Public Document Pack

Date: **28 November 2016**
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GOVERNANCE AND AUDIT COMMITTEE

7 DECEMBER 2016

A meeting of the Governance and Audit Committee will be held at **7.00 pm on Wednesday, 7 December 2016** in the Council Chamber, Cecil Street, Margate, Kent.

Membership:

Councillor Buckley (Chairman); Braidwood, Campbell, Connor, Day, Dexter, Dixon, Edwards, Game, I Gregory, Hayton (Vice-Chairman), Jaye-Jones, Larkins, Piper 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 - 4)

   To approve the Minutes of the Governance and Audit Committee meeting held on 20 September 2016, copy attached.

4. **ANNUAL AUDIT LETTER 2015-16** (Pages 5 - 20)

5. **INTERNAL AUDIT QUARTERLY UPDATE REPORT** (Pages 21 - 50)

6. **ANNUAL GOVERNANCE STATEMENT ACTION PLAN QUARTERLY UPDATE**

   Report to follow.

7. **APPOINTING EXTERNAL AUDITORS** (Pages 51 - 54)

8. **MID YEAR TREASURY REPORT 2016-17** (Pages 55 - 72)

9. **TREASURY MANAGEMENT STRATEGY 2017/18** (Pages 73 - 100)

10. **CORPORATE RISK REGISTER QUARTERLY UPDATE**

    Report to follow.

Declaration of Interests Form

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GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 20 September 2016 at 7.00 pm in Council Chamber, Cecil Street, Margate, Kent.

Present: Councillor John Buckley (Chairman); Councillors Braidwood, Campbell, Dixon, Edwards, Game, I Gregory, Hayton, Jaye-Jones, Larkins, Taylor-Smith, Savage and Partington.

In Attendance: Councillors Taylor, Crow-Brown and Townend.

1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Connor, Councillor Dexter for whom Councillor Partington was substitute, and Councillor Day for whom Councillor Savage was substitute.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF PREVIOUS MEETING

Councillor Campbell proposed, Councillor Taylor-Smith seconded and Members agreed the minutes of the meeting held on 11 August 2016.

4. THE EXTERNAL AUDIT FINDINGS FOR THANET DISTRICT COUNCIL - YEAR ENDING MARCH 2016

Darren Wells, Engagement Lead, Grant Thornton UK LLP, introduced the Audit Findings Report noting that the auditors expected to be able to offer an unqualified value for money opinion for the year ending March 2016.

During consideration of the item it was noted that Grant Thornton had received three public objections.

Members noted the report.

5. LETTER OF REPRESENTATION

Letter of representation was considered as part of agenda item 9, annex 2.

6. QUARTERLY INTERNAL AUDIT UPDATE REPORT

Simon Webb, Deputy Head of East Kent Audit Partnership, introduced the report noting that there had been twelve internal audit assignments completed since the last committee meeting; four achieved substantial assurance, one achieved reasonable assurance, one achieved a split assurance of reasonable/limited, three achieved a limited assurance, and there were three assignments for which an assurance opinion was not required.

Gavin Waite, Director of Operational Services provided Members with an explanation of how the Council intended to improve its grounds maintenance and street cleansing processes and procedures, in order to address the concerns highlighted the internal audit which let to limited assurances. Mr Waite advised that he expected significant progress to have been made over the next six months.

In response to comments and questions it was noted that:

- Mr Waite offered to advise Councillor Savage outside of the meeting how seasonal fluctuation in demand for grounds maintenance work was calculated, and the fluctuation impacted on staffing levels.
- Since 2013/14 there had been a drop in the number of disabled facilities grant applications processed each year, this was because there had previously been a back log of applications to be processed which was no longer the case.
- Mr Webb offered to confirm to Councillor Campbell outside of the meeting what the target recovery rate for EKS housing benefit overpayments was.
- There had been a significant increase in the number of post-audit satisfaction questionnaires returned.

Members noted the report.

7. CORPORATE RISK REGISTER QUARTERLY UPDATE

The Corporate Risk Register Quarterly Update had been withdrawn from the agenda.

8. THE ANNUAL GOVERNANCE STATEMENT 2015/16

Tim Howes, Director of Corporate Governance and Monitoring Officer, introduced the Annual Governance Statement 2015-16 and the significant issues action plan.

During consideration of the item it was noted that:

- Paragraph 4.1.8 of the report should be amended to read 'nine or more Council Members'.
- The timescales and progress boxes in the action plan table, shown in annex 2 of the report, would be populated for consideration at the next ordinary meeting of the Governance and Audit Committee.

It was proposed by Councillor Campbell, seconded by Councillor Larkins and Members agreed that the Committee consider and approve the Annual Governance Statement and action plan for 2015-16.

9. FINAL STATEMENT OF ACCOUNTS

Tim Willis introduced the report which asked Members to approve the audited statement of accounts for 2015-16.

During consideration of the item it was noted that

- Any decisions taken by the Council after 31 July 2016 would not be reflected in the statement of accounts for 2015/16.
- Heritage assets can have a value shown in the accounts which does not necessarily reflect the value placed on those assets by the community.
- The increase to the heritage assets from 2015 to 2016 shown in section 11 of the accounts, relates to capital expenditure in respect of the Dreamland site.

It was proposed by Councillor Campbell, seconded by Councillor Jaye-Jones and Members agreed to approve the Statement of Accounts for 2015/16, and to note the letter of representation to Grant Thornton issued by the Chairman of Governance and Audit and the Director of Corporate Resources.

10. ANNUAL FRAUD REPORT

The Annual Fraud Report had been withdrawn from the agenda.

Meeting concluded: 8.15 pm

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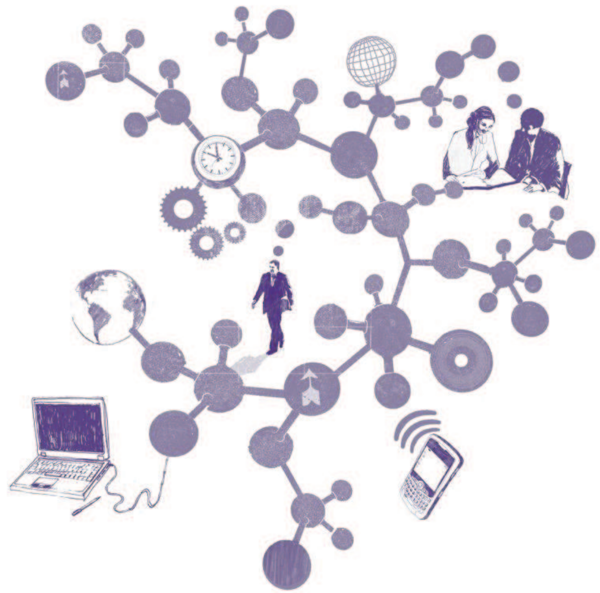
The Annual Audit Letter for Thanet District Council

Year ended 31 March 2016

28 October 2016



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Contents

Executive summary

Purpose of this letter

Our Annual Audit Letter (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 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Governance and Audit Committee as those charged with governance in our Audit Findings Report on 20 September 2016.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

Value for money conclusion

We concluded that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

Certificate

We are currently unable to certify the completion of the audit of the accounts of the Council as we have not yet completed our consideration of three objections to the 2015-16 Accounts.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Governance and Audit Committee in our Annual Certification Letter.

Working with the Council/Authority

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £2,699,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £134,000, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

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

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

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

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
Employee remuneration accruals understated There is a risk that the Council's employee remuneration expenses included within the Accounts could be understated due to costs being omitted from the Accounts via incorrect processing during the year.	We undertook the following work in relation to this risk: • Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; • We performed a review of the year-end reconciliation of the payroll system to the General Ledger; • A high level trend analysis was performed on the monthly employee remuneration totals to provide assurance over the completeness of the figures included within the Financial Statements; • Sample testing was also performed on the employee remuneration expenditure incurred during the year by the Council, including agreement back to relevant supporting documentation. No significant issues were identified from the audit work performed on this area.
Creditors understated or not recorded in the correct period There is a risk that the Council's expenditure and/or creditors balance could be understated by expenditure being either omitted completely from the accounts or included within the incorrect year.	We undertook the following work in relation to this risk: • Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; • Performed a review of the year-end reconciliation of your Accounts Payable system to the General Ledger to provide assurance over the completeness of operating expenditure recorded within the Financial Statements; • Sample tested post-period end payments to identify any items which had been potentially omitted from the Financial Statements; • In year expenditure incurred by the Council substantively tested; • Amounts remaining outstanding at year end were tested to ensure they had been appropriately recorded as liabilities within the Financial Statements. No significant issues were identified from the audit work performed on this area.

Page 9

Audit of the accounts (continued)

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

Risks identified in our audit plan	How we responded to the risk
Welfare benefit expenditure improperly computed There is a risk that the Council's welfare benefit expenditure may be incorrectly calculated, resulting in incorrect payments to those claiming benefit which then has a knock-on impact on the subsidy claimed by the Council.	We undertook the following work in relation to this risk: • Undertook a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; • Detailed testing was performed on the expenditure included within the draft Housing Benefit Subsidy claim; • We performed sample testing of Local Council Tax Support cases to ensure expenditure in relation to these cases has been correctly calculated for inclusion with the Financial Statements; • Finally, a high level analytical review was performed on the figures within the draft Housing Benefit Subsidy claim in order to identify any significant variances requiring explanation. No significant issues were identified from the audit work performed on this area.
Valuation of pension fund net liability The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 63% of its total liabilities. The values of the pension fund net liability is estimated by specialist actuaries.	We undertook the following work in relation to this risk: • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and were sufficient to mitigate the risk of material misstatement; • We reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation. We also gained an understanding of the basis on which the valuation had been carried out; • procedures to confirm the reasonableness of the actuarial assumptions made; • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary; • We also tested the data provided to the actuary. No significant issues were identified from the audit work performed on this area.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Governance and Audit Committee on 20 September 2016.

