partnership working

For those with responsibility for achieving objectives, there is also responsibility ~~also lies~~ for identifying and assessing risks and opportunities; developing and implementing controls and warning mechanisms; and reviewing and reporting on progress. The identified risks and relevant control measures will be managed through the council's performance management system.

Some objectives could be reliant upon external groups that the council may work with, such as other organisations, partners, contractors etc. This partnership working could affect the achievement of an objective and therefore the risk management process has been incorporated into the way the council works within these partnerships.

The management of risk will become an integral part of corporate policy decisions and the initiation of major projects, which will include a statement on risk to help inform the decision making process.

This will assist members and officers to ensure that new risks are detected and managed, by providing more detail on the process for managing risk, where each stage builds upon the other and provides basic practical guidance on how to identify, assess and treat risks, and monitor their progress. To assist with this approach to risk management and to ensure consistency across the council, a guidance document on the risk management process has been prepared, which will be reviewed ~~on an annual basis~~ regularly and reported to the Governance and Audit Committee for approval and adoption.

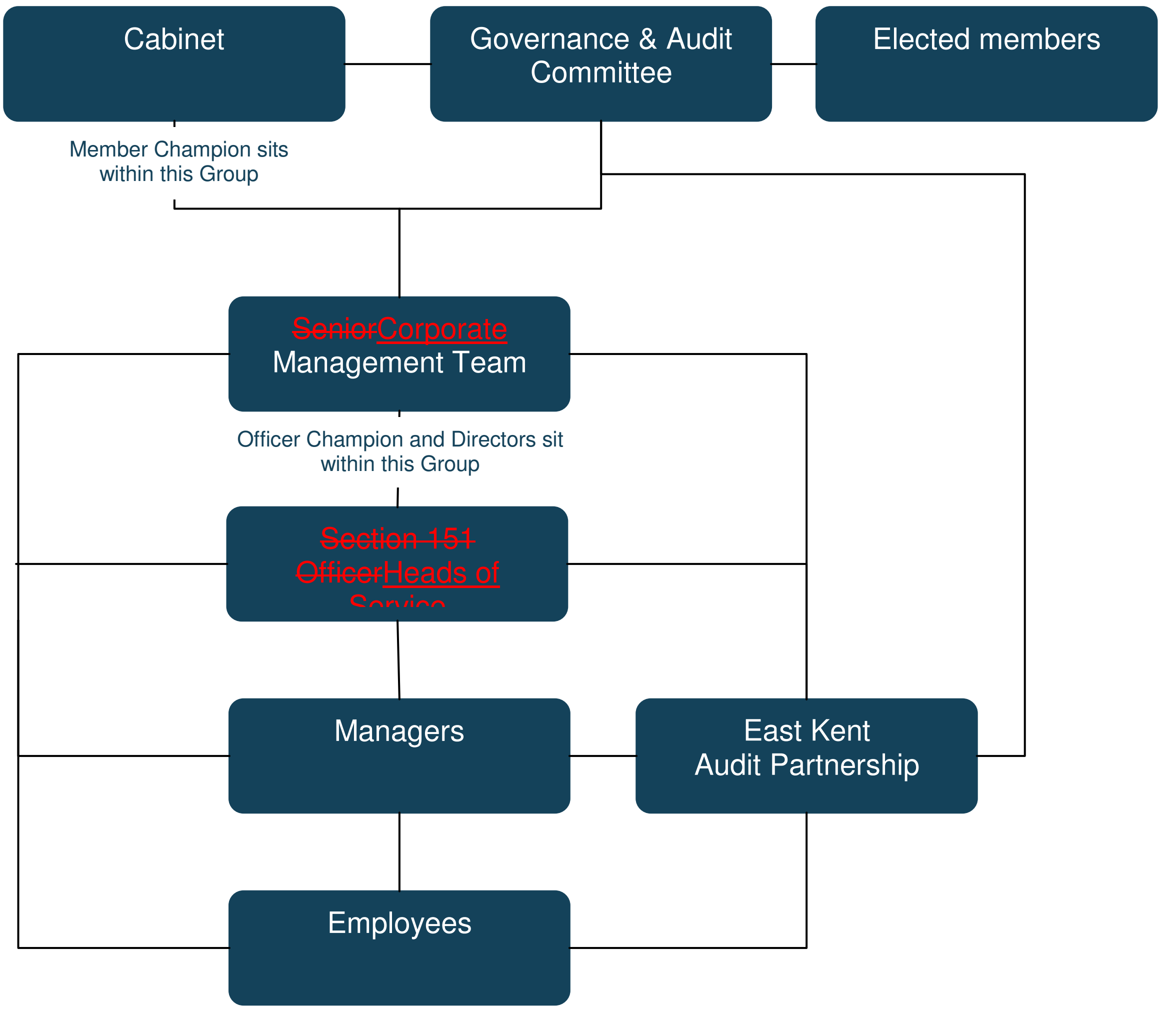
~~The Benefits~~

Removed diagram

Roles and Responsibilities

Responsibility for risk management should run throughout the council. Clear identification of roles and responsibilities will ensure the successful adoption of risk management and demonstrate that it is embedded in the culture of the council.

Everyone has a role to play in the risk management process.



GROUP OR INDIVIDUAL	ROLE
Member Risk Management Champion	To understand the importance of risk management in all that the council does and to champion the cause of risk management.
Cabinet	Oversee the effective management of risk throughout the council, and gain an understanding of its benefits, ensuring officers develop and implement an all encompassing approach to risk management.
Elected Members	Gain an understanding and promote risk management and its benefits throughout the council.
Governance and Audit Committee	Provide independent assurance of the risk management framework and associated control environment, independent scrutiny of the council'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. As stated in *Audit Committees: Practical Guidance for Local Authorities,* produced by CIPFA.
Corporate~~Senior~~ Management Team	Gain an understanding and promote the risk management process and its benefits, oversee the implementation of the risk management strategy and agree any inputs and resources required to support~~ing the work corporately~~ the strategy. Support the development of the risk management process, share experience on risk, and ~~aid /~~ advise o~~i~~n the review of risk management issues. Identify areas of overlapping risk and share good practice on all aspects of risk management.
Officer Risk Management Champion	Champion the risk management process throughout the council with both members and officers, ensuring the process is embedded and effective.
Section 151 Officer	Ensure that the risk management processes are considered as specified in the Finance Procedure Rules.
Directors	Ensure that the risk management process is promoted, managed and implemented effectively in their service areas within the organisation. Liaising with external agencies to identify and manage risk. Disseminating relevant information to service managers and employees. Escalate any significant risks appropriately to CMT.
~~Managers~~ Heads of Service and Project Managers	Raise awareness, manage and implement the risk management process effectively in their service areas, recommending any necessary training for employees on risk management. Incorporating risk ownership through the appraisal scheme with employees and share relevant information with colleagues in other service areas. Escalate any significant risks appropriately to the Director.

GROUP OR INDIVIDUAL	ROLE
Employees	Manage risk effectively in their jobs, liaising with their manager to assess areas of risk in their job. Identify new or changing risks in their job and feed these back to their line manager. Keep up to date with e-learning tools.
East Kent Audit Partnership	Challenge the risk management process, including the identification and evaluation of risk and provide assurance to officers and members on the effectiveness of controls.

Links to Governance issues

Internal Control

Controls

Ensure that the processes and procedures operate in an orderly and efficient manner, statutory and management requirements are complied with, assets are safeguarded, completeness and accuracy of records are secured and identifies and corrects when something has gone wrong.

Systems of internal control

A term to describe the totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Control environment

The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- establishing and monitoring the achievement of the organisation's objectives;
- the facilitation of decisions that ensure~~ing~~ compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how ~~leadership is given to~~ the risk management process is led, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- ensuring the economic, effective and efficient use of resources and ensuring continuous improvement in the way in which its functions are exercised~~, having regard to a combination of economy, efficiency and effectiveness~~;
- the financial management of the organisation and the reporting of financial management;
- the performance management of the organisation and the reporting of performance management.

Managers will be responsible for ensuring that proper controls are in place to ensure that resources are used appropriately, to provide value for money and to deliver~~y of~~ the council's objectives. The controls will be reported through the Annual Governance Statement, to ensure that the systems and services they are responsible for deliver consistent, predictable, effective results in or to meet service or corporate objectives.

An audit process exists which independently monitors the controls and procedures across the council to enhance value for money, ensure systems' reliance, minimise risk and act upon suspicion of fraud or corruption. External Audit relies on the audit processes in place in formulating their opinion of the council's control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives.

Performance Monitoring

Performance monitoring of risk management activity will ensure that the treatment of risk remains effective and the benefits of implementing risk control measures outweigh the costs of doing so. Performance monitoring is a continuous~~al~~ review not only of the whole process, but also of individual risks or projects and of the benefits gained from implementing risk control measures. The section regarding the communications process includes reporting, which aids the achievement of performance monitoring.

Project Management

Ensuring that we are capable of delivering major and complex projects across many of our services is key to achieving the council's objectives. Achievement of these projects is only possible because good managers take the time to plan, organise and manage their projects well. A project management toolkit has been established for the council, which draws on many areas of good practice that already exist across the council and provides a practical reference point for managers and staff embarking on projects. This tool includes provision for undertaking and continually reviewing the risk management process throughout the life of the project.

