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Date: **27 November 2017**
Ask For: **James Clapson**
Direct Dial: **(08143) 577200**
Email: **james.clapson@thanet.gov.uk**

GOVERNANCE AND AUDIT COMMITTEE

6 DECEMBER 2017

A meeting of the Governance and Audit Committee will be held at **7.00 pm on Wednesday, 6 December 2017** in the Council Chamber, Cecil Street, Margate, Kent.

Membership:

Councillor Buckley (Chairman); Councillors: Hayton (Vice-Chairman), Braidwood, Connor, Day, Dexter, Dixon, Edwards, Evans, Game, I Gregory, Larkins, Partington, L Piper, Taylor-Smith and Venables.

A G E N D A

Item No

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTEREST**

   To receive any declarations of interest.

3. **MINUTES OF PREVIOUS MEETING** (Pages 3 - 8)

   To approve the Minutes of the Governance and Audit Committee meeting held on 27 September 2017, copy attached.

4. **ANNUAL AUDIT LETTER 2016-17** (Pages 9 - 22)

5. **INTERNAL AUDIT QUARTERLY UPDATE REPORT** (Pages 23 - 50)

6. **TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2018-19** (Pages 51 - 78)

7. **CORPORATE RISK REGISTER QUARTERLY UPDATE** (Pages 79 - 84)

8. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY - MID YEAR REVIEW REPORT 2017-18** (Pages 85 - 104)

9. **AUDIT OF 2016-17 FINAL ACCOUNTS** (Pages 105 - 114)

   Declaration of Interests Form

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Thanet District Council, PO Box 9, Cecil Street, Margate, Kent, CT9 1XZ
Tel: +44 (0)1843 577000 Fax: +44 (0)1843 290906 DX 30555 (Margate) www.thanet.gov.uk
Chief Executive: Madeline Homer

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GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 27 September 2017 at 7.00 pm in Council Chamber, Cecil Street, Margate, Kent.

Present: Councillor John Buckley (Chairman); Councillors Hayton, Connor, Day, Dexter, Dixon, Evans, Game, I Gregory, L Piper, Taylor-Smith and Venables.

In Attendance: Councillors Partington, Campbell, Crow-Brown and Larkins.

1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Braidwood.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF PREVIOUS MEETING

Councillor Gregory proposed, Councillor Hayton seconded and Members agreed the minutes of the meeting held on 28 June 2017.

4. FINAL STATEMENT OF ACCOUNTS

Mr Willis, Director of Corporate Resources and Section 151 Officer, introduced the report during which it was noted that the external auditor had very recently raised a concern regarding the valuation of some of the Council's assets. This issue would need to be resolved before the accounts could be signed off. The statutory deadline for sign off of the accounts was the end of September.

Mr Wells, Grant Thornton UK LLP (GT) provided Members with a brief summary of the External Audit Findings document which he used to provide an explanation of where the asset valuation concern originated from.

During consideration of the item it was noted that

- Some councils revalued all their investment property assets on an annual basis, however GT recognised that this approach could be prohibitively expensive for the Council. The Council revalued 20% of its Investment property assets annually.
- The valuation method of the Council's assets had remained unchanged from previous years; however the method maybe reconsidered in future.

Councillor Campbell asked the following questions under Council procedure rule 20.1. Mr Prashar, Head of Financial Services responded to each question in turn (response shown in italics):

1/ Page 8, Service Area. Why was there no comparison with previous years?
The context of these paragraphs was to highlight financial management during the period 1 April 2016 to 31 March 2017, so it only compared the spend to the budget rather than to prior years spend.

2/ Page 9, Financing. Why was there a marked difference between budget and actual figures?
The actual figure included parish precepts of £1.146 million to reconcile with Note 10 to the core financial statements which would not be included in the TDC budget.

3/ Page 10, Capital Programme 2017-21. Under the heading Construction, Replacements and Enhancements, and Housing Revenue Account (HRA) Schemes, why was there a marked difference between forecast for 2017/18 and the following years?
There were large schemes to be delivered in 2017/18 such as:
-HRA Schemes - New Build and Housing Intervention Programs.
-Construction, Replacement & Enhancement – Dreamland, Vehicle Replacement and Dalby Square Project.

4/ Page 18, Director of Operational Services. Expenditure had dropped from 2016, where were these savings made?
The difference was a cumulative effect rather than savings. The HAVS provision set up for fines in 2015/16 and charged to operational services (£2 million), was credited back to the service in 2016/17 to be transferred to Risk Reserve to meet potential future liabilities around risk (£1.7 million). This was a net movement of £3.7 million. In addition, costs related to Animal Exports (£1.8 million) reflected in 2015/16, no longer existed in 2016/17.

5/ Page 19, Major Repairs Reserve. There was over £8 million in this fund. Was there a major building programme envisaged?
The Major Repairs Reserve was utilised to manage the peaks and troughs of the HRA Capital Programme over the next 30 years. A new stock condition survey had been undertaken by East Kent Housing which would determine the capital works required to maintain the housing stock at Decent Homes, as well as the added pressures of fire precaution works in light of the government review.

6/ Page 20, Assets Held for Sale. Why was there a marked drop from 2016 to 2017?
The main reason for the decrease in Held For Sale Assets was the disposal of Ramsgate Swimming Pool (£250,000) in 2016/17.

7/ Page 30, Heritage Assets. Have we no heritage assets with environmental qualities? Would our historic parks fall into this category?
Although parks may have historic and environmental qualities, they were also used for the operational purposes of the authority. Accordingly, they were classified as Community Assets within the accounts. In accordance with accounting standards, they only had a nominal value assigned to them in the accounts which was why the Community Assets line in the accounts had a nil closing value when shown in round thousands of pounds.