In addition to the key audit risks reported on the previous page, we identified a number of recommendations which management have agreed to respond to – these were reported in the Audit Findings Report and have been repeated in Appendix 2 for information.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We received three objections relating to the 2015-16 Accounts, and we are currently reviewing the matters raised by the objectors.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.
The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings Report agreed with the Council in September 2016, we agreed the outcome of our work and confirmed that three recommendations had been identified, which are included in Table 2 which follows, along with Appendix B at the end of the Report, which includes management's responses to these findings.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
Dreamland Project The Council has had to increase the budget for this major regeneration project by £1.2m across 2015/16 and 2016/17, against a background of significant risk with the site operator having gone into administration**.**	We reviewed the Council's arrangements for managing the Dreamland project to ensure it meets its objectives and is delivered within budget.	The Council has a significant financial investment in the Dreamland project. It is taking reasonable measures to protect itself against the possibility of operator failure, and has plans and funding in place to see the capital scheme through to completion. The long term viability of the theme park may be open to question, however, and the Council should ensure that this is borne fully in mind when reaching decisions regarding the application of any further public funds to the scheme. **Recommendation:** • Continue to monitor closely the costs of the Dreamland scheme and the performance of the operator, ensuring that any further commitment of public funds is supported by clear evidence of the scheme's sustainability.
Medium Term Financial Plan The local government settlement has placed further pressure on the Council's finances and the Council's medium term financial plan includes the need for significant savings over the next four years.	We reviewed the Council's plans to deliver savings over the course of the medium term financial plan.	The Council has a range of savings schemes under continuous development and has reported achievement of £1.2m savings in 2015/16. At the same time there has been a £4m reduction in earmarked revenue reserves. The compensation payments made in year of £2.4m relating to the animal exports ban of September 2012 were a significant element behind this movement. Looking ahead, the Council has increased its estimated savings requirement for 2017/18 from £0.9m to £1.2m. With General Fund earmarked reserves having reduced to £6.2m as at 31 March 2016, the Council needs to avoid any further deterioration on the scale that occurred during 2015/16. **Recommendations:** • Ensure that the risk of further compensation payments has been realistically assessed and provided for in forward financial planning. • Consider the development of cost savings and income generation in excess of the estimated funding gap to cover the possibility of unforeseen additional financial pressures such as the animal exports compensation payments.
HRA Business Plan The forthcoming rent reduction required by central government will reduce HRA income by £4.5 million over the next 4 years. This will have a significant impact on the HRA Business Plan.	We updated our understanding of the Council's HRA business planning.	The Council has implemented the 1% reduction and taken adequate measures to manage its effects and remain in overall surplus. The primary effect has been to curtail the Council's plans for building new properties.

Page 13

Value for Money (continued)

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
Corporate Peer Challenge The Council has done much to address the findings of the LGA Corporate Peer Challenge in April 2014 regarding Member behaviour. This work needs to continue to ensure there is no recurrence of these issues.	We reviewed the outcome of the forthcoming follow up to the Corporate Peer Challenge and the Council's continuing progress in addressing the findings of the original report.	In its follow up review LGA was satisfied that the issues that gave rise to its highly critical report of April 2014, and our subsequent qualification of the 2013/14 VFM conclusion have now been fully addressed.

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness, and provided you with recommendations on how to continue to best manage the risks attached to Dreamland and the Medium Term Financial Plan.

Sharing our insight – we provided regular Audit, Governance and Standards Committee updates covering best practice. Areas we covered included our local government health checks and governance review, 'Reforging Local Government', along with our review of Audit Committee effectiveness, 'Knowing the Ropes', along with a range of other Reports. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	66,296	66,296	88,395
Housing Benefit Grant Certification	20,770	TBC	46,510
Total fees (excluding VAT)	**87,066**	**TBC**	**134,905**

Any potential fee variations for the work on the Housing Benefit Grant Certification are subject to approval by Public Sector Audit Appointments Ltd, and we will report this back to the Audit, Governance and Standards Committee once any additional fees have been agreed.

Fees for other services

Service	Fees £
Audit related services	
- Assessment of the Empty Property Intervention Programme (Grant Funding from HCA)	17,990
- Pooling of Housing Capital Receipts Return	2,000
- Work on Harbour Accounts	1,000
Non-audit services	Nil

Reports issued

Report	Date issued
Audit Plan	15 March 2016
Audit Findings Report	20 September 2016
Annual Audit Letter	28 October 2016

Appendix B: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should look to strengthen procedures around accruals during the year to ensure they are all supported by valid documentation and that all accruals which are paid are reversed out in a timely manner to ensure the position during the year is correctly stated, including the balance at year end.	Medium	Whilst moving towards earlier close down, Management within Finance and Procurement will work together during the year to deliver comprehensive training to cover all aspects of accruals to include all areas of the Authority's accounts, in order to minimise the potential impact of failure to recognise expenditure in the appropriate year and at the appropriate level.	December 2016 to March 2017 Head of Financial Services
2	The Council should ensure all revaluation gains are allocated to individual properties so any further revaluation movements, either upward or downward are charged to the correct place in the Accounts.	Medium	Financial Services will review accounts starting from 2010 to ensure the relevant revaluation balances are recorded to facilitate this work from 2016/17 onward.	Information will be available in readiness of the 2016/17 Accounts. Head of Financial Services
3	The Council should continue to monitor closely the costs of the Dreamland scheme and the performance of the operator, ensuring that any further commitment of public funds is supported by clear evidence of the scheme's sustainability.	Medium	Whilst the Council has no direct control over the day to day operations of the Dreamland theme park, it exercises close strategic control and constantly monitors risks. It is also seeking to exploit any opportunities to enhance the offer across the whole site, whilst reducing exposure to risk. There are revised project management arrangements in place that will help monitor costs and ensure sustainability.	On-going Director of Corporate Resources

Appendix B: Action plan (continued)

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	The Council needs to ensure that the risk of further compensation payments has been realistically assessed and provided for in forward financial planning	Medium	The Council has sought and obtained legal advice on the likelihood of future claims in respect of live animal exports. It has made appropriate provisions on the basis of this advice.	On-going Director of Corporate Resources
5	Going forward, cost savings and income generation need to be developed in excess of the estimated funding gap to help cover the possibility of unforeseen additional financial pressures such as the animal exports compensation payments.	Medium	The Medium Term Financial Strategy will take a prudent approach to addressing the budget gap and identify deliverable, sustainable cost savings and income generation. Steps will be taken to replenish reserves where possible to help manage the known and unknown financial risks.	On-going Director of Corporate Resources

grant-thornton.co.uk

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QUARTERLY INTERNAL AUDIT UPDATE REPORT

7th December 2016

Report Author	**Head of the Audit Partnership: Christine Parker**
Portfolio Holder	**Cllr John Townend; Cabinet Member for Financial Services & Estates**
Status	**For Information**
Classification:	**Unrestricted.**
Key Decision	**No**

Executive Summary:

This report provides Members with 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 2016.

Recommendation(s):
That the report be received by Members.

That any changes to the agreed 2016-17 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of Annex1 of the attached report be approved.

CORPORATE IMPLICATIONS	
Financial and Value for Money	There are no financial implications arising directly from this report. The costs of the audit work are being met from the Financial Services 2016-17 budgets.
Legal	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.
Corporate	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.
Equalities Act 2010 & Public Sector Equality Duty	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it. Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

<table>
<tr><td rowspan="2"></td><td><table><tr><td colspan="2">Please indicate which aim is relevant to the report.</td></tr><tr><td>Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,</td><td></td></tr><tr><td>Advance equality of opportunity between people who share a protected characteristic and people who do not share it</td><td></td></tr><tr><td>Foster good relations between people who share a protected characteristic and people who do not share it.</td><td></td></tr></table></td></tr>
<tr><td>There are no equity or equalities issues arising from this report.</td></tr>
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CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	
Promoting inward investment and job creation	
Supporting neighbourhoods	

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	X
Supporting the Workforce	
Promoting open communications	X

1.0 Introduction and Background

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 2016.

1.2 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.

1.3 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.

1.4 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.

1.5 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.

1.6 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.

1.7 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.

2.0 Summary of Work

2.1 There have been seven internal audit assignments completed during the period, of which three concluded substantial assurance, two concluded reasonable assurance, one concluded a split assurance of substantial/reasonable and one concluded limited assurance.

2.2 In addition, six follow-up reviews have been completed during the period.

2.3 For the six month period to 30th September 2016, 172.23 chargeable days were delivered against the planned target of 295.36 days which equates to 58% plan completion.

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

3.0 Options

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

3.2 That the changes to the agreed 2016-17 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved.

3.3 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.

3.4 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.

Contact Officer:	Christine Parker, Head of the Audit Partnership, Ext. 7190 Simon Webb, Deputy Head of Audit, Ext 7189
Reporting to:	Tim Willis, Director of Corporate Resources & s151 Officer, Ext. 7617

Annex List

Annex 1	East Kent Audit Partnership Update Report – 07-12-2016

Background Papers

Title	Details of where to access copy
Internal Audit Annual Plan 2016-17	Previously presented to and approved at the 15th March 2016 Governance and Audit Committee meeting
Internal Audit working papers	Held by the East Kent Audit Partnership

Corporate Consultation

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

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EAST KENT
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AUDIT PARTNERSHIP

QUARTERLY 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 2016.

2.0 SUMMARY OF REPORTS

	Service / Topic	Assurance level	No. of Recs.	
2.1	Members' Allowances & Expenses	Substantial	C H M L	0 0 0 0
2.2	Environmental Protection Service Requests/Complaints	Substantial	C H M L	0 0 0 3
2.3	Cemeteries and Crematorium	Substantial	C H M L	0 0 0 0
2.4	EK Services ICT Disaster Recovery	Substantial/ Reasonable	C H M L	0 5 1 1
2.5	EK Services Business Rates Reliefs	Reasonable	C H M L	0 0 3 2
2.6	Public Health Burials	Reasonable	C H M L	0 1 2 2
2.7	Playgrounds	Limited	C H M L	0 6 6 1

2.1 Members' Allowances & Expenses – Substantial Assurance:

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that Members' allowances and expenses are calculated and paid in accordance with the prevailing rules.

2.1.2 Summary of Findings

The Local Authorities (Members Allowances) (England) Regulations 2003 requires local authorities to prepare schemes for the payment of allowances to their Members. Authorities making schemes are required to make provision for the payment of basic allowances and may also provide for the payment of special responsibility allowances, dependants carers allowances, travelling and subsistence and co-optees` allowances.

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

- Established monthly processes are in place to verify, authorise and process claims that are submitted by Members.
- The Members' allowances scheme is reviewed on a regular basis through the Independent Remuneration Panel in conjunction with Canterbury City Council and Dover District Council.

2.2 Environmental Protection Service Requests – Substantial Assurance:

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council has an effective system of controls and procedures for investigating and responding to environmental protection complaints in the following areas:

- Dust;
- Smoke;
- Odour;
- Fumes;
- Animals;
- Noise;
- Accumulations ;
- Filthy and verminous premises; and
- Drainage.