Data Quality

The council needs to ensure that the data we use for performance monitoring and to inform decision making is accurate, reliable and fit for purpose. If the information is misleading, decision making may be flawed, resources may be wasted, poor services may not be improved and policy may be ill-founded. These could represent significant risks to the council. There is also a danger that good performance may not be recognised and rewarded. The council has a Data Quality framework which sets out the measures in place to ensure that data is fit for purpose.

Anti-Fraud and Corruption

The council has an anti-fraud and corruption framework, which will direct the council towards ensuring a professional and ethical approach to combating fraud. The council has adopted a strategic approach in order to minimise the risk of losses through fraud and corruption.

To further ensure a comprehensive approach to tackling fraud and corruption, it is paramount that the full range of action is taken, integrating all the different strands. The council recognises that this is an ongoing process, with each element building and feeding back to others in a continuous improvement cycle.

Whistleblowing

Thanet District Council is committed to the highest possible standards of propriety and accountability in the conduct of its activities for the community. Employees are often the first to realise that something wrong may be happening within the council. The Whistleblowing Code is intended to help employees who have concerns over any potential wrong-doing within the council.

Anti Bribery

The council is committed to the prevention, deterrence and detection of bribery. We have zero-tolerance towards bribery. We aim to maintain anti bribery compliance 'business as usual', rather than as a one off exercise.

Money Laundering

The council's policy is to do all that it can to prevent, wherever possible, the organisation and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

Business Continuity

The business continuity process is essentially risk management applied to the whole organisation and its ability to continue with its service provision in the event of a catastrophic event. The council must ensure risk management processes are applied throughout the business continuity lifecycle.

Reporting

The structure for reporting risk management effectively is as follows:-

Timeframe	Description	Involvement from
Quarterly June September December March	Risk Register reports to Governance & Audit Committee with responsibility for risk management	Member Risk Management Champion Governance & Audit Committee
Annually	Annual review of corporate risk	Governance & Audit Committee Cabinet
~~**Annually**~~**Every Three Years**	Review of the risk management strategy and process document to	Governance & Audit Committee Cabinet

September	identify and agree major changes	
Ad hoc	Risk / Opportunity reviews	Risk / Control measure owners

Document History

Version	Date	Agreed by	Minute ref
V1 to 8		Available on Request	
V9	23 August 2012 25 September 2012 8 November 2012	Senior Management Team Governance and Audit Committee Cabinet	2. 251. 28
V10	21 November 2013 11 December 2013 21 January 2014	Managers Forum Governance and Audit Committee Cabinet	N/A 324. 128.
V11	24 September 2014	Governance and Audit Committee	377
V12	09 December 2015	Governance and Audit Committee	

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Risk Management Process

Version 9~~8~~
December~~September~~ 2015~~4~~

Contents

1. Introduction

Risk management is both a statutory requirement and an indispensable element of good management. As such, its implementation is crucial to the council and essential to its ability to discharge its various functions.

This risk management process has been designed to support members and officers in ensuring that the council is able to fully discharge its risk management responsibilities in a consistent manner. The Risk Management Strategy outlines the objectives, benefits and approach to the process to ensure that risks, both positive and negative, are successfully managed.

Risk management in Thanet District Council is about improving our ability to deliver outcomes for the community by managing our threats, enhancing our opportunities and creating an environment that adds value to ongoing activities.

Risk management is a key part of corporate governance. Corporate governance is the way an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. Good risk management will help identify and deal with key corporate risks facing the organisation in the pursuit of its goals and is a key part of good management, not simply a compliance exercise.

To help with the process, this guidance document describes a simple methodology working through the following questions:

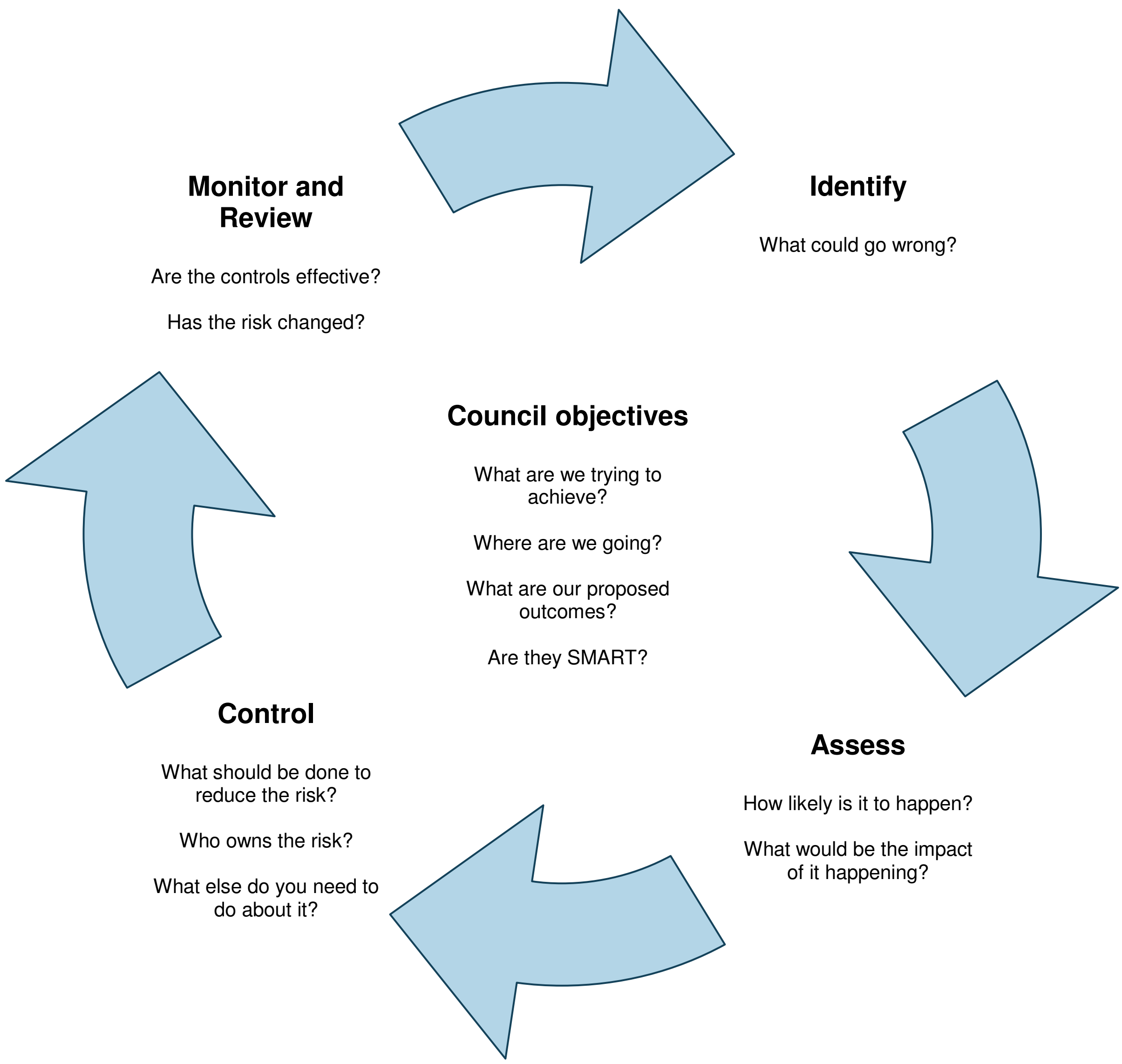
- Are your objectives SMART?
  - **S**pecific
  - **M**easurable
  - **A**chievable
  - **R**ealistic
  - **T**ime bound
- What could go wrong?
- How likely is it to happen?
- What would be the impact of it happening?
- What should be done to reduce the risk?
- Who owns the risk?
- What else do you need to do about it?

2. Risk Management Process

The starting point for risk management is a clear understanding of what the organisation is trying to achieve. Risk management is about managing the threats that may hinder delivery of our priorities and core service provisions, and maximising the opportunities that will help to deliver them. Therefore, effective risk management should be clearly aligned to the following processes:

- Strategic planning
- Financial planning
- Policy making and review
- Performance management
- Project management
- Partnership working

and should take into account the environment within which the council operates.



2.1 Identify

Identify the potential risks or opportunities that may arise. Where taking risks that may benefit the organisation, managing these opportunities increases the chance of success and reduces the possibility of failure. By managing our opportunities well, we will be in a better position to provide improved services and better value for money. Opportunities may also be referred to as outcomes or benefits, particularly when planning projects.

It may help to use the following structure to describe risks and opportunities "If …. then ….".

For example:

"If we do not review and manage our budget, then there is a risk that we will overspend."

"If the implementation of the new system is achieved according to the action plan, then the overall process will be more effective."

Risks will be considered under the following headings:

- **Corporate -** those which could impact across the whole council including those relating to partnerships. These should be assessed by the Corporate~~Senior~~ Management Team and the Member Risk Management Champion and then reported to the Governance and Audit Committee on a regular basis.

- **Service -** those resulting from the council's activities focusing on risks arising from the people, systems and processes through which we operate. These are considered within the council's service plans. In some instances operational risks may escalate to become corporate.

- **Project ~~risks~~ -** those risks associated with achieving a project within the required time, costs and resources, regardless of its size. Risks and opportunities associated with the project must be clearly identified and managed. (Further information can be obtained from the Project Management Toolkit).