2.2.2 Summary of Findings

The Council has a responsibility to investigate and respond to environmental protection complaints in the areas listed above:

Enforcement decisions and actions take into account the provisions of the Human Rights Act 1998, the Crime and Disorder Act 1998, the Police and Criminal Evidence Act 1984, the Criminal Procedure and Investigations Act 1996, Regulation of Investigatory Powers Act 2000, Equal right and anti-discrimination legislation along with any advice issued by the Government, the Chartered Institute of Environmental

Health and other relevant bodies. During 2015/16 the Council received a total of 3,278 internal and external service requests. Four cases were taken to court with a view to prosecute an offender.

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

- The policies and procedures in place are well established and well documented;
- The Council is compliant with legislative requirements;
- Information security within the M3 system was adequate;
- The key controls were proportionate and effective and;
- The multi-agency partnership protocols were well established.

Scope for improvement was however identified in the following areas:

- The website could be more user friendly giving customers the ability to find information themselves using the online services;
- The performance information reported to management could be improved; and
- The actions or notes recorded on the M3 system could be more consistent.

2.3 Cemeteries and Crematorium – 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 Council's cemetery and crematorium activities are undertaken efficiently and effectively in accordance with Council policy and procedures.

2.3.2 Summary of Findings

The Council operates the Thanet Crematorium and cemeteries at Ramsgate and Margate (St. John's). The crematorium deals with approximately 1,649 cremations per year and approximately 212 burials. Income arising from the Cemeteries and Crematorium Service for 2015/16 was £1,459,766 (actual) against a budget of £1,375,410. Expenditure relating to the service was £751,588 (actual) against the budget of £933,070. Thanet District Council is a member of the Institute of Cemeteries and Crematorium Management (I.C.C.M.) and their *Charter For The Bereaved* as well as the Federation of Burial and Cremation Authorities (F.B.C.A.).

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

- There is extensive information available to the public on the Council website and this is reviewed on a regular basis to ensure that it is up to date.
- Fees and charges are consistently applied in accordance with the approved Schedule of Fees and Charges.
- Effective arrangements are in place for the raising of invoices, collection of income, and the monitoring and recovery of any outstanding debts.
- Effective grave digging arrangements are in place.
- The cremators are serviced regularly.
- The cremator operators are appropriately trained and qualified.

- Regular health and safety inspections are undertaken at the cemeteries and crematorium.
- A memorial stability programme is in operation.

Scope for improvement was however identified in the following areas:

- Written procedure notes were previously out of date but are now currently in the process of being updated.
- An interface between the cemeteries and crematorium software application system (BACAS) and the Council's main accounting system (Cedar e-financials) is currently being developed, and when implemented will improve efficiency and control.

2.4 EK Services – ICT Disaster Recovery – Substantial / Reasonable

2.4.1 Audit Scope

To ensure that the controls over the administration of disaster recovery regarding the EK Services ICT function are robust and sufficient to enable the partner councils to place reliance upon them for this service.

2.4.2 Summary of Findings

EK Services maintains three data centres that support around 1500 users across the partner councils. The EK Services ICT annual budget is £2.4m and the total spend on IT across the partnership is around £4.5m.

Information systems can fail and the only way to protect valuable data from being lost is to have an appropriate back up and recovery system in place. In order for disaster recovery processes to be effective management must provide commitment:

- In terms of providing appropriate resources.
- To the identification of requirements and the planning and implementation of standby arrangements.
- To the testing of the disaster recovery arrangements and the need to report on the results and make changes to the plan as appropriate.
- To the need to update the plan in the light of changing systems, people, responsibilities and external events.

Management can place Substantial Assurance on the system of internal controls in operation within EK Services. However; Management can only place Reasonable Assurance on the internal controls in operation at each of the partner councils whilst the Business Continuity Plans are fully developed in liaison with EK Services.

The primary findings giving rise to this assurance opinion are as follows:

- EK Services ICT has an up to date Business Continuity Plan and Emergency Plan in place. It is the requirement of the partner councils to determine their own Business Continuity Plans and Impact Risk Assessments which remain ongoing and require further consultation with EK Services.
- EK Services ICT hold secure copies of their BCP, Emergency Plan and associated key device configurations, guidance and procedures securely and are accessible from any location in the event of a major disaster.

- Back ups are taken and held securely off site.
- Where ever possible EK Services ICT have built resilience into the network within the resources constraints available.

Scope for improvement was however identified in the following areas:

- The partner councils Business Continuity Plans and Impact Risk Assessments have either just been documented and require consultation with EK Services ICT, or are out of date and in the process of being reviewed.
- There is a lack of identification and prioritisation of critical systems, by the partner councils, for restore in the event of a major incident.
- Resource implications for effective disaster recovery require consideration in liaison with EK Services ICT.
- Constraints placed on EK Services ICT have limited the level and effectiveness of testing of system restores.

2.5 EK Services Business Rates Reliefs – Reasonable Assurance.

2.5.1 Audit Scope

To ensure that the partner councils' Business Rate accounts are administered by EK Services on their behalf correctly, to ensure the accurate documentation, proper approval and allocation of relevant reliefs from liability in compliance with government legislation.

2.5.2 Summary of Findings

For each property in the rating list for their area, the local authority calculates and issues a bill, which it is responsible for collecting, with powers to pursue payment. The ratable value which is prescribed by the Valuation Office is multiplied by the Uniform Business Rate, referred to in legislation as the non-domestic rating multiplier, to arrive at an annual bill. This function has been delegated to EK Services by the three local Councils: Canterbury City Council, Dover District Council & Thanet District Council by the implementation of a Collaboration Agreement and Service Level Agreements.

Some properties are eligible for discounts from the local council on their business rates. This is called 'business rates relief' and an application will need to be made to the relevant Council. The reliefs can be mandatory, discretionary or both and are:

- Charitable and non-profit making organisation relief
- Empty and partly occupied relief
- Rural property relief
- Small Business Rate Relief (SBRR)
- Transitional relief
- Hardship relief
- Enterprise Relief.

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

- There is a policy in place that governs the discretionary relief process;

- There is comprehensive information made available to the public via each authority's website, and;
- There is an efficient management regime in place and all partner councils are kept up to date.

Scope for improvement was however evidenced in the following areas:

- Procedures that govern the reliefs process need to document the daily roles; responsibilities and routines for the NNDR functions;
- The training regime being offered needs to be adequately documented to ensure that CPD is kept up to date and training opportunities are maximised;
- The discretionary reliefs policy needs to be applied and adhered to when processing all types of reliefs, and;
- Evidence in support of the application process needs to be placed on file for all applications.

2.6 Public Health Burials – Reasonable Assurance.

2.6.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established for Public Health Act Burials, ensuring that any burials undertaken are performed in line with procedures, and sufficient records maintained to safeguard the officer(s) making arrangements / fulfil statutory requirements should there be any estate.

2.6.2 Summary of Findings

The Council has a statutory responsibility to perform public health burials under the Public Health (Control of Disease) Act 1984 in circumstances when a resident in the area passes away outside of a hospital and there is no-one else willing to pay. During 2015/16 income arising from this activity was £9,733.52 and expenditure was £20,221.54. The three audits previous to this audit have concluded Limited Assurance in this area.

The number of public health burials undertaken by the Council in the past few years compared to the other East Kent Councils is as follows:

	Thanet	**Canterbury**	**Dover**	**Shepway**
2013/14	15	12	9	2
2014/15	20	8	9	6
2015/16	17	8	9	13
2016 to date	5	14	5	3
TOTAL	**57**	**42**	**32**	**24**

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

- The procedures in place are well documented and are a very useful guide to officers and management;

- Communication with external agencies and with members of the public was well documented and demonstrated a consistent approach and professionalism;
- System access controls were sufficient;
- The authorisation controls were good in most cases;
- The Council has an effective contractual arrangement in place with an undertaker for the provision of services in the event of a Public Health Act Burial and with international genealogists for the provision of tracing relatives; and
- Recovery processes are working effectively and are helping to offset against expenditure.

Scope for improvement was however identified in the following areas:

- The administrative fee applied to public health burials should be authorised as part of the approved fees and charges process and consistently applied;
- The audit trail of authorisations and audit trail of officer searches (names of officers in attendance) could be more consistently applied; and
- The way in which the storage facilities are used for personal and portable assets and possessions should be reviewed.

2.7 Playgrounds - Limited Assurance:

2.7.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the service provision regarding playgrounds and the equipment located within them ensures that they are safe, well maintained and are robust to meet their intended use for the future.

2.7.2 Summary of Findings

The Council is responsible for managing and monitoring 35 sites containing a combination of playgrounds, skate parks and multi-use game areas (MUGAs) in accordance with the Health and Safety at Work Act 1974; the Children Act 1989 and the Management of Health and Safety at Work Regulations 1999. 13 of these playgrounds are looked after by the Council on behalf of East Kent Housing for an income, in 2015/16, equating to £21,910 - dealt with as a recharge from the HRA. For 2016/17 the approved budget for revenue expenditure in respect of playgrounds was £45,420.

The operational and inspection framework in place is based upon best standards set out by ROSPA (Royal Society for the Prevention of Accidents). The system in place is called a three tier system (i.e. three levels of inspection). The three tier inspection framework is widely recognised as a good working model to have in place in line with best practice. This framework helps the Council comply with the European Playground Equipment Standard EN 1176 and EN 1177. The framework also helps provide a certain level of assurance that playgrounds and playground equipment is being monitored adequately.

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

- There were some weaknesses in all three tier inspection routines which increases the risk of a successful insurance claim being made against the Council;
- The audit trail of materials & methods used to repair defects could be improved;
- There is a need to ensure approved actions and responsibilities are recorded;
- There are a number of amendments that need to be made to the inspection sheets to ensure adequate information is being consistently recorded;
- There is an urgent need to independently survey the structural integrity of the Viking Ship located in the Viking Play Area, Cliftonville; and
- Policies and procedures should be introduced to support a new Open Spaces Strategy once it has been approved and implemented.

Effective control was however evidenced in the following areas:

- The three tier inspection framework is widely recognised as best practice;
- The Council is actively working on the production of an Open Spaces Strategy;
- The resourcefulness and working knowledge of the two mobile operatives as part of the tier one inspection routine was good;
- Budgetary controls were working effectively; and
- The insurance arrangements in place are good although claim information provided to management could be improved.

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

3.1 As part of the period's work, six 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. still outstanding	
a)	Visitor Information Arrangements	Substantial	Substantial	C H M L	0 0 3 0	C H M L	0 0 2 0
b)	East Kent Housing – Repairs, Maintenance & Void Mgmt.	Limited	Limited	C H M L	0 6 9 3	C H M L	0 0 2 0
c)	Employee Health, Safety & Welfare	Limited	Reasonable	C H M L	0 1 2 1	C H M L	0 0 0 0
d)	Museums Interim follow-up – please see detail below						
e)	Safeguarding	Limited	Limited	C	0	C	0

	Service/ Topic	Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs. still outstanding	
	Children & Vulnerable Groups			H M L	4 4 5	H M L	4 2 5
f)	EK Services – ICT Physical & Environmental	Reasonable	Reasonable	C H M L	0 1 4 0	C H M L	0 1 1 0

3.2 Details of any individual Critical and 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.

3.3 As highlighted in the above table, those areas previously reported as having either Limited or No assurance have been reviewed and, in respect of those remaining at below Reasonable assurance, Members are advised as follows:

b) East Kent Housing – Repairs Maintenance & Void Management:

The main issues, identified at the time of the initial review, that needed to be addressed were surrounding:

- A significant number of variations to job costs at Dover by the contractor without documented approval from EKH.
- High numbers of repairs older than 30 days not being investigated.
- Quotes were not being received for work undertaken outside of the *Price Per Prope*rty (PPP) contract with a value in excess of £1,000 at Canterbury.
- A lack of defined procedures in place for the post inspection of planned maintenance work resulting in confusion over roles and responsibilities. In terms of both informing officers of the work requiring inspection and then the reporting of inspection results.
- Charges for rechargeable works are not being raised and collected in 3 areas.

Whist progress has been made in most of the areas where weaknesses were identified, there remains a number of recommendations which are either not yet fully implemented, or have been implemented so recently that they are not yet fully embedded in standard practices, an example of which surrounds the post inspection of planned maintenance work which was only implemented in May 2016.

Variations to job costs were identified in the original review as an area requiring improvement, our review of job costs varied by more than £150 for jobs completed in April & May 16 identified 96 jobs varied by more than £150, but the correct authorisation had only been granted by EKH officers for 25 of the jobs.

Our testing of repairs undertaken outside of the *Price Per Prope*rty (PPP) contract at Canterbury with a value in excess of £1,000 during April and May 16 identified 34 jobs with a cost in excess of £1,000 per job. Officers had not obtained quotes for 11 of the jobs which had a combined value of £26,895.

The procedures surrounding the inspection of planned maintenance work were identified in the original review as having weaknesses evident. Our testing confirms that revised procedures were introduced in May 2016 which have resulted in inspections being better documented, however it was also identified that no post inspections have been recorded for kitchens and bathrooms in both the Thanet and Canterbury areas. Therefore while procedures for post inspections of planned maintenance work are now being better documented, weaknesses continue to be evident.

Similarly post inspections of repairs at Dover are now subject to management review, however approximately 20% of work post inspected continues to fail post inspection, yet the there is no evidence to show that procedures for post inspections have been revised to attempt to reduce the proportion of work failing post inspections.

d) Museums Interim follow-up:

A full follow-up review will be undertaken in April 2017 and reported to Governance and Audit Committee in June 2017. In the interim, Committee is advised of the following action which is in progress:

- The new Director of Community Services has identified the need to improve assurance in particular by engaging more effectively with key stakeholders and by seeking Cabinet approval for a programme of action that will put the museums on a more sustainable footing, addressing governance, staffing and investment issues.
- Discussions are underway to put a Service Level Agreement in place which will enable the Friends of Margate Museum to register as a charity.
- The Cabinet has agreed that Dickens House should be registered as a Trust with Thanet District Council as the sole trustee. Approval has also been secured to address short term management issues with a view to appointing additional /replacement trustees in due course
- Grant funding has been secured to catalogue the collection. This will allow artefacts to be valued for insurance purposes, to understand the extent of the collection and whether there have been any losses, and inform decisions about where the collection should be held
- A bid to the HLF resilience fund is in preparation which will fund a Project Manager and feasibility studies in order to identify options for the museum estate going forward. These options include focusing on fewer buildings in order to reduce liabilities, generate potential receipts while enhancing the visitor experience. The Project Manager will also have the capacity to put together funding bids to implement in preferred investment strategy.

e) Safeguarding Children and Vulnerable Groups:

Safeguarding is becoming more corporately owned through the setting up of various forums, board members, meetings, and training regimes. The new post of Safeguarding Officer was filled in September 2016 and should now enable the recommendations to be bought to a resolution.

The recommendations contained within the final audit report were based upon the implementation of a new policy, which at the time of follow-up was still to be approved.

The primary concern relates to the register, which remains incomplete and primarily out of date. Two thirds of the recognised posts requiring a DBS check were highlighted as either an incomplete record, missing or out of date DBS check. As such, a decision is required on what steps need to be taken to mitigate any risks the Council is exposed to with regards to recognised post holders going about their daily duties and maintaining contact with vulnerable persons.

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: Tenancy & Estate Management, Officer Code of Conduct and Gifts and Hospitality, Local Code of Corporate Governance, Private Sector Housing (HMO and Selective Licensing), Coastal Management, Homelessness, and Maritime Services.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2016-17 internal audit plan was agreed by Members at the meeting of this Committee on 15th March 2016.

5.2 The Head of the Audit Partnership meets on a quarterly 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 2016, 172.23 chargeable days were delivered against the planned target of 295.36 days which equates to 58% 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 Critical and High priority recommendations outstanding after follow-up.
Appendix 2 Summary of services with Limited / No Assurances.
Appendix 3 Progress to 30th September 2016 against the agreed 2015-16 Audit Plan.
Appendix 4 EKAP Balanced Scorecard of Performance Indicators to 30th September 2016.
Appendix 5 Definition of Audit Assurance Statements & Recommendation Priorities

SUMMARY OF CRITICAL & HIGH PRIORITY RECOMMENDATIONS STILL OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1		
Original Recommendation	**Agreed Management Action , Responsibility and Target Date**	**Manager's Comment on Progress Towards Implementation.**
EK Services - ICT Physical & Environmental Controls:		
To install a gaseous fire suppressant system (DDC) in line with other local authorities.	This issue will be raised at the next DDC Client meeting. **Proposed Completion Date** March 2016 **Responsibility** Head of ICT	The issue of fire suppressant was raised by the Head of ICT with the DDC Client Officer in 2015 and at subsequent meetings; no agreement has been reached. Outstanding.
Safeguarding Children & Vulnerable Groups – November 2016:		
In accordance with the policy, HR in consultation with the Lead Officer, should maintain, update & publish the list of post holders requiring a DBS check.	As per recommendation 2 List of job roles requiring a check to be held on EKHR/ TDC intranet. **Proposed Completion Date-** May 2016 **Responsibility -** Designated Safeguarding Officer	**Managers comments** - As per recommendation 2 comments. **Update** - on 17/10 the newly appointed safeguarding officer advised that the register had been completed on 07/10/16 and will now be monitored and updated. The register was pulled together from four sources of information and has identified 63 posts as requiring a form of DBS check, some of these are voluntary posts. The list posted on the website only identifies 45 posts and states that the list is correct as at 14/07/14. Therefore, the post holder list being displayed on the webpage appears not to have been updated and the webpage is out of date.

SUMMARY OF CRITICAL & HIGH PRIORITY RECOMMENDATIONS STILL OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1

Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
		To remedy this, the Safeguarding officer has advised that they will carry our further checks between the information currently being maintained by the Council with that being published to ensure that it accurately reflects the true position of the Council. **Partially implemented – to be finalised by December 2016**
A register should be maintained to ensure the re-checking of DBS occurs every three years, in line with the DBS policy and that DBS paperwork has been received and checked before the post holder is employed.	DBS Spreadsheet is held by TDC lead officer and sent quarterly or as required to EKHR. Columns include evidence of the certificate number, date of issue and date of expiry. Copies of completed certificates are requested from staff when received as Employer no longer gets a copy sent to them. This is scanned by TDC community safety officers and held on file for 6 months. **Proposed Completion Date-** May 2016 **Responsibility -** Designated Safeguarding Officer	**Managers comments** - This has been completed, ongoing process notifying lead officer of new appointments currently being established with HR. **Update**– Testing identified that the register (compiled and completed on 07/10/16) identifies, to date, 63 posts/persons on the register that require a form of DBS check. These posts were highlighted as either: • Green - indicates that the information is correct and up to date; or • Red - indicates that there is a concern with the entry, be it no detail, part details or out of date. Out of these 63 records 20 were highlighted green, this represents only a third of posts as having relevant DBS checks at the time of follow-up. The Council's 2013 Policy (active until

SUMMARY OF CRITICAL & HIGH PRIORITY RECOMMENDATIONS STILL OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1		
Original Recommendation	**Agreed Management Action , Responsibility and Target Date**	**Manager's Comment on Progress Towards Implementation.**
		replaced with the refreshed policy) clearly states at Page 4 'These checks are renewed every three years in line with Central Government legislation' however, the evidence provided indicates this renewal process has not been carried out. A copy of the certificate is maintained on the HR file, this copying process should be reviewed to ensure it is permitted by the legislation. The register is a live working document that needs further work to ensure the information remains current and up to date. 43 posts need to have current up to date DBS checks. The Council must consider the risk of letting those post holders remain in contact with vulnerable groups until a relevant check is in place. **Partially implemented – to be finalised by December 2016**
To ensure that all members of staff undertake and refresh their knowledge of Child Protection and Safeguarding issues, any relevant training modules to be completed regularly by all staff and recorded as part of the appraisal process.	The e-learning safeguarding module is part of the formal induction process and therefore all new starters should be completing this. The module is on the compulsory e-learning update list requested by the CEO and therefore it is envisaged that the % of those completing will increase in 2016.	**Managers comments** - Full Council wide e-learning refresh has been completed, currently running at 96% completion rate. Further classroom based inputs planned for remote working staff and to enhance managers and safeguarding champions. Further classroom inputs delayed due to deputy designated officer leaving authority