Each risk needs to be allocated an owner who will be responsible for and lead on the management of that risk, taking forward any required action to minimise the risk.

2.2 Assess

Having identified the risks, it is then necessary to assess which are going to pose the greatest threat or opportunity, by looking at both the **probability** of the risk occurring and the **impact** that might result, producing the overall **risk rating**. These scores are not intended to provide precise measurements of risk but to provide a useful basis for identifying vulnerabilities or opportunities, ensuring that any necessary actions are undertaken.

Developing a standard methodology to score risks is intended to help ensure consistent, meaningful scores that can be used to assess risks.

The risk rating needs to be regularly reviewed to check that existing controls are effective and to assess any changes should new controls be established and the score should be amended to reflect this.

Table 1 - Probability

Rating	Score	
Very likely	4	• More than a 75% chance of occurrence. • Regular occurrence. • Circumstances frequently encountered.
Likely	3	• 41% - 75% chance of occurrence. • Likely to happen at some point in the next 3 years. • Circumstances occasionally encountered.
Unlikely	2	• 10% - 40% chance of occurrence. • Only likely to happen once every 3 or more years. • Circumstances rarely encountered.
Remote	1	• Less than a 10% chance of occurrence. • Has never happened before. • Circumstance never encountered.

Table 2 - Impact

Rating	Score	
Major	4	• Major loss of service for more than 5 days. • One or more fatalities. • Major financial variation of more than £300k. • Major national news item. • Major impact on time / costs / resources. • Affect the whole council.
Serious	3	• Loss of service for 3 to 5 days. • Major injury to an individual / several people. • Financial variation between £150k and £300k. • Major local news / professional press item. • Serious impact on time / costs / resources. • Affect many service areas of the council.
Significant	2	• Loss of service for 2 to 3 days. • Severe injury to an individual / several people. • Financial variation of £50k to £150k. • Local news / minor professional press items. • Controllable impact on time / costs / resources. • Affect 1 or few service areas of the council.
Minor	1	• Brief disruption to service for less than 1 day. • Minor injury to an individual. • Financial variation of less than £50k. • Minimal news / press impact. • Minimal impact on time / costs / resources. • Affect Project Team only.

Table 3 – Risk Matrix

Probability	Very likely (4)	Medium-Low (4)	Medium-High (8)	High (12)	High (16)
	Likely (3)	Medium-Low (3)	Medium-High (6)	Medium-High (9)	High (12)
	Unlikely (2)	Low (2)	Medium-Low (4)	Medium-High (6)	Medium-High (8)
	Remote (1)	Low (1)	Low (2)	Medium -Low (3)	Medium-Low (4)
		Minor (1)	Significant (2)	Serious (3)	Major (4)
			Impact		

2.3 Control

This stage of the process is to decide on a course of action to address the risks identified, to ensure that they do not develop into an issue, where the potential threat is realised. There are four approaches that can be taken to address the risks that have been identified and assessed, these being terminate, transfer, treat and tolerate.

Table 4 – Risk Appetite

Level of Risk	Level of Concern	Recommended review pattern	Approach option(s) available	Other actions required
High	Very concerned	1 – 2 months	Terminate Transfer Treat	Report to Governance and Audit Committee
Medium-High	Concerned	3 – 4 months	Terminate Transfer Treat	
Medium-Low	Tolerate	~~5 –~~ 6 months	Terminate Transfer Treat Tolerate	If accepted, must have contingency plans in place
Low	Content	12~~7 – 8~~ months	Tolerate	Treat, if cost effective

The approach taken for all risks listed in the council's Corporate Risk Register is to treat them.

Table 5 – Risk control approaches

APPROACH	DESCRIPTION
Terminate	A decision is made not to undertake the activity that is likely to trigger the risk. Where the risks outweigh the possible benefits, terminate the risk by doing things differently and thereby removing the risk.
Transfer	Share the exposure, either totally or in part, with a partner or contractor, or through insurance. Any partnership will need to be carefully monitored as it may not be possible to transfer all risks and certain aspects may remain, such as loss of reputation.
Treat	The most common approach is to introduce preventative actions (called control measures) to reduce the probability or impact if the risk occurs and maximise the potential for success.
Tolerate	The ability of an effective action against some risks may be limited or the cost of taking such action may be disproportionate to the potential benefits gained.

Control measures are the actions taken to reduce the probability or impact of a risk, not wholly to terminate or transfer. Two types are recognised within the risk register; those that are established and ongoing (often referred to as business as usual or BAU) and those that are timebound (sometimes referred to as timebound control actions).

2.4 Monitor, Review and Escalation

Few risks remain static. New issues and risks are likely to emerge and existing risks may change. Having identified the risks, assessed them and put control measures in place, it is essential that they are routinely monitored. (See table 4 – recommended review pattern).

Risk management needs to be seen as a continuous process. It is essential that the incidence of risk be reviewed to see whether it has changed over time. Risk management is a dynamic process – new risks will be identified, some will be terminated and control measures will need to be updated in response to changing internal and external events. The assessment of probability and impact will also need to be reviewed, particularly in light of our own management actions.

The council will consider and record operational risks with the service plans, and project risks within project plans. If an operational risk or project risk becomes significant enough it will be escalated via the line manager, Head of Service and Director to CMT for inclusion on the Corporate Risk Register until such time that management action is able to reduce the risk score to a desirable level.

Monitoring progress and regular reviews provides:

- Assurance that progress is being made towards controlling risks
- Assurance that controls are effective

- Knowledge of any changes to the risk brought about by shifting circumstances or business priorities.

When undertaking the monitor and review process, guidance is given below on the sorts of questions that should be taken into account:

- Are the risks still relevant?
- Has anything occurred that could impact on them?
- Are performance indicators appropriate?
- Are the controls in place effective?
- Have risk scores changed, and if so are they decreasing or increasing?
- If risk profiles are increasing, what further controls might be needed?
- If risk profiles are decreasing, can controls be relaxed?

The monitoring and review process should be integrated into existing business processes so that is adds value and supports the successful achievement of objectives and is not just seen as a 'bolt on'. Where objectives have not been achieved or are not on course to be achieved, the cause(s) should be investigated to inform and improve the risk assessment process.

3. Categories of risk

Categories are widely used to identify sources of risk, some will be of greater concern at the corporate level and some at the operational level, however there is no clear distinction and all levels of management should be concerned, to varying degrees, with the majority of categories.

These risks can be categorised as follows: -

CATEGORY	DESCRIPTION	INDICATIVE GUIDELINES (given as examples)
Political	those associated with a failure to deliver either local or central government policy.	• Not meeting government agenda • Too slow or failure to modernise • Decision based on incorrect information • Individuals fail to comply with agreed standards • Conflicts of interest • Decision or action taken which contradicts corporate priorities
Economic	those affecting the ability of the council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance or the consequences of proposed investment decisions.	• General/regional economic problems • Missed business and service opportunities • Failure of major projects • Failure to prioritise, allocate appropriate budgets and monitor • Inadequate control over expenditure or income

CATEGORY	DESCRIPTION	INDICATIVE GUIDELINES (given as examples)
		• Inadequate insurance cover • Susceptibility to fraudulent activity
Social	those relating to the effects of changes in demographic, residential or socio-economic trends on the council's ability to deliver its objectives.	• Failing to meet the needs of disadvantaged communities • Failures in partnership working • Problems in delivering life-long learning • Impact of demographic change • Crime and disorder
Technological	those associated with the capacity of the council to deal with the pace / scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the council's ability to deliver its objectives.	• Breach of confidentiality • Failure in communications • Insufficient disaster recovery for key data/systems • Failure of big technology related project • Breach of security of networks and data • Failure to comply with IT Security Policy
Legislative	those associated with current or potential changes in national or European law.	• Not meeting statutory duties/deadlines • Failure to implement legislative change • Misinterpretation of legislation • Exposure to liability claims e.g. motor accidents, wrongful advice • Breach of confidentiality / Data Protection Act
Environmental	those relating to environmental consequences of progressing the council's corporate objectives (e.g. in terms of energy, efficiency, pollution, recycling, etc).	• Impact on sustainability initiatives • Impact of planning & transportation policies • Noise, contamination and pollution • Crime & Disorder Act implications • Inefficient use energy and water • Incorrect storage/disposal of waste
Competitive	those affecting the competitiveness of the service (in terms of cost of quality) and / or its ability to deliver best value.	• Take over of services by government • Failure of bids for government funds • Failure to show value for money • Accusations of anti-competitive practices
Customer / Citizen	those associated with the failure to meet the current and changing needs and expectations of customers and citizens.	• Lack of appropriate consultation • Poor public and media relations • Ineffective communication with customers and citizens

CATEGORY	DESCRIPTION	INDICATIVE GUIDELINES (given as examples)
Reputation	those relating to public confidence and failure to recruit high calibre staff.	• Adverse media attention • Policies misunderstood or misinterpreted • Negative implications identified by other which have not been previously considered • Failure to keep partners on side • Breach of confidentiality • Lack of business continuity plan • Failure to maintain and upkeep land and property • Reputational damage caused by fraudulent / corrupt activities
Partnership	those associated with working in partnership with another organisation.	• Non compliance with procurement policies • Poor selection of partner • Failure of partner to deliver • Inadequate contract documentation • Inadequate service level agreements • Bad management of partnership working

4. Risk Register

It is good governance for the council to maintain and review ~~a~~ registers of ~~its~~ corporate and operational risks assigning named individuals as responsible officers. The Corporate Risk Register is a tool for capturing important information about corporate and strategic risks to the council, and is to be reviewed on an ongoing basis. New risks will be identified, some will be terminated, control measures will need to be updated in response to changing internal and external events. The council also maintains a separate project risk register which lists ~~identifies~~ each project and the levels of risk associated with the project.