SUMMARY OF CRITICAL & HIGH PRIORITY RECOMMENDATIONS STILL OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1		
Original Recommendation	**Agreed Management Action , Responsibility and Target Date**	**Manager's Comment on Progress Towards Implementation.**
	A full analysis of all job roles has been undertaken as part of the policy refresh and each role has been allocated a 'level' of training ranging from basic awareness, e-learning, formal classroom and specific 'designated person' training. **Proposed Completion Date-** Formal classroom based training – Sept 2016 E-learning On-going **Responsibility -** Designated Safeguarding Officer & EKHR Officer	and officer capacity. Job evaluation has been completed; a full list of all roles has now been compiled and is held by the Designated CP Officer and HR. **<u>Update</u>** On-Line courses have been completed and training records are being maintained by the Safeguarding Officer, there is one more classroom based exercise to be completed for staff that does not have use of a computer. Further training courses have been identified and are in place and training dates will be given to Managers once the New Policy has been implemented. Training needs to be monitored and maintained annually, as per policy recommendations. **Partially implemented – To be finalised by December 2016**
Establish the legal requirements for data retention for these types of referrals and document this within the Policy and ensure that file types are managed correctly within the Civica system.	New policy clearly indicates retention of records on Civica. Procedures for completing clear up of records state process for deleting files.	**<u>Managers Comments</u>** - This has now been addressed corporately. **<u>Update</u>** – There is a corporate Retention & Disposal Protocol for staff to follow, this is

SUMMARY OF CRITICAL & HIGH PRIORITY RECOMMENDATIONS STILL OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1		
Original Recommendation	**Agreed Management Action , Responsibility and Target Date**	**Manager's Comment on Progress Towards Implementation.**
	Retention timescales set in accordance with national guidance. **Proposed Completion Date-** May 2016 **Responsibility -** Designated Safeguarding Officer	available on-line. This corporate process needs to be followed and timescales documented for record retention. The new Safeguarding policy is yet to be authorised and adopted by Management Team, upon reviewong this it would apear that retention of records has not been defined/referenced. The follow-up process identified the use of a further system for recording a safeguarding concern – the M3 system. Data protection; Data retention; Data review and the need for further barring/police checks were highlighted and discussed with the Safeguarding Officer as access to records will need to be controlled i.e. systems administrators who have the access and ability to view all sensitive records. **Partially implemented – to be finalised by December 2016**

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED – APPENDIX 2			
Service	**Reported to Committee**	**Level of Assurance**	**Follow-up Action Due**
Museums	March 2016	Limited	April 2017 follow-up to be reported to Ctte. in June 2017
Street Cleansing	September 2016	Limited	January 2017
Grounds Maintenance	September 2016	Limited	April 2017
EKS – PCI DSS	September 2016	Limited	Spring 2017
Playgrounds	December 2016	Limited	Spring 2017

PROGRESS TO DATE AGAINST THE AGREED 2016-17 AUDIT PLAN – APPENDIX 3

THANET DISTRICT COUNCIL:

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2016	Status and Assurance Level
FINANCIAL SYSTEMS:				
Main Accounting System	10	10	0.99	Work-in-Progress
Budgetary Control	10	10	1.23	Work-in-Progress
RESIDUAL HOUSING SERVICES:				
Homelessness	10	10	11.93	Work-in-Progress
GOVERNANCE RELATED:				
Member Code of Conduct & Standards Arrangements	10	10	9.04	Finalised - Substantial
Officer Code of Conduct, Register of Interests, and Gifts and Hospitality	10	10	0.17	Work-in-Progress
Local Code of Corporate Governance	7	7	0.17	Work-in-Progress
Anti-Fraud & Corruption	9	0	0	Postpone until 2017-18
Performance Management	10	0	0	Postpone until 2017-18
Project Management	10	0	0	Postpone until 2017-18
Corporate Advice/CMT	2	2	1.53	Work-in-progress throughout 2016-17
s.151 Officer Meetings and Support	9	9	6.33	Work-in-progress throughout 2016-17
Governance & Audit Committee Meetings and Report Preparation	12	12	7.87	Work-in-progress throughout 2016-17
2017-18 Audit Plan and Preparation Meetings	9	9	0.94	Quarter 4
CONTRACT RELATED:				
Service Contract Management	10	10	0	Quarter 4
Procurement	10	10	0.17	Work-in-Progress
SERVICE LEVEL:				
Cemeteries & Crematoria	10	10	8.54	Finalised - Substantial
S11 Safeguarding Return to KCC	1	1	0	Quarter 4
HMO & Selective Licensing	10	10	0.17	Work-in-Progress
Coastal Management	10	10	2.84	Work-in-Progress
Public Health Burials	6	6	3.37	Finalised - Reasonable

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2016	Status and Assurance Level
Environmental Protection Service Requests	10	10	9.94	Finalised - Substantial
Playgrounds	8	8	9.76	Finalised - Limited
Events Management	10	10	0	Quarter 4
Disabled Facilities Grants	10	10	9.36	Finalised - Substantial
Asset Management	10	10	0	Quarter 4
Maritime	12	12	1.74	Work-in-Progress
Members Allowances & Expenses	10	10	5.53	Finalised - Substantial
Building Control	10	10	1.65	Work-in-Progress
Imprest Floats & Travel Warrants	6	6	6.03	Finalised - Substantial
Phones, Mobiles & Utilities	7	3	0	Quarter 4
OTHER :				
Liaison With External Auditors	2	0	0	Work-in-progress throughout 2016-17
Follow-up Reviews	10	10	15.10	Work-in-progress throughout 2016-17
FINALISATION OF 2015-16 AUDITS:				
Days under delivered in 2015-16	0	-4.64	0	Completed
Grounds Maintenance	5	32	10.52	Finalised – Limited
Street Cleansing			9.74	Finalised – Limited
Planning Applications, Income & s106 Agreements			13.61	Finalised – Reasonable/Limited
Museums			1.28	Finalised - Limited
Recruitment			5.43	Work-in-Progress
UNPLANNED:				
Car Parking – Key Control Testing	0	2	2.37	Finalised
Post Implementation Review	0	5	9.74	Finalised
CSO Compliance Query	0	0	0.84	Finalised
Safeguarding referral	0	0	3.3	Finalised
Referendum – 1 Presiding Officer	0	1	1	Finalised
EK HUMAN RESOURCES:				
Payroll	5	5	0	Work-in-Progress
Employee Benefits-in-Kind	5	5	0	Work-in-Progress

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2016	Status and Assurance Level
Leavers/Disciplinary	5	5	0	Work-in-Progress
TOTAL	**300**	**295.36**	**172.23**	**58% as at 30-09-2016**

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2016	Status and Assurance Level
Planned Work:				
Governance	15	0	0	Postponed to future audit plan
Finance Systems and ICT Controls	15	0	0	Postponed to future audit plan
Audit Ctte/EA Liaison/Follow-up	6	6	7.84	Work-in-progress throughout 2016-17
Rent Accounting & Collection	15	15	0	Quarter 4
Tenancy & Estate Management	29	29	9.27	Work-in-Progress
Days over delivered in 2015-16	0	-18.15	0	Completed
Unplanned Work:				
Procurement	0	15	14.31	Finalised
Repairs & Maintenance Contract Query	0	0	0.37	Finalised
Single System Controls	0	15	2.08	Work-in-Progress
Total	**80**	**61.85**	**33.87**	**55% at 30-09-2016**

EK SERVICES:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2016	Status and Assurance Level
Planned Work:				
Housing Benefit Overpayments	15	15	13.85	Finalised - Substantial
Fraud Investigations	15	0	0.64	No longer required
Housing Benefit Subsidy	15	15	0.26	Quarter 3

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2016	Status and Assurance Level
Council Tax	30	20	0.10	Quarter 3
Customer Services	15	15	15.31	Finalised - Substantial
ICT Change Controls	12	12	0.20	Quarter 3
ICT Software Licensing	12	12	0	Quarter 3
ICT Network Security	12	12	0	Quarter 4
Corporate/Committee	8	8	3.23	Ongoing
Follow-up	6	6	1.26	Work-in-progress throughout 2016-17
DDC / TDC Quarterly Housing Benefit Testing	20	20	9.28	Work-in-progress throughout 2016-17
Finalisation of 2015-16 work-in-progress	0	25	25.96	Completed
Days under delivered in 2015-16	7.33	7.33	7.33	Completed
Total	**167.33**	**167.33**	**77.42**	**46% at 30-09-2016**

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APPENDIX 4

BALANCED SCORECARD – QUARTER 1

INTERNAL PROCESSES PERSPECTIVE:	**2016-17 Actual**	**Target**	**FINANCIAL PERSPECTIVE:**	**2016-17 Actual**	**Original Budget**
	Quarter 2		**Reported Annually**		
Chargeable as % of available days	**87%**	**80%**	• **Cost per Audit Day**	**£**	**£326.61**
Chargeable days as % of planned days			• **Direct Costs**	**£**	**£419,420**
CCC	**59%**	**50%**	• **+ Indirect Costs (Recharges from Host)**	**£**	
DDC	**49%**	**50%**			
SDC	**45%**	**50%**	• **- 'Unplanned Income'**	**£**	**£11,700**
TDC	**58%**	**50%**			
EKS	**46%**	**50%**	• **= Net EKAP cost (all Partners)**	**£**	**Zero**
EKH	**55%**	**50%**			
Overall	**51%**	**50%**	• **Saving Target**	**£**	**£431,120**
Follow up/ Progress Reviews;					**10%**
• **Issued**	**44**	**-**			
• **Not yet due**	**28**	**-**			
• **Now due for Follow Up**	**29**	**-**			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	**Partial**	**Full**			

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APPENDIX 4

BALANCED SCORECARD – QUARTER 1

CUSTOMER PERSPECTIVE:	**2016-17 Actual** **Quarter 2**	**Target**	**INNOVATION & LEARNING PERSPECTIVE:**	**2016-17 Actual** **Quarter 2**	**Target**
Number of Satisfaction Questionnaires Issued;	**37**		**Percentage of staff qualified to relevant technician level**	**83%**	**75%**
Number of completed questionnaires received back;	**20** **= 54%**		**Percentage of staff holding a relevant higher level qualification**	**36%**	**32%**
Percentage of Customers who felt that;			**Percentage of staff studying for a relevant professional qualification**	**28%**	**N/A**
• **Interviews were conducted in a professional manner**	**100%**	**100%**	**Number of days technical training per FTE**	**0.61**	**3.5**
• **The audit report was 'Good' or better**	**100%**	**100%**	**Percentage of staff meeting formal CPD requirements (post qualification)**	**36%**	**32%**
• **That the audit was worthwhile.**	**100%**	**100%**			

Appendix 5

Definition of Audit Assurance Statements & Recommendation Priorities

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.

Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

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Appointing External Auditors

G&A Committee	**7 December 2016**
Report Author	**Director of Corporate Resources and s151 officer**
Portfolio Holder	**Cllr John Townend, Portfolio Holder - Finance and Estates**
Status	**For Information**
Classification:	**Unrestricted**
Key Decision	**No**
Ward:	**All Wards**

Executive Summary:

To propose acceptance of the offer to join the designated collective scheme for auditor appointments via Public Sector Audit Appointments Ltd (PSAA) to manage the appointment of external auditors and achieve the best price.

Recommendation(s):

That Members agree acceptance of the PSAA offer and refer agreement to Council.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications of the budget are laid out within the body of the report.
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, this is the Director of Corporate Resources, and this report is helping to carry out that function. The requirements of other relevant statute have been referenced within the body of this report, where relevant.
Corporate	Corporate priorities can only be delivered with robust finances. Both the draft budget and the level of reserves recommended in this report are believed to be sufficient to meet these priorities and develop Services.
Equalities Act 2010 & Public Sector Equality Duty	Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it. Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

Please indicate which aim is relevant to the report.	
Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,	
Advance equality of opportunity between people who share a protected characteristic and people who do not share it	
Foster good relations between people who share a protected characteristic and people who do not share it.	

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

It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council, as a result a full equality impact assessment will be undertaken for any specific service changes where appropriate.

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	✓
Promoting inward investment and job creation	✓
Supporting neighbourhoods	✓

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	✓

1.0 Introduction and purpose of report

1.1 The current contracts with external audit firms expire with the completion of the 2017-18 audits for local government bodies. The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

1.2 Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

2.0 Background

2.1 Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. In this area, it is the successor to the Audit Commission, which closed on 31 March 2015.

2.2 PSAA has been designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views. The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

3.0 Timetable

3.0 PSAA needs to receive the Council's formal acceptance of this invitation by 9 March 2017. In addition, the relevant regulations require that the decision to accept the invitation and to opt in needs to be made by the Members of the authority meeting as a whole. Hence consideration by G&A Committee on 7 December 2016 and Council on 9 February 2017.

4.0 Financial Implications

4.1 The budget for external auditors is £107,500, which contains the current charge.

Contact Officer:	Tim Willis, Director of Corporate Resources and S151 Officer
Reporting to:	Madeline Homer, Chief Executive

Background Papers

Title	Details of where to access copy
Invitation to opt into the national scheme for auditor Appointments.	Website: www.psaa.co.uk Email to CE October 27, 2016

Corporate Consultation

Finance	*N/A – report authors*
Legal	*Tim Howes, Director of Corporate Governance*

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TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW REPORT 2016/17

Meeting	**Governance and Audit Committee – 7 Dec 2016**
Report Author	**Tim Willis, Director of Corporate Resources & Section 151 Officer**
Portfolio Holder	**Councillor John Townend, Portfolio Holder for Financial Services and Estates**
Status	**For Decision**
Classification:	**Unrestricted**
Key Decision	**No**

Executive Summary:

This report summarises treasury management activity and prudential/treasury indicators for the first half of 2016/17.

Recommendation(s):

That the Governance and Audit Committee:

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

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications are highlighted in this report.
Legal	Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the Council's finances. For this Council, this is the Director of Corporate Resources, Tim Willis, and this report is helping to carry out that function.
Corporate	Failure to undertake this process will impact on the Council's compliance with the Treasury Management Code of Practice.
Equalities Act 2010 & Public Sector Equality Duty	There are no equity and equalities implications arising directly from this report, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

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

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	
Promoting inward investment and job creation	
Supporting neighbourhoods	

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	

1 Introduction and 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."

1.4 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.

1.5 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.

1.6 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 first half of the 2016/17 financial year;
- 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 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken during 2016/17;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

1.7 There have not been any key changes to the Treasury and Capital Strategies during the first half of 2016/17.

2 Capita's Interest rate forecasts (issued by Capita on 5 October 2016)

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

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

2.2 Capita undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

2.3 The overall longer run trend is for gilt yields and Public Works Loan Board (PWLB) rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

2.4 The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

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

- The pace and timing 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.

3 Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 4 February 2016. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

3.2 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 2016.

4 The Council's Capital Position (Prudential Indicators)

4.1 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.

4.2 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.

The revised estimate includes carry-forward from the previous year of £8.941m General Fund and £11.640m HRA.

Capital Expenditure	2016/17 Original Estimate £m	Current Position – Actual at 30/09/16 £m	2016/17 Revised Estimate £m
General Fund	4.332	2.238	12.311
HRA	11.450	1.498	22.177
Total	**15.782**	**3.736**	**34.488**

4.3 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	**2016/17 Original Estimate £m Total**	**Current Position – Actual at 30/9/16 £m**	**2016/17 Revised Estimate £m GF**	**2016/17 Revised Estimate £m HRA**	**2016/17 Revised Estimate £m Total**
Total spend	15.782	3.736	12.311	22.177	34.488
Financed by:					
Capital receipts	1.995		3.356	0.736	4.092
Capital grants	2.012		5.691	3.297	8.988
Capital reserves	4.739		0.081	8.717	8.798
Revenue	1.522		0.143	2.191	2.334
Total financing	10.268		9.271	14.941	24.212
Borrowing need	**5.514**		**3.040**	**7.236**	**10.276**

4.4 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, which 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

	2016/17 Original Estimate £m	**Current Position – Actual at 30/9/16 £m**	**2016/17 Revised Estimate £m**
Prudential Indicator – Capital Financing Requirement			
CFR – non housing	28.856		29.189
CFR – housing	27.282		27.477
Total CFR	56.138		56.666
Net movement in CFR	**8.831**		**9.358**
Prudential Indicator – the Operational Boundary for external debt			
Borrowing	46.000	31.980	46.000
Other long term liabilities*	12.000	3.485	12.000
Total debt	**58.000**	**35.465**	**58.000**

** 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.*

4.5 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 2016/17 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.

	2016/17 Original Estimate £m	Current Position – Actual at 30/09/16 £m	2016/17 Revised Estimate £m
Gross borrowing	40.602	31.980	40.434
Plus other long term liabilities*	3.579	3.485	3.315
Total gross borrowing	44.181	35.465	43.749
CFR (year end position)	56.138		56.666

** 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	2016/17 Original Indicator £m	Current Position – Actual at 30/09/16 £m	2016/17 Revised Indicator £m
Borrowing	51.000	31.980	51.000
Other long term liabilities*	15.000	3.485	15.000
Total	66.000	35.465	66.000

** 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 Investment Portfolio 2015/16

5.1 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 current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

5.2 The Council held £43.782m of investments as at 30 September 2016 (£28.612m at 31 March 2016) and the investment portfolio yield for the first six months of the year is 0.59% against a benchmark (average 7-day LIBID rate) of 0.28%. The constituent investments are:

Sector	Country	Up to 1 year £m	1 year – 370 days £m	Total £m
Banks	UK	13.758	0.000	13.758
Banks	Sweden	3.976	0.000	3.976
Money Market Funds	UK	26.048	0.000	26.048
Total		**43.782**	**0.000**	**43.782**

5.3 The Section 151 Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

5.4 The Council's budgeted investment return for 2016/17 is £0.165m and performance for the first half of the financial year is above budget at £0.117m.

5.5 Investment Risk Benchmarking

Investment risk benchmarks were set in the 2016/17 Treasury Management Strategy Statement (TMSS) for security, liquidity and yield. The mid-year position against these benchmarks is given below.

5.5.1 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.

5.5.2 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.

5.5.3 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 0.59% against a benchmark (average 7-day LIBID rate) of 0.28%.

5.6 Investment Counterparty criteria

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

6 Borrowing

6.1 The Council's capital financing requirement (CFR) original estimate for 2016/17 is £56.138m. 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 £31.980m (table 4.5) and has utilised an estimated £24.158m 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.

6.2 Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement – CFR), new external borrowing of £3.000m was undertaken from the PWLB during the first half of the financial year, as below.

- £2.000m loan for 22.5 years at a fixed interest rate of 3.09%, repayable at maturity.

- £1.000m loan for 7 years at a fixed interest rate of 1.28%, repayable by equal instalments of principal over the life of the loan.

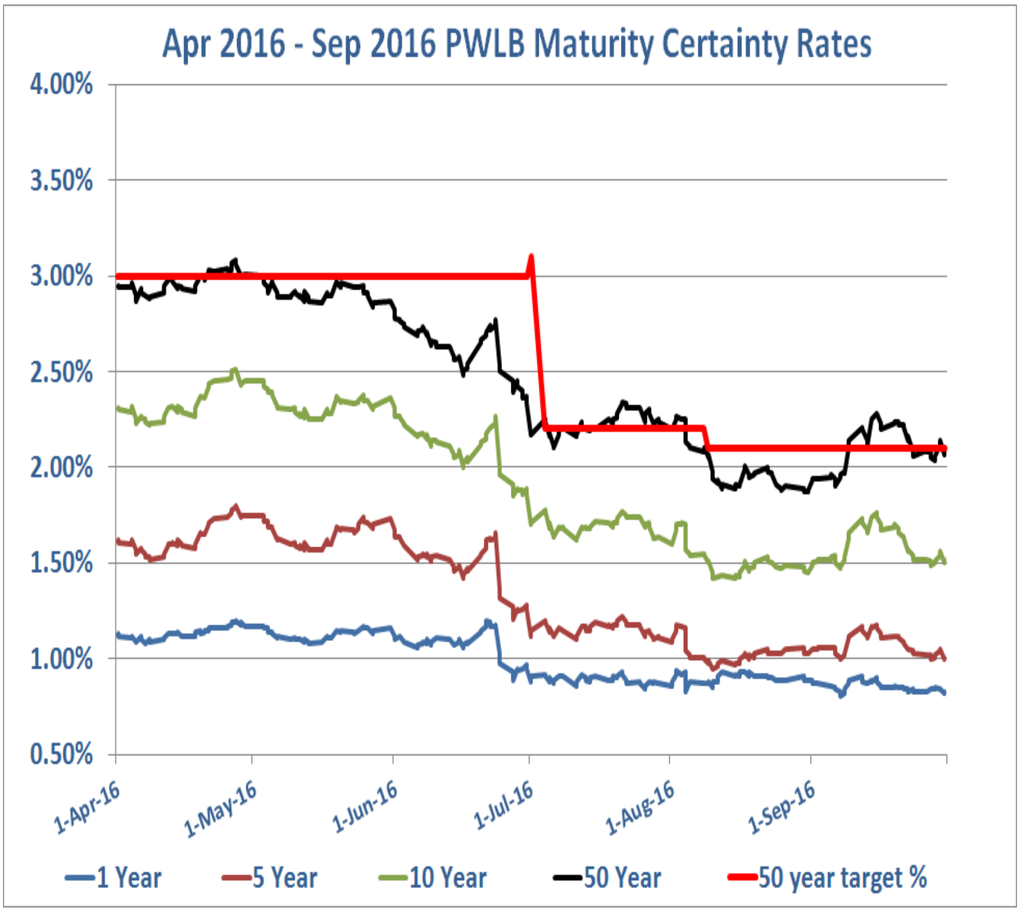
6.3 As shown in the graph below, the general trend to date has been a sharp fall in interest rates in the current financial year.