The data contained within the risk register will be used to inform our performance reporting process. Also, as detailed within the risk management strategy, the Governance and Audit committee will be regularly informed on the content of the corporate risk register.

To meet this requirement, the council has a database in place (INPHASE) to hold this information, which is linked to the corporate objectives. This database is available to staff via the Intranet.

5. Summary

This guidance document is intended to provide a simple methodology to help with the risk management process. It may be helpful to understand how managing risk through this process fits in with the overall approach to managing risk throughout the council. Details of this can be found in the 'Risk Management Strategy".

Risk management is not the responsibility of just a few specialists, it must be seen as a responsibility for all members and officers.

For any further advice or assistance, please contact:
Nicola Walker ~~Adrian Halse~~
Acting Head of Financial Services ~~Policy and Business Planning Manager~~

Email : nicola.walker@thanet.gov.uk~~adrian.halse@thanet.gov.uk~~
DDI : 01843 577236~~209~~

6. Document History

Version	Date	Agreed by	Minute ref
V1 to 8		Available on request	
V5	29 September 2011	Governance and Audit Committee	182.
V6	23 August 2012 25 September 2012	Senior Management Team Governance and Audit Committee	2. 251.
V7	21 November 2013 11 December 2013	Managers Forum Governance and Audit Committee	N/A 324
V8	24 September 2014	Governance and Audit Committee	377
V9	09 December 2015	Governance and Audit Committee	

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW REPORT 2015/16

To:	**Governance & Audit Committee – 9 December 2015**
Main Portfolio Area:	**Financial Services and Estates**
By:	**Portfolio Holder for Financial Services and Estates**
Classification:	**Unrestricted**

Summary: **This report summarises treasury management activity and prudential/treasury indicators for the first half of 2015/16.**

For Decision

1 Background

1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 Accordingly treasury management is defined as:

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

2 Introduction

2.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council on 24 April 2014.

2.2 The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement (including the Annual Investment Strategy and Minimum Revenue Provision Policy) for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Governance and Audit Committee.

2.3 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the 2015/16 financial year to 30 September 2015;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2015/16;
- A review of the Council's borrowing strategy for 2015/16;
- A review of any debt rescheduling undertaken during 2015/16;
- A review of compliance with Treasury and Prudential Limits for 2015/16.

2.4 There have not been any key changes to the Treasury and Capital Strategies during the first half of 2015/16. On 23 April 2015 Council resolved that the Lowest Common Denominator assessment no longer be included in its Treasury Management Strategy Statement, which was amended accordingly. This was in line with advice from the Council's external treasury management advisor, Capita Asset Services (Capita).

2.5 **Changes in credit rating methodology**

2.5.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch)

Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

2.5.2 In keeping with the agencies' new methodologies, the credit element of Capita's own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings. It is important to stress that the other key elements to Capita's process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

2.5.3 The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, Capita clients typically assigned the highest sovereign rating to their criteria the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it has continued to specify a minimum sovereign rating of AAA for non-UK deposit counterparties. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

2.5.4 It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

3.1 Capita's Economic update (issued by Capita on 6 October 2015)

3.1.1 UK

3.1.1.1 UK Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any Group of 7 (G7) country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that Consumer Price Index (CPI) inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. However, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.

3.1.1.2 The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

3.1.1.3 There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

3.1.2 USA

3.1.2.1 The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Federal Reserve (Fed.) could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016.

3.1.3 Eurozone

3.1.3.1 In the Eurozone, in January 2015 the European Central Bank (ECB) unleashed a massive €1.1 trillion programme of quantitative easing (QE) to buy up high credit quality government and other debt of selected Eurozone (EZ) countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5%

in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

3.2 Capita's Interest rate forecasts (issued by Capita on 6 October 2015)

3.2.1 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

3.2.2 Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused Public Works Loan Board (PWLB) rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

3.2.3 Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

3.2.4 The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

3.2.5 The disappointing US nonfarm payrolls figures and UK PMI services figures at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than had previously been expected. This, therefore, has markedly increased concerns, both in the US and UK, that growth is only being achieved by monetary policy being highly aggressive with central rates at near zero and huge QE in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.

3.2.6 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than Capita currently anticipates.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens.

3.2.7 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- Uncertainty around the risk of a UK exit from the EU.
- The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

4 Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1 The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 5 February 2015 and amendments were approved by the Council on 23 April 2015.

4.2 The Section 151 Officer can confirm that the approved limits within the Annual Investment Strategy were not breached during the six months ended 30th September 2015 apart from the money limit with the Lloyds Banking Group (Lloyds) for the 11 day period from 15 May 2015 to 26 May 2015.

4.3 With effect from 15 May 2015 Capita changed its view on Lloyds, no longer regarding it as part nationalised. Given the credit rating of Lloyds, this meant that the Council's money limit with Lloyds reduced from £7m to £5m. The Council was able to reduce its deposits with Lloyds to under £5m on 26 May 2015, upon maturity of a £2m fixed term deposit with Lloyds.

4.4 The Council is also reducing the maximum duration of its deposits with Lloyds from 370 days to 6 months, in line with Capita's revised recommendation of 15 May 2015. The Council's pre-existing fixed term deposits with Lloyds will all have less than 6 months to run by the end of October 2015 and will all have matured by the end of April 2016.

5 The Council's Capital Position (Prudential Indicators)

5.1 This 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 prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.2 Prudential Indicator for Capital Expenditure

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

Capital Expenditure	2015/16 Original Estimate £m	Current Position – Actual at 30/09/15 £m	2015/16 Revised Estimate £m
General Fund	4.229	8.174	21.701
HRA	10.449	1.351	16.672
Total	**14.678**	**9.525**	**38.373**

The revised estimate includes carry-forward from the previous year of £13.184m General Fund and £4.759m HRA.

5.3 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	2015/16 Original Estimate £m	Current Position – Actual at 30/9/15 £m	2015/16 Revised Estimate £m
Unsupported	14.678	9.525	38.373
Total spend	**14.678**	**9.525**	**38.373**
Financed by:			
Capital receipts	1.067		4.103
Capital grants	2.930		13.651
Capital reserves	4.889		7.948
Revenue	1.126		2.346
Total financing	**10.012**		**28.048**
Borrowing need	**4.666**		**10.325**

The revised estimate includes carry-forward from the previous year of £13.184m General Fund and £4.759m HRA.

5.4 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

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

Prudential Indicator – Capital Financing Requirement

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

Prudential Indicator – the Operational Boundary for external debt

	2015/16 Original Estimate £m	Current Position – Actual at 30/9/15 £m	2015/16 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR – non housing	26.470		28.306
CFR – housing	23.607		23.607
Total CFR	50.077		51.913
Net movement in CFR	**6.813**		**8.649**
Prudential Indicator – the Operational Boundary for external debt			
Borrowing	42.000	29.459	42.000
Other long term liabilities*	12.000	4.089	12.000
Total debt	**54.000**	**33.548**	**54.000**

** On balance sheet PFI schemes and finance leases etc (including the leisure centre deferred credit). Excludes the amount owed to KCC for the Westwood spine road construction as classified as a current liability.*

5.5 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, borrowing will only be for a capital purpose. Gross 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 2015/16 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.

	2015/16 Original Estimate £m	Current Position – Actual at 30/09/15 £m	2015/16 Revised Estimate £m
Gross borrowing	33.814	29.459	35.709
Plus other long term liabilities*	3.220	4.089	3.919
Total gross borrowing	37.034	33.548	39.628
CFR (year end position)	50.077		51.913

** On balance sheet PFI schemes and finance leases etc (including the leisure centre deferred credit). Excludes the amount owed to KCC for the Westwood spine road construction as classified as a current liability.*

The Section 151 Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator 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	2015/16 Original Indicator £m	Current Position – Actual at 30/09/15 £m	2015/16 Revised Indicator £m
Borrowing	48.000	29.459	48.000
Other long term liabilities*	14.000	4.089	14.000
Total	62.000	33.548	62.000

** On balance sheet PFI schemes and finance leases etc (including the leisure centre deferred credit). Excludes the amount owed to KCC for the Westwood spine road construction as classified as a current liability.*

6 Investment Portfolio 2015/16

6.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, 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 potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

6.2 The Council held £41.442m of investments as at 30 September 2015 (£30.566m at 31 March 2015) and the investment portfolio yield for the first six months of the year is 0.55% against a benchmark (average 7-day LIBID rate) of 0.36%. The constituent investments are:

Sector	Country	Up to 1 year £m	1 year – 370 days £m	Total £m
Banks	UK	13.392	1.500	14.892
Banks	Sweden	3.956	0.000	3.956
Money Market Funds	UK	22.594	0.000	22.594
Total		**39.942**	**1.500**	**41.442**

6.3 The Section 151 Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2015/16, apart from as described in section 4 of this report.