6.4 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.

6.5 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to 30 September 2016.

6.6 PWLB certainty rates, half year ended 30th September 2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
30/9/16	0.83%	1.01%	1.52%	2.27%	2.10%
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.99%	1.33%	1.92%	2.69%	2.46%



6.7 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.

6.8 The Council's budgeted debt interest payable for 2016/17 is £1.654m and performance for the first half of the financial year is below budget at £0.583m.

7 Treasury Management Indicators

7.1 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.

%	2016/17 Original Indicator	2016/17 Revised Indicator
Non-HRA	10.2%	6.9%
HRA	8.3%	8.3%

7.2 **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:

	2016/17 Original Indicator £m	Current Position – Actual at 30/09/16 £m	2016/17 Revised Indicator £m
Upper limits on fixed interest rates			
Debt only	66.000	31.980	66.000
Investments only	45.000	11.789	45.000
Upper limits on variable interest rates			
Debt only	66.000	0.000	66.000
Investments only	50.000	31.993	50.000

7.3 **Maturity Structures of Borrowing**

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

	2016/17 Original Upper Limit	Current Position – Actual at 30/09/16	2016/17 Revised Upper Limit
Maturity structure of fixed rate borrowing			
Under 12 months	50%	16%	50%
1 year to under 2 years	50%	2%	50%
2 years to under 5 years	50%	32%	50%
5 years to under 10 years	55%	11%	55%
10 years to under 20 years	50%	21%	50%
20 years to under 30 years	50%	9%	50%
30 years to under 40 years	50%	6%	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.

8 **Options**

8.1 The recommended option (to ensure regulatory compliance as set out in section 1 of this report) is that the Governance and Audit Committee:

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

8.2 Alternatively, the Governance and Audit Committee may decide not to do this and advise the reason(s) why.

9 Next Steps

9.1 This report is to go to Cabinet and then Council for approval. The next Cabinet meeting is on 17 January 2017.

10 Disclaimer

10.1 This report (including annexes) 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, Director of Corporate Resources & Section 151 Officer, extn 7617
Reporting to:	Madeline Homer, Chief Executive

Annex List

Annex 1	Economic Update and Debt Maturity
Annex 2	Guidance on the Treasury Management Strategy Statement and Annual Investment Strategy – Mid Year Review Report 2016/17

Corporate Consultation Undertaken

Finance	Peter Timmins, Interim Head of Financial Services
Legal	Tim Howes, Director of Corporate Governance & Monitoring Officer

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ANNEX 1 – ECONOMIC UPDATE AND DEBT MATURITY

1.0 Capita's Economic Update (issued by Capita on 5 October 2016)

1.1 UK Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the Group of 7 (G7) countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the European Union (EU), China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

1.2 The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced, after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

1.3 The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. The Consumer Price Index (CPI) has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the Monetary Policy Committee (MPC) is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

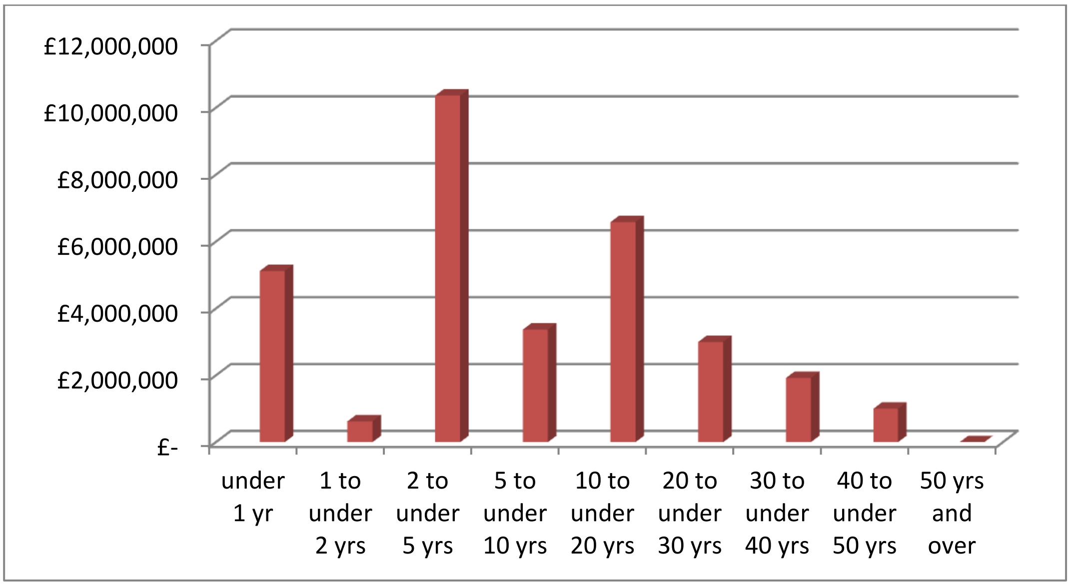
1.4 The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Federal Reserve (Fed) embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

1.5 In the Eurozone, the European Central Bank (ECB) commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected Eurozone (EZ) countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

1.6 Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

2.0 Debt Maturity

2.1 The maturity structure of the Council's borrowing as at 30 September 2016 (as per section 8 of the main report) is shown below in graph format.



ANNEX 2 – GUIDANCE ON THE TREASURY MANAGEMENT STRATGEY STATEMENT AND ANNUAL INVESTMENT STRTAGEY – MID YEAR REVIEW REPORT 2016/17

Prudential Code

The Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice for capital finance, to which local authorities must have regard.

Capital Expenditure

The Capital Expenditure table (section 4.3 of report) is split between the Council's Housing Revenue Account (HRA) and General Fund (GF or non-HRA). The HRA is a 'ring-fenced' account for local authority housing.

The table also shows the resources used to fund the capital expenditure (being capital receipts from the sale of assets, capital grants, capital reserves and revenue) and any shortfall in resources. This shortfall represents the Council's borrowing need.

Borrowing Limits

The Capital Financing Requirement (CFR) represents the Council's aggregate borrowing need. i.e. the element of the capital programme that cannot be funded. Borrowing may only be undertaken for capital expenditure purposes.

The Limits to Borrowing Activity table (section 4.5 of report) shows that the Council's debt is not more than the CFR because, as above, the CFR represents the Council's aggregate borrowing need.

Borrowing limits (sections 4.5, 7.2 and 7.3 of report) – there are various general controls on the Council's borrowing activity (operational boundary, authorised limit, fixed and variable interest rate exposures, and maturity profiles).

Investments

General controls on the Council's investment activity to safeguard the security and liquidity of its investments (as set out in the Council's Annual Investment Strategy), include:

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.
- Limits on the Council's fixed and variable interest rate exposures.
- Minimum size of the Council's bank overdraft facility.

Borrowing Sources/ Types

PWLB (section 6 of report) is the Public Works Loan Board which is a statutory body operating within the UK Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities, and to collect the repayments.

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

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

Financing Costs as a Proportion of Net Revenue Stream

This shows (section 7.1 of report), separately for HRA and GF, the percentage of the Council's revenue stream that is used to finance the CFR (net interest payable and Minimum Revenue Provision (MRP)).

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

TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2017/18

Meeting	**Governance and Audit Committee – 7 Dec 2016**
Report Author	**Tim Willis, Director of Corporate Resources & Section 151 Officer**
Portfolio Holder	**Councillor John Townend, Portfolio Holder for Financial Services and Estates**
Status	**For Decision**
Classification:	**Unrestricted**

Executive Summary:

This report and annexes includes the proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2017/18.

Recommendation(s):

That the Governance and Audit Committee approves this report and annexes and recommends that it is approved by Cabinet and Council.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The financial implications are highlighted in this report and annexes.
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 and annexes is helping to carry out that function.
Corporate	Failure to undertake this process will impact on the Council's compliance with the Treasury Management Code of Practice.

Equalities Act 2010 & Public Sector Equality Duty	There are no equity and equalities implications arising directly from this report and annexes, but the Council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these. It is important to be aware of the Council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by Council.

CORPORATE PRIORITIES (tick those relevant)✓	
A clean and welcoming Environment	
Promoting inward investment and job creation	
Supporting neighbourhoods	

CORPORATE VALUES (tick those relevant)✓	
Delivering value for money	✓
Supporting the Workforce	
Promoting open communications	

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 and annexes) - 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 2017/18

The strategy for 2017/18 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 2017/18 – 2019/20

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	**2015/16 Actual**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Non-HRA	12.720	12.311	8.478	3.492	3.247
HRA	5.030	22.177	3.855	4.160	3.325
Total	**17.750**	**34.488**	**12.333**	**7.652**	**6.572**

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	**2015/16 Actual**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
Non-HRA	12.720	12.311	8.478	3.492	3.247
HRA	5.030	22.177	3.855	4.160	3.325
Total	**17.750**	**34.488**	**12.333**	**7.652**	**6.572**
Financed by:					
Capital receipts	1.377	4.092	0.582	0.205	0.205
Capital grants	6.303	8.988	3.421	3.037	2.542
Capital reserves	2.959	8.798	3.705	3.810	2.900
Revenue	1.393	2.334	0.350	0.350	0.425
Net financing need for the year	**5.718**	**10.276**	**4.275**	**0.250**	**0.500**

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 £3.655m of long term liabilities (excluding pensions) as at 31 March 2016.