6.4 The Council's budgeted investment return for 2015/16 is £0.150m and performance for the first half of the financial year is above budget at £0.106m.

6.5 Investment Risk Benchmarking

Investment risk benchmarks were set in the 2015/16 Treasury Management Strategy Statement (TMSS) for security, liquidity and yield. The mid-year position against these benchmarks is given below.

6.5.1 Security

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

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

The security benchmark for each individual period is:

	370 days	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.

The Section 151 Officer can report that the investment portfolio was maintained within this overall benchmark for the first half of this financial year.

6.5.2 Liquidity

In respect of this area the Council seeks to maintain:

- Bank overdraft - £0.5m
- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 1.0 year.

The Section 151 Officer can report that liquidity arrangements were adequate for the first half of this financial year.

This authority does not currently place investments for more than 370 days due to the credit, security and counterparty risks of placing such investments.

6.5.3 Yield

Local measures of yield benchmarks are:

- Investments – Internal returns above the 7 day LIBID rate

The Section 151 Officer can report that the yield on deposits for the first half of the financial year is 0.55% against a benchmark (average 7-day LIBID rate) of 0.36%.

6.6 Investment Counterparty criteria

The current investment counterparty criteria selection approved in the revised TMSS is meeting the requirement of the treasury management function.

7 Borrowing

7.1 The Council's capital financing requirement (CFR) original estimate for 2015/16 is £50.077m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £29.459m (table 5.5) and has utilised an estimated £20.618m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

7.2 No new external borrowing was undertaken from the PWLB during the first half of this financial year.

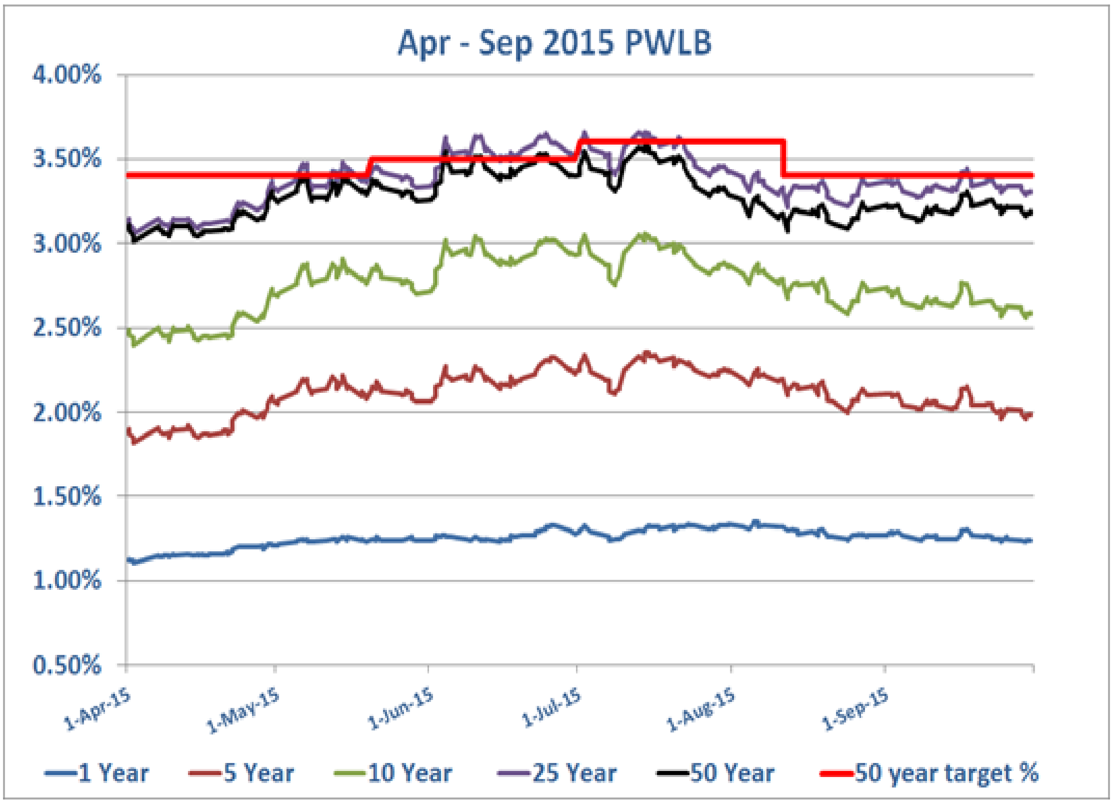
7.3 As outlined below, the general trend has been an increase in interest rates during the first quarter but then a fall during the second quarter.

7.4 Borrowing may be undertaken during the second half of this financial year and options will be reviewed in due course in line with market conditions.

7.5 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to 30 September 2015.

7.6 PWLB certainty rates, half year ended 30th September 2015

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.11%	1.82%	2.40%	3.06%	3.01%
Date	02/04/2015	02/04/2015	02/04/2015	02/04/2015	02/04/2015
High	1.35%	2.35%	3.06%	3.66%	3.58%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.26%	2.12%	2.76%	3.39%	3.29%



7.7 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. During the first six months of the year, no debt rescheduling was undertaken. The Council is currently under-borrowed to address investment counterparty risk and the differential between borrowing and investment interest rates. This position is carefully monitored.

7.8 The Council's budgeted debt interest payable for 2015/16 is £1.343m and performance for the first half of the financial year is below budget at £0.560m.

8 Treasury Management Indicators

8.1 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.

%	**2015/16 Original Indicator**	**2015/16 Revised Indicator**
Non-HRA	8.0%	6.6%
HRA	6.5%	6.9%

8.2 **Upper Limits on Variable Rate Exposure** – This 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:

	2015/16 Original Indicator £m	**Current Position – Actual at 30/09/15 £m**	**2015/16 Revised Indicator £m**
Upper limits on fixed interest rates			
Debt only	62.000	29.459	62.000
Investments only	45.000	10.762	45.000
Upper limits on variable interest rates			
Debt only	62.000	0.000	62.000
Investments only	45.000	30.680	45.000

8.3 Maturity Structures of Borrowing

These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

	2015/16 Original Upper Limit	Current Position – Actual at 30/09/15	2015/16 Revised Upper Limit
Maturity structure of fixed rate borrowing			
Under 12 months	50%	17%	50%
1 year to under 2 years	50%	2%	50%
2 years to under 5 years	50%	21%	50%
5 years to under 10 years	55%	24%	55%
10 years to under 20 years	50%	10%	50%
20 years to under 30 years	50%	16%	50%
30 years to under 40 years	50%	7%	50%
40 years to under 50 years	50%	3%	50%
50 years and above	50%	0%	50%

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.

9 Options

9.1 That Members approve this report and agree the prudential and treasury indicators that are shown.

10 Corporate Implications

10.1 Financial and VAT

10.1.1 There are no financial or VAT implications arising directly from this report.

10.2 Legal

10.2.1 This report is required to be brought before the Governance and Audit Committee, Cabinet and Council for approval, under the CIPFA Treasury Management Code of Practice.

10.3 Corporate

10.3.1 This report evidences that the Council continues to carefully manage the risk associated with its treasury management activities.

10.4 Equity and Equalities

10.4.1 There are no equity or equality issues arising from this report.

11 Recommendations

11.1 That the Governance and Audit Committee:

- Approves this report and the prudential and treasury indicators that are shown.
- Recommends this report to Cabinet.

12 Decision Making Process

12.1 This report is to go to Cabinet and then Council for approval. The Cabinet meeting is on 21 January 2016.

13 Disclaimer

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

Contact Officer:	Tim Willis, Section 151 Officer, extn 7617
Reporting to:	Madeline Homer, Chief Executive

Corporate Consultation Undertaken

Finance	Technical Finance Team
Legal	N/A

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TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2016/17

To:	**Governance & Audit Committee – 9th December 2015**
Main Portfolio Area:	**Financial Services and Estates**
By:	**Portfolio Holder for Financial Services and Estates**
Classification:	**Unrestricted**

Summary: **This report is to provide the Governance & Audit Committee with the proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2016/17 for approval.**

For Decision

1 INTRODUCTION

1.1 Background

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

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

CIPFA defines treasury management as:

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

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:
- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit Committee.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital issues
- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was last undertaken by members on 21 September 2015 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 External service providers

The Council uses Capita Asset Services, Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

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 subjected 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.

Some investments via the ICD portal are made via JP Morgan who act as a clearing house for six of the nine 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.

2 THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Non-HRA	8.184	21.701	4.332	3.586	1.682
HRA	7.149	16.672	11.681	3.615	3.495
Total	15.333	38.373	16.013	7.201	5.177

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Non-HRA	8.184	21.701	4.332	3.586	1.682
HRA	7.149	16.672	11.681	3.615	3.495
Total	15.333	38.373	16.013	7.201	5.177
Financed by:					
Capital receipts	0.199	4.103	1.995	0.332	0.155
Capital grants	5.324	13.651	2.012	2.268	1.277
Capital reserves	5.525	7.948	4.739	3.350	2.970
Revenue	1.940	2.346	1.753	0.525	0.525
Net financing need for the year	**2.345**	**10.325**	**5.514**	**0.726**	**0.250**

Other long term liabilities: The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

2.2 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. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase 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 these schemes. The Council had £4.259m of long term liabilities (excluding pensions) as at 31 March 2015.