The Council is asked to approve the CFR projections below:

£m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Financing Requirement					
CFR – non housing	27.067	29.189	32.237	31.053	30.098
CFR – housing	20.241	27.477	27.332	26.360	26.215
Total CFR	**47.308**	**56.666**	**59.569**	**57.413**	**56.313**
Movement in CFR	**4.044**	**9.358**	**2.903**	**(2.156)**	**(1.100)**

Movement in CFR represented by					
Net financing need for the year (above)	5.718	10.276	4.275	0.250	0.500
Less HRA – loan repayments and downward revaluations*	(0.828)	0	(0.145)	(0.972)	(0.145)
Less MRP/VRP and other financing movements	(0.846)	(0.918)	(1.227)	(1.434)	(1.455)
Movement in CFR	**4.044**	**9.358**	**2.903**	**(2.156)**	**(1.100)**

**The Department of Communities and Local Government has proposed that, from April 2017, all HRA downward revaluations/impairments subsequently charged to the HRA can be reversed and hence cease to have an impact on the CFR.*

2.3 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	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Fund balances / reserves	14.586	13.783	13.686	13.339	14.039
Capital receipts	3.923	1.813	1.813	1.813	1.813
Earmarked reserves	11.647	10.016	10.132	10.132	10.132
Total core funds	**30.156**	**25.612**	**25.631**	**25.284**	**25.984**
Balances incl working capital*	14.117	12.305	12.164	12.350	11.406
Under/over borrowing	(14.433)	(12.917)	(12.795)	(12.634)	(12.390)
Expected investments	**29.840**	**25.000**	**25.000**	**25.000**	**25.000**

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

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 2015, 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	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
External Debt					
Debt at 1 April	30.659	29.220	40.434	43.799	42.144
Expected change in Debt	(1.439)	11.214	3.365	(1.655)	(0.516)
Other long-term liabilities (OLTL) at 1 April	4.259	3.655	3.315	2.975	2.635
Expected change in OLTL	(0.604)	(0.340)	(0.340)	(0.340)	(0.340)
Actual gross debt at 31 March	**32.875**	**43.749**	**46.774**	**44.779**	**43.923**
The Capital Financing Requirement	47.308	56.666	59.569	57.413	56.313
Under / (over) borrowing	**14.433**	**12.917**	**12.795**	**12.634**	**12.390**

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 2017/18 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	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	46.000	50.000	50.000	50.000
Other long term liabilities	12.000	12.000	12.000	12.000
Total	58.000	62.000	62.000	62.000

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	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	51.000	55.000	55.000	55.000
Other long term liabilities	15.000	15.000	15.000	15.000
Total	66.000	70.000	70.000	70.000

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	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt cap	27.792	27.792	27.792	27.792
HRA CFR	27.477	27.332	26.360	26.215
HRA headroom	0.315	0.460	1.432	1.577

3.3 Capita's economic and interest rate forecast (issued by Capita on 17 November 2016)

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 Capita's central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and Public Works Loan Board (PWLB) rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
    - Italian constitutional referendum 4.12.16;
    - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
    - Dutch general election 15.3.17;
    - French presidential election April/May 2017;
    - French National Assembly election June 2017;
    - German Federal election August – October 2017.

- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than Capita currently anticipates.
- Weak growth or recession in the UK's main trading partners - the EU and US.

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

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing 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.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates:

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. 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 capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference 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 still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 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 an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

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 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 Annex 2 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices.

4.2 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 bank – 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 public sector organisations) etc
- Supranational institutions

A limit of £5m will be applied to the use of investments with a maturity of over 364 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	**UK sovereign rating**	**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 public sector organisations), Supranational institutions etc	**N/A**	**£4m per institution**	**5 years**

**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 Annex 2 for approval.

4.3 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;

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).

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for interest rates.

Capita's Investment returns expectations (issued by Capita on 17 November 2016). Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

2016/17 0.25%
2017/18 0.25%
2018/19 0.25%
2019/20 0.50%

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

2017/18	0.25%
2018/19	0.25%
2019/20	0.50%
2020/21	0.75%
2021/22	1.00%
2022/23	1.50%
2023/24	1.75%
Later years	2.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

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	**2017/18**	**2018/19**	**2019/20**
Principal sums invested > 364 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 term deposits in order to benefit from the compounding of interest.

4.5 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 (excluding unrated investments).

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 5 years.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

And in addition that the security benchmark for each individual year is (excluding unrated investments):

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

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

4.6 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.

4.7 Use of external fund managers

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

5 OPTIONS

That the Governance and Audit Committee:

a) Approves this report and annexes, including each of the key elements of this report and annexes listed below, and recommends that it is approved by Cabinet and Council.

- The Capital Plans, Prudential Indicators and Limits for 2017/18 to 2019/20, including the Authorised Limit Prudential Indicator.
- The Minimum Revenue Provision (MRP) Policy.

- The Treasury Management Strategy for 2017/18 to 2019/20 and the Treasury Indicators.
- The Investment Strategy for 2017/18 contained in the Treasury Management Strategy, including the detailed criteria.

b) Does not approve this report and annexes and does not recommend that it is approved by Cabinet and Council (advising the reason(s) why); thereby not complying with the Treasury Management Code of Practice.

6 NEXT STEPS

Under the Treasury Management Code of Practice it is required that the Governance and Audit Committee, Cabinet and Council approve this report and annexes.

This report and annexes is to go to Cabinet and then Council for approval. The next Cabinet meeting is on 17 January 2017.

7 DISCLAIMER

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

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Reporting to:	Madeline Homer, Chief Executive

Annex List

Annex 1	The Capital Prudential and Treasury Indicators 2017/18 – 2019/20 and MRP Statement
Annex 2	Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Annex 3	Guidance on Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy (TMSS)

Corporate Consultation Undertaken

Finance	Peter Timmins, Interim Head of Financial Services
Legal	Tim Howes, Director of Corporate Governance & Monitoring Officer

ANNEX 1 - THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2017/18 – 2019/20 AND MRP STATEMENT

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

1. Capital expenditure

Capital expenditure £m	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	**12.720**	**12.311**	**8.478**	**3.492**	**3.247**
HRA	**5.030**	**22.177**	**3.855**	**4.160**	**3.325**
Total	**17.750**	**34.488**	**12.333**	**7.652**	**6.572**

2. 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.

3. Affordability prudential indicators

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:

a. 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 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	5.6%	6.9%	9.1%	10.2%	10.2%
HRA	5.4%	8.3%	7.6%	7.4%	6.7%

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

b. 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

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D *	(1.36)	(9.22)	(1.19)	2.05	37.40

**The 2019/20 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 2019/20 estimate reflects the full cost of the 2019/20 capital programme. The main element of the 2019/20 estimate is the Minimum Revenue Provision charge.*

c. 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

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly housing rent levels *	(0.82)	0.02	0.03	0.03	0.14

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

**The 2019/20 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 2019/20 estimate reflects the full cost of the 2019/20 capital programme.*

d. HRA ratios

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt £m	20.041	27.277	27.131	26.159	26.014
HRA rents £m	13.253	13.127	13.234	13.158	13.395
Ratio of debt to rents %	151.2%	207.8%	205.0%	198.8%	194.2%

£	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
HRA debt £m	20.041	27.277	27.131	26.159	26.014
Number of HRA dwellings	3,031	3,040	3,097	3,098	3,088
Debt per dwelling £	6,612	8,973	8,761	8,444	8,424

4. 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	2017/18	2018/19	2019/20
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates: • Debt only • Investments only	 70.000 45.000	 70.000 45.000	 70.000 45.000
Limits on variable interest rates • Debt only • Investments only	 70.000 50.000	 70.000 50.000	 70.000 50.000
Maturity structure of fixed interest rate borrowing 2017/18			
		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%

ANNEX 2 - 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.

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.

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 public sector organisations).
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 (where rated).

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 (where rated).
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 the Councils annual investment strategy.

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 5 years and which otherwise meet the above criteria for specified investments.

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.

ANNEX 3 - GUIDANCE ON TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY (TMSS)

Prudential Code

The Prudential Code was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) as a professional code of practice for capital finance, to which local authorities must have regard.

Capital Expenditure

The Capital Expenditure table (section 2.1 of report) is split between the Council's Housing Revenue Account (HRA) and General Fund (GF or non-HRA).

The table also shows the resources used to fund the capital expenditure (being capital receipts from the sale of assets, capital grants, capital reserves and revenue) and any shortfall in resources. This shortfall is described as the 'net financing need' and represents the Council's borrowing need.

Borrowing Need (Capital Financing Requirement)

The Capital Financing Requirement (CFR) represents the Council's aggregate borrowing need. i.e. the element of the capital programme that cannot be funded.

The table (section 2.2 of report) shows how the net financing need (borrowing requirement) increases the CFR.

So that the CFR does not increase indefinitely, an annual resource contribution from revenue must be set against it (called the Minimum Revenue Provision or MRP), which is shown in the table.

MRP Policy Statement

This describes the method for calculating the annual MRP contribution described above (annex 1 of report).

Core Funds and Expected Investment Balances

This table (section 2.3 of report) shows that the Council may satisfy its net financing need by borrowing from its own reserves or cashflow (internal borrowing) rather than from an external provider (external borrowing).

Either form of borrowing may only be undertaken for capital expenditure purposes.

Borrowing

Current portfolio position – this table (section 3.1 of report) shows that the Council's debt is not more than the CFR because, as above, the CFR represents the Council's aggregate borrowing need.

HRA debt cap (section 3.2 of report) – as part of the HRA self-financing regime, the Council's HRA CFR (and hence HRA borrowing) is not allowed to exceed a certain limit (currently £27.792m for the Council).

Borrowing limits (section 3.2 and annex 1 of report) – there are various general controls on the Council's borrowing activity (operational boundary, authorised limit, fixed and variable interest rate exposures, and maturity profiles).

Annual Investment Strategy

This section (section 4 and annex 1 of report) sets out general controls on the Council's investment activity to safeguard the security and liquidity of its investments, including:

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.
- Limits on the Council's fixed and variable interest rate exposures.
- Minimum size of the Council's bank overdraft facility.

Ratio of Financing Costs to Net Revenue Stream

This table (annex 1 of report) shows (separately for HRA and GF) the percentage of the Council's revenue stream that is used to finance the CFR (net interest payable and MRP).

Incremental Impact of Capital Investment Decisions on Council Tax

This table (annex 1 of report) shows the revenue impact on the Council from funding the GF capital expenditure set out in the Treasury Management Strategy Statement (TMSS) compared to that set out in the TMSS for the previous year.

Incremental Impact of Capital Investment Decisions on Housing Rent Levels

This table (annex 1 of report) shows the revenue impact on the Council from funding the HRA capital expenditure set out in the TMSS compared to that set out in the TMSS for the previous year.

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 £25 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 Committee Services 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:

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……………………………………………………………………………………………………

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