The Council is asked to approve the CFR projections below:

£m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Capital Financing Requirement					
CFR – non housing	22.390	28.306	28.856	28.200	26.999
CFR – housing	20.874	23.607	27.282	27.282	26.454
Total CFR	**43.264**	**51.913**	**56.138**	**55.482**	**53.453**
Movement in CFR	**1.492**	**8.649**	**4.225**	**(0.656)**	**(2.029)**

Movement in CFR represented by					
Net financing need for the year (above)	2.345	10.325	5.514	0.726	0.250
Less HRA – loan repayments and downward revaluations*	0.000	(0.828)	0.000	0.000	(0.828)
Less MRP/VRP and other financing movements	(0.853)	(0.848)	(1.289)	(1.382)	(1.451)
Movement in CFR	**1.492**	**8.649**	**4.225**	**(0.656)**	**(2.029)**

**The CFR treatment of downward revaluations to HRA non-current assets is under review by the Department of Communities and Local Government (requiring both Ministerial and Treasury approval) and accordingly is subject to change.*

2.3 Minimum revenue provision (MRP) policy statement

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 the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, 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 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 approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual PFI or finance leases are applied as MRP.

2.4 Core funds and expected investment balances

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 £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Fund balances / reserves	2.011	2.011	2.011	2.011	2.011
Capital receipts	0.199	4.103	1.995	0.332	0.155
Earmarked reserves	9.511	3.770	3.242	3.242	3.242
Total core funds	**11.721**	**9.884**	**7.248**	**5.585**	**5.408**
Balances incl working capital*	37.781	32.284	31.957	31.608	31.144
Under/over borrowing	8.346	12.284	11.957	11.608	11.144
Expected investments	**29.435**	**20.000**	**20.000**	**20.000**	**20.000**

*Working capital balances shown are estimated year end; these may be different 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 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.

%	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Non-HRA	4.7%	6.6%	10.2%	10.9%	11.3%
HRA	5.7%	6.9%	8.3%	8.3%	8.4%

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

2.7 Incremental impact of capital investment decisions on 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

£	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Council tax - band D *	(4.45)	(4.53)	5.07	9.23	38.79

**The 2018/19 estimate is higher than the other years because, being the final year estimate, there is no comparison shown in the Treasury Management Strategy Statement for last year. In other words, the incremental 2018/19 estimate reflects the full cost of the 2018/19 capital programme. The main element of the 2018/19 estimate is the Minimum Revenue Provision charge.*

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 on housing rent levels

£	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Weekly housing rent levels *	(0.18)	(0.05)	0.00	0.02	0.47

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

**The 2018/19 estimate is higher than the other years because, being the final year estimate, there is no comparison shown in the Treasury Management Strategy Statement for last year. In other words, the incremental 2018/19 estimate reflects the full cost of the 2018/19 capital programme.*

2.9 HRA ratios

£	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
HRA debt £m	20.869	23.602	27.277	27.276	26.448
HRA rents £m	12.941	13.294	13.259	13.134	13.014
Ratio of debt to rents %	161.3%	177.5%	205.7%	207.7%	203.2%

£	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
HRA debt £m	20.869	23.602	27.277	27.276	26.448
Number of HRA dwellings	3,034	3,051	3,063	3,075	3,087
Debt per dwelling £	6,878	7,736	8,905	8,870	8,568

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 1 April 2014, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
External Debt					
Debt at 1 April	27.252	30.659	35.710	40.602	40.635
Expected change in Debt	3.407	5.051	4.892	0.033	(1.225)
Other long-term liabilities (OLTL) at 1 April	3.900	4.259	3.919	3.579	3.239
Expected change in OLTL	0.359	(0.340)	(0.340)	(0.340)	(0.340)
Actual gross debt at 31 March	**34.918**	**39.629**	**44.181**	**43.874**	**42.309**
The Capital Financing Requirement	43.264	51.913	56.138	55.482	53.453
Under / (over) borrowing	**8.346**	**12.284**	**11.957**	**11.608**	**11.144**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt 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 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £m	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	42.000	46.000	46.000	46.000
Other long term liabilities	12.000	12.000	12.000	12.000
Total	54.000	58.000	58.000	58.000

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the 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.

1. This 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 this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £m	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Debt	47.000	51.000	51.000	51.000
Other long term liabilities	15.000	15.000	15.000	15.000
Total	62.000	66.000	66.000	66.000

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	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
HRA debt cap*	27.792	27.792	27.792	27.792
HRA CFR	23.607	27.282	27.282	26.454
HRA headroom	4.185	0.510	0.510	1.338

It has been determined that the HRA debt cap can increase for capital expenditure incurred between 1 April 2016 and 31 March 2017 on certain HRA projects up to a limit of £1.115m.

3.3 Capita's economic and interest rate forecast (issued by Capita on 11 November 2015)

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Capita central view.

Capita Asset Services Interest Rate View	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capita Asset Services View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5yr PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB View	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB View	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

UK: UK Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any Group of 7 (G7) country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that Consumer Price Index (CPI) inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1 percent in the second half of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the Monetary Policy Committee (MPC) will decide to make a start on increasing Bank Rate.

USA: The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then weakened again to 1.5% in quarter 3. The downbeat news in late August and in September about Chinese and

Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Federal Reserve's (Fed.) decision at its September meeting to pull back from a first rate increase. However, the nonfarm payrolls figure for growth in employment in October was very strong and, together with a likely perception by the Fed. that concerns on the international scene have subsided, has now firmly opened up the possibility of a first rate rise in December.

Eurozone: In the Eurozone, in January 2015 the European Central Bank (ECB) unleashed a massive €1.1 trillion programme of quantitative easing (QE) to buy up high credit quality government and other debt of selected Eurozone (EZ) countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece: During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing strategy

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 relatively high.

Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Section 151 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 the anticipated rate to US tapering of asset purchases, or 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 are still lower than they will be in the next few years.

  Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any 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. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure 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.

The Council is asked to approve the following treasury indicators and limits:

£m	2016/17	2017/18	2018/19
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates:			
• Debt only	66.000	66.000	66.000
• Investments only	45.000	45.000	45.000
Limits on variable interest rates			
• Debt only	66.000	66.000	66.000
• Investments only	45.000	45.000	45.000

Maturity structure of fixed interest rate borrowing 2016/17		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to under 2 years	0%	50%
2 years to under 5 years	0%	50%
5 years to under 10 years	0%	55%
10 years to under 20 years	0%	50%
20 years to under 30 years	0%	50%
30 years to under 40 years	0%	50%
40 years to under 50 years	0%	50%
50 years and above	0%	50%

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

3.6 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 reasons 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.

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

3.7 Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate.

4 ANNUAL INVESTMENT STRATEGY

4.1 Changes in credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the credit element of Capita's own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings. It is important to stress that the other key elements to Capita's process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, Capita clients typically assigned the highest sovereign rating to their criteria the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it does specify a minimum sovereign rating of AA- for non-UK deposit counterparties. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

4.2 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in section 5 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices.

4.3 Creditworthiness policy

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 that:

- 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; and

- 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. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Capita Asset Services 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 may be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- 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 AA-

  and have, as a minimum, the following credit rating from at least one of Fitch, Moody's and Standard and Poors (where rated):
    i. Short term – F1 (or equivalent)
    ii. Long term – A (or equivalent)
- Banks 2 – Part nationalised UK banks – Royal Bank of Scotland Group. This bank can be included if it continues to be part nationalised or it meets the above criteria.
- Banks 3 – 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 meet the ratings/criteria for banks outlined above.
- Money market funds (including enhanced money market funds) – AAA
- UK Government (including gilts and the DMADF)

- Local authorities, parish councils, community councils, companies controlled by the Council (either alone or with other Local Authorities) etc
- Supranational institutions

A limit of £5m will be applied to the use of investments with a maturity of over 364 days but not more than 370 days.

Use of additional information other than credit ratings. Additional requirements under the Code 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.

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 Long Term Rating (or equivalent)*	Money Limit	Time Limit
Higher quality	**AA-**	**£6m per institution**	**370 days**
Medium quality	**A**	**£5m per institution**	**370 days**
Part nationalised	**N/A**	**£7m per institution**	**370 days**
Debt Management Account Deposit Facility	**AAA**	**unlimited**	**6 months**
Money market Funds (including enhanced money market funds)	**AAA**	**£6m per fund**	**370 days**
Local authorities, parish councils, community councils, companies controlled by the Council (either alone or with other Local Authorities), Supranational institutions etc	**N/A**	**£4m per institution**	**370 days**

**The institution must have this minimum credit rating from at least one of Fitch, Moody's, and Standard and Poors (where rated).*

The proposed criteria for specified and non-specified investments are shown in section 5 for approval.

4.4 Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from the UK (irrespective of the UK sovereign credit rating) or other countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- no more than £5m will be placed with any non-UK country at any time (this limit applies to each non-UK country individually and not to non-UK countries in total);
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

The above country restrictions do not apply to money market funds (including enhanced money market funds). The Council only invests in sterling denominated money market funds (including enhanced money market funds).

4.5 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Capita's Investment returns expectations (issued by Capita on 11 November 2015). Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

2016/17 1.00%
2017/18 1.75%
2018/19 2.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

2016/17 0.90%
2017/18 1.50%
2018/19 2.00%
2019/20 2.25%
2020/21 2.50%
2021/22 3.00%
2022/23 3.00%
Later years 3.00%

The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

Investment treasury indicator and limit - 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 treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	**2016/17**	**2017/18**	**2018/19**
Principal sums invested > 364 days (but not more than 370 days)	£5m	£5m	£5m

For its cash flow generated balances, the Council will seek to utilise its instant access and notice accounts, money market funds and deposits (overnight to 370 days) in order to benefit from the compounding of interest.

4.6 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they 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 £10m available with a week's notice.
- Weighted average life benchmark is expected to be 0.5 years, with a maximum of 1.0 year.

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:

	370 days	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.

4.7 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

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 operate 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(1), covering investment counterparty policy requires approval each year.

5.1 Annual investment strategy

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

5.2 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. Local authorities, parish councils, community councils, companies controlled by the Council (either alone or with other Local Authorities).
4. Pooled investment vehicles (such as money market funds including enhanced 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 including enhanced money market funds, rated AAA by Standard and Poor's, Moody's and/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) and minimum long term rating of A (or the equivalent) as rated by at least one of Standard and Poor's, Moody's and/or Fitch rating agencies.
6. Any part nationalised UK bank or building society.
7. Any subsidiary and treasury operations where the parent bank or building society has the necessary ratings outlined above.
8. 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.

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, as set out in this report.

5.3 Non-specified investments

Non-specified investments are any other type of investment (i.e. not defined as specified above). The Council may only use non-specified investments with a maturity of no more than 370 days and which otherwise meet the criteria for specified investments in section 5.2 above.

5.4 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 Capita Asset Services 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.

5.5 Use of external fund managers

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

6 OPTIONS

That the Governance and Audit Committee:

- Approve this report and recommend that it is approved by Cabinet and Council.
- Do not approve this report and do not recommend that it is approved by Cabinet and Council, thereby not complying with the Treasury Management Code of Practice.

7 CORPORATE IMPLICATIONS

7.1 Financial

The financial implications are highlighted within this report.

7.2 Legal

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

7.3 Corporate

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

7.4 Equity and Equalities

There are no equity or equality issues arising from this report.

8 RECOMMENDATIONS

The Governance and Audit Committee is recommended to approve this report, including each of the key elements of this report listed below, and recommend them to Cabinet and Council:

- The Capital Plans, Prudential Indicators and Limits for 2016/17 to 2018/19, including the Authorised Limit Prudential Indicator.
- The Minimum Revenue Provision (MRP) Policy.
- The Treasury Management Strategy for 2016/17 to 2018/19 and the Treasury Indicators.
- The Investment Strategy for 2016/17 contained in the Treasury Management Strategy, including the detailed criteria.

9 DECISION MAKING PROCESS

Under the Treasury Management Code of Practice it is required that the Governance and Audit Committee approves this report before it is sent to Cabinet and Council for its approval.

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

10 DISCLAIMER

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

Contact Officer:	Tim Willis, Section 151 Officer, extn 7617
Reporting to:	Madeline Homer, Chief Executive

Corporate Consultation Undertaken

Finance	Technical Finance Team
Legal	N/A

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APPOINTMENT OF EXTERNAL AUDITORS AND AN AUDITOR PANEL – LOCAL AUDIT AND ACCOUNTABILITY ACT 2014

To:	**Governance and Audit Committee – 9 December 2015**
By:	**Director of Corporate Governance and Monitoring Officer**
Classification:	**Unrestricted**
Ward:	**All**

Summary: **To advise members on the new arrangements for the appointment of External Auditors and the need for the creation of an Auditor Panel, which must have a majority of independent members.**

For Information

1.0 Introduction and Background

1.1 The Local Audit and Accountability Act 2014 received Royal Assent last year and has been brought into force on various dates since. It brings about changes to the external audit regime for local authorities. This paper sets out the issues arising for Members' consideration, in particular relating to the future appointment of External Auditors and the need to form an Auditor Panel.

2.0 The Local Audit and Accountability Act 2004

2.1 The Local Audit and Accountability Act 2014 abolishes the Audit Commission and (subject to transitional provisions) repeals the Audit Commission Act 1998. Its aim, as stated in DCLG guidance, is to give local bodies the freedom to appoint their own auditors from an open and competitive market and to manage their own audit arrangements, with appropriate safeguards to ensure independence.

2.2 The new local arrangements for the appointment of auditors are expected to start after the Commission's current contracts with audit suppliers end in 2016-17, although this could be later if the contracts are extended to 2019-20. At the moment we are awaiting confirmation that the extension will be granted. We therefore need to be prepared for a procurement process in late 2015 and early 2016.

2.3 This Council is a "relevant authority" within the scope of the Act, being listed in Schedule 2.

2.4 The key accounting and audit obligations will be to:

- Keep adequate accounting records and an annual statement of accounts for years ending 31 March; and
- Have accounts audited in accordance with the Act by a local auditor appointed under the Act.

2.5 Part 3 of the Act (and Schedule 3) deal with the appointment of local auditors. The key points of interest are:

- Appointments may last for more than one year but a new appointment must be made at least once every five years – this does not prevent the re-appointment of

an auditor. An authority may appoint two or more local auditors at once, either acting jointly or separately.
• The auditor(s) must be eligible (under Part 4 and Schedule 5 of the Act) and independent of the body being audited.
• Schedule 3 paragraph 1(3) provides that the auditor(s) must be appointed by the Council.
• Auditors must be appointed by the end of 31st December in the financial year before the financial year which will be covered by the accounts to be audited.
• Section 8 of the Act sets out the procedure for appointing auditors and imposes an obligation to consult and take into account the advice of the auditor panel on the selection and appointment of a local auditor. There is also a requirement to publicise the appointment.

2.6 Section 9 of the Act requires the Council to have an auditor panel whose role is to advise the Authority on:

• The maintenance of an independent relationship with the appointed local auditor(s);
• The selection and appointment of a local auditor;
• Any proposal to enter into an agreement limiting the liability of its auditor(s), if the Council wanted to enter into such an agreement it would be a matter for the full Council.

2.7 The panel's advice to the Authority must be published.

2.8 Schedule 4 makes more detailed provision about auditor panels. Paragraph 1 provides that the panel must be one of the following:

• An auditor panel specifically appointed as such by the Authority; or
• An auditor panel jointly appointed as such with one or more other authorities; or
• A committee (or sub-committee) of the Authority which meets the specified requirements for auditor panels (see below) and which has agreed to be the Authority's auditor panel. (For this Council, this could mean the Governance and Audit Committee. If this Council chose this approach, the constitution of the Governance and Audit Committee would need to change to an independent chairman and a majority of independent members.)

2.9 For this Council, the appointment of the auditor panel is a matter for the full Council.

2.10 Paragraph 2 of Schedule 4 of the Act deals with the constitution of auditor panels. It has been amended by the Local Audit (Auditor Panel Independence) Regulations 2014 which inserted a revised definition of "independence".

2.11 An auditor panel must consist of a majority of (or wholly of) independent members, and must be chaired by an independent member.

2.12 The amendments to Paragraph 2 of Schedule 4 of the Act make specific provision relating to the Council. Paragraph 2 (6B) of Schedule 4 of the Act now provides that a member of its auditor panel cannot be "independent" as required if (s)he has been a:

• Member or officer of the Council within the previous five years; or
• Member or officer of another relevant authority, or an officer or employee of another entity, where the other relevant authority or entity is "connected with" the Council.

2.13 Other categories of person who are excluded from being independent members are those “connected with” current/prospective auditors; relatives or close friends of members/officers of relevant authorities and connected authorities and entities; and persons who have entered into contracts with the authority.

2.14 The definition of “connected entities” is set out at paragraph 8 of Schedule 4. It provides that an entity is connected with a relevant authority at any time if the Authority considers that, in accordance with proper practices in force at that time, the:

• Financial transactions, reserves, assets and liabilities of the entity are to be consolidated into the Authority’s statement of accounts for the financial year in which that time falls;
• Authority’s share of the entity’s financial transactions, reserves, assets and liabilities is to be consolidated into the Authority’s statement of accounts for that financial year; or
• Authority’s share of the net assets or liabilities of the entity, and the profit or loss of the entity, are to be brought into the Authority’s statement of accounts for that financial year.

2.15 Schedule 10 of the Act deals with “best value inspections” and transfers the power (previously held by the Audit Commission) to order an inspection to the Secretary of State for Communities and Local Government. In practice this is likely to mean that the auditors will no longer be required to give an opinion on the “best value” arrangements of a council, as they do annually at present.

2.16 It is not clear to what extent the Secretary of State is likely to order such inspections, or who would be asked to undertake them. However, it is reasonable to assume that they are likely to be the exception rather than the norm.

2.17 As noted above, the Audit Commission ceased to function on 31 March 2015. The table below summarises the arrangements which will be in place from 1 April 2015 for Audit Commission functions.

Audit Commission Functions	**Destination**
Audit contracts	Transitional body (see below)
Certification work (Housing benefit only)	Transitional body
VFM profiles tool	Transitional body
Code of Audit practice and technical guidance	National Audit Office
VFM studies	National Audit Office
National Fraud Initiative	Cabinet Office
Counter-Fraud	CIPFA
Corporate governance inspections	Secretary of State for Communities and Local Government

2.18 A transitional body has been established by the Local Government Association (LGA) as a private company. This company is called Public Sector Audit Appointments (PSAA) PSAA will operate between 2015 and 2017 (or to 2020 if any of the current contracts are extended by DCLG) and will:

• Appoint auditors from 1 April 2015;
• Set fees from 2016-17; and
• Monitor compliance and quality issues.

Note: Article 6(2) of the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 allows during the transitional period that section 7 of the Audit Commission Act1988 (which deals with the setting of fees) is kept 'alive' but the functions under it are delegated by the Minister to PSAA

2.19 It is expected that local authorities will either join a collective procurement vehicle or establish their own auditor panels with a view to commencing procurement in late 2015 ready for appointment by December 2016 and operation from the 2017-18 financial year.

3. Options for Consideration

3.1 In line with the arrangements in place at other local authorities, the Council's current external audit contract (with Grant Thornton) runs to 2016-17 with the possibility of extension to 2019-20. However, it is appropriate that this Council begins to address the issues arising from the new external audit regime. The specific issues for consideration are the structure and appointment of the Auditor Panel and the procurement of the service:

3.2 **Option 1**. The Council could seek to form a joint auditor panel and a joint procurement arrangement with neighbouring authorities (this could be with East Kent Authorities or could be wider to cover the whole of Kent) so that there is a single auditor panel and single external audit contract for the entire area (however defined). This would aim to take advantage of better purchasing power and provide a more attractive offer for the external auditor bidders. This is particularly important as local authority audit is a specialised activity. The market for this service may develop, but we should not assume it will, and at present, only the larger accounting firms have the experience and specialist staff to undertake the work. These firms would be unlikely to seek work for one or two isolated districts, and then procurement could be problematic. In contrast a contract for Kent or the south east (as at present) would be more attractive and would potentially maintain economies of scale.

3.3 At the present time, our external auditors, Grant Thornton provide the service across all of Kent. There may be some additional bureaucracy associated with creation and management of a joint auditor panel, although it would avoid the need for each body to source its own independent members. In reality the panel is unlikely to meet very often and the governance arrangements once established should be relatively easy to manage. This approach would require delegations from (or feasibly to) this Council from other Councils to form a lead authority for the appointment of the panel and for future governance and procurement purposes. There would also need to be joint arrangements in place to introduce and manage an allowance scheme for the panel.

3.4 **Option 2**. Alternatively, the Council could form its own auditor panel and undertake its own procurement arrangements. This approach if replicated elsewhere, could lead to the panels in each authority in Kent, with associated administration and governance to create and maintain each panel. Procurement would then be undertaken for this Council, the small size of the audit contract may not be attractive to the bidders, who in reality are likely to be from the bigger accounting firms. This approach raises the question as to whether there is an available and willing source of independent members across Kent to appoint to numerous auditor panels, recognising that there will need to be a majority of independent members, including the chair on the panel and the panel will have limited responsibilities and in reality will meet infrequently, and will be dealing with an area that is to some degree specific to local authorities. If the Council was to choose this approach, it is suggested that the auditor panel should be formed of three independent members and two district councillors. Three or more district councillors would mean that the panel would be treated as a committee of the Council and impact on the political balance rules. It is also suggested that the auditor panel doesn't become a committee or sub-committee of the Council (i.e. becoming the Governance and Audit Committee).

3.5 **Option 3**. The Council could have a hybrid of options 1 and 2. It could form its own auditor panel, but seek to procure jointly with neighbours, either within East Kent or with the wider Kent authorities. This would allow the Council's own auditor panel to advise this Council, whilst benefiting from joint procurement as described above. This raises the same question of available and willing independent members as described above. It also raises the issue of the composition of the panel, it would again be suggested that a 3:2 split is the most suitable arrangement.

4. Preferred Option

4.1 On balance, it would seem sensible to pursue Option 1, initially with our East Kent neighbours. With Member direction and support this can be taken further.

4.2 Whichever option is approved, the full Council will initially need to delegate the interview process to either a committee of Council or a specially formed subcommittee or to officers of the Council or to another Council (if a joint approach is approved). Ultimately Council will be required to approve the auditor panel appointments.

5.0 Corporate Implications

5.1 Financial and VAT

5.1.1 There will be officer time required to introduce these arrangements. There will be costs associated with advertising and then interviewing for the independent members. Subsequently there will be the cost of an allowance scheme.

5.2 Legal

5.2.1 The legal issues are set out in the body of the report.

5.3 Equity and Equalities

5.3.1 This report does not specifically highlight any equalities implications however, in discharging their responsibilities members are required to comply with the public sector equality duty as set out in section 149 of the Equality Act 2010 http://www.legislation.gov.uk/ukpga/2010/15'

6.0 Recommendation(s)

6.1 It is recommended that the Committee note these changes.

Contact Officer:	Tim Howes, Director of Corporate Governance
Reporting to:	Madeline Homer, Chief Executive

Annex List

None	

Corporate Consultation Undertaken

Finance	Tim Willis, Director of Corporate Services & s151 Officer
Legal	Tim Howes, Director of Corporate Governance

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THANET DISTRICT COUNCIL DECLARATION OF INTEREST FORM

Do I have a Disclosable Pecuniary Interest and if so what action should I take?

Your Disclosable Pecuniary Interests (DPI) are those interests that are, or should be, listed on your Register of Interest Form.

If you are at a meeting and the subject relating to one of your DPIs is to be discussed, in so far as you are aware of the DPI, you **must** declare the existence **and** explain the nature of the DPI during the declarations of interest agenda item, at the commencement of the item under discussion, or when the interest has become apparent

Once you have declared that you have a DPI (unless you have been granted a dispensation by the Standards Committee or the Monitoring Officer, for which you will have applied to the Monitoring Officer prior to the meeting) you **must:-**

1. Not speak or vote on the matter;
2. Withdraw from the meeting room during the consideration of the matter;
3. Not seek to improperly influence the decision on the matter.

Do I have a significant interest and if so what action should I take?

A significant interest is an interest (other than a DPI or an interest in an Authority Function) which:

1. Affects the financial position of yourself and/or an associated person; or
   Relates to the determination of your application for any approval, consent, licence, permission or registration made by, or on your behalf of, you and/or an associated person;
2. And which, in either case, a member of the public with knowledge of the relevant facts would reasonably regard as being so significant that it is likely to prejudice your judgment of the public interest.

An associated person is defined as:

- A family member or any other person with whom you have a close association, including your spouse, civil partner, or somebody with whom you are living as a husband or wife, or as if you are civil partners; or
- Any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors; or
- Any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000;
- Any body of which you are in a position of general control or management and to which you are appointed or nominated by the Authority; or
- any body in respect of which you are in a position of general control or management and which:
  - exercises functions of a public nature; or
  - is directed to charitable purposes; or
  - has as its principal purpose or one of its principal purposes the influence of public opinion or policy (including any political party or trade union)

An Authority Function is defined as: -

- Housing - where you are a tenant of the Council provided that those functions do not relate particularly to your tenancy or lease; or
- Any allowance, payment or indemnity given to members of the Council;
- Any ceremonial honour given to members of the Council
- Setting the Council Tax or a precept under the Local Government Finance Act 1992

If you are at a meeting and you think that you have a significant interest then you **must** declare the existence **and** nature of the significant interest at the commencement of the matter, or when the interest has become apparent, or the declarations of interest agenda item.

Once you have declared that you have a significant interest (unless you have been granted a dispensation by the Standards Committee or the Monitoring Officer, for which you will have applied to the Monitoring Officer prior to the meeting) you **must:-**

1. Not speak or vote (unless the public have speaking rights, or you are present to make representations, answer questions or to give evidence relating to the business being discussed in which case you can speak only)
2. Withdraw from the meeting during consideration of the matter or immediately after speaking.
3. Not seek to improperly influence the decision.

Gifts, Benefits and Hospitality

Councillors must declare at meetings any gift, benefit or hospitality with an estimated value (or cumulative value if a series of gifts etc.) of £100 or more. You **must,** at the commencement of the meeting or when the interest becomes apparent, disclose the existence and nature of the gift, benefit or hospitality, the identity of the donor and how the business under consideration relates to that person or body. However you can stay in the meeting unless it constitutes a significant interest, in which case it should be declared as outlined above.

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 and Scrutiny Manager well in advance of the meeting.

DECLARATION OF DISCLOSABLE PECUNIARY INTERESTS, SIGNIFICANT INTERESTS AND GIFTS, BENEFITS AND HOSPITALITY

MEETING…………………………………………………………………………………………...

DATE…………………………………………… **AGENDA ITEM** ……………………………………

DISCRETIONARY PECUNIARY INTEREST ☐

SIGNIFICANT INTEREST ☐

GIFTS, BENEFITS AND HOSPITALITY ☐

THE NATURE OF THE INTEREST, GIFT, BENEFITS OR HOSPITALITY:

………

………

………

NAME (PRINT): ……………………………………………………………………………………

SIGNATURE: ………………………………………………………………………………………

Please detach and hand this form to the Democratic Services Officer when you are asked to declare any interests.

thanet
district council