8/ Page 40. The statement that financial uncertainty was not yet sufficient to reduce levels of service. This statement was not true. For example the levels of street cleaning have been reduced as have the frequency of grass cutting in our parks.
The context of the critical judgment note was only required to refer to material changes to services rather than specific ones. Materiality was based on a % of gross expenditure for the year which for 2016/17 would equate to £2.7million.

It was proposed by Councillor Dexter, seconded by Councillor Piper and Members agreed to approve the Statement of Accounts for 2016/17, subject to the resolution of the outstanding issue regarding asset valuation.

Mr Willis offered to provide committee Members with a briefing once the issue regarding asset valuation had been resolved.

5. THE EXTERNAL AUDIT FINDINGS FOR THANET DISTRICT COUNCIL - YEAR ENDING MARCH 2017

The External Audit Findings for Thanet District Council - Year Ending March 2017, was considered as part of the final statement of accounts agenda item.

6. LETTER OF REPRESENTATION

Letter of representation was included in the final statement of accounts agenda item.

7. QUARTERLY INTERNAL AUDIT UPDATE REPORT

Ms Parker, Head of East Kent Audit Partnership, introduced the report noting that there had been seven internal audit assignments completed since the last committee meeting; four achieved substantial assurance, one achieved reasonable assurance, and one achieved a split assurance which was partly limited. There was one assignment for which an assurance opinion was not required, and five follow-up reviews had taken place.

During the introduction of the item, Ms Parker provided a brief comment regarding the follow-up to the street cleaning audit that was reported to the last meeting of the Committee. It was noted that EKAP had not previously conducted an audit of street cleaning and therefore did not have evidence to support the statement that the Council had most likely failed to achieve its corporate objective in this regard for the last 15 years. EKAP dealt with facts and evidence, and made conclusions based upon its own independent findings. It was recognised that it had been poor judgment to simply quote a comment made by the Director of Operational Services from the 8 March meeting.

Mr Willis responded to Ms Parker's comment with the following points:

- TDC worked well with EKAP and valued its independence.
- The acknowledgment that the comments regarding street cleaning follow up had strayed beyond the audit was appreciated.
- TDC officers would respond positivity to the street cleaning audit, and all other audits. It was recognised that EKAP added value to delivery of corporate values and priorities.

Councillor Campbell spoke under council procedure rule 20.1 to ask the following questions:

1/ Should the summary of findings for EKHR – Payroll and Benefits in Kind, include details of the limited assurance achieved?
Ms Parker advised that there appeared to have been a typographical error, she offered to bring a corrected summary to the next meeting.
(Post meeting note – Upon further investigation the summary of findings was found to be correct, details of the limited assurance were detailed in the summary for benefits in kind.)

2/ What did PCI and DSS refer to in paragraph 3.3.a of the report, and why did this area continue to have a low assurance rating after follow up?
Ms Parker advised that there was a requirement for ongoing improvement in relation to data security and card payment protection. The report highlighted that the Council's approach to address this was felt to be less resilient than that of the other East Kent Council's.
Mr Howes clarified that PCI-DDS stood for Payment Card Industry Data Security Standard

During consideration of the item it was noted that:

- A management response to the high priority audit recommendations in relation to contract standing orders remained outstanding as at mid June. Ms Parker explained that the committee could request that a statement from the relevant officer be brought to the next meeting.
- Project management retained a limited assurance after the audit follow up, however the Director of Operational Services explained that a number of new practices had recently been introduced and it was expected that these would be embedded by the end of the year.
- There was a waiting list for allotments in the District. Ms Parker would advise Councillor Dexter if any of the Margate allotments were categorised as statutory.

Members noted the report.

8. CORPORATE RISK REGISTER QUARTERLY UPDATE

Mr Willis introduced the report and noted where updates had been made.

During consideration of the item its was noted that:

- The level of risk in relation to the Dreamland operator had significantly reduced.
- Risks around fire safety in tower blocks and corporate capacity in light of a corporate restructure were considered, however neither issue was felt to pose an adequate level of risk to feature in the corporate risk register.
- The member development group was a cross party group which considered member training matters.
- Health and safety remained on the risk register, however a new electronic document management system was expected to be fully rolled out across the Council over the next eight months. This system would help to highlight if there were any gaps in health and safety practice.

Members noted the report.

9. THE ANNUAL GOVERNANCE STATEMENT 2016/17

Mr Howes, Director of Corporate Governance and Monitoring Officer, introduced the Annual Governance Statement 2016-17 and noted the amendments suggested by the external auditors as shown in paragraph 2.3 of the report.

During consideration of the item it was noted that:

- The year referenced in section 10 was to be amended.
- Once agreed by the Committee, the Statement would be signed by the Chief Executive and the Leader of the Council.

It was proposed by Councillor Gregory, seconded by Councillor Hayton and Members agreed that the Committee approve the Annual Governance Statement for 2016-2017 subject to the amendment of the year in section 10.

10. REVISED WHISTLEBLOWING CODE

Mr Howes, introduced the revised Whistleblowing Code and noted that the proposed changes had been highlighted in paragraph 2.1 of the report.

During consideration of the item it was noted that:

- The contents page would be amended.

- The document version history would restart as the document was significantly different from previous versions owing to changes in legislation.
- It was expected that the Code would be reviewed annually.

It was proposed by Councillor Hayton, seconded by Councillor Evans and Members agreed that the Committee approve the Whistleblowing Code.

Meeting concluded: 8.25 pm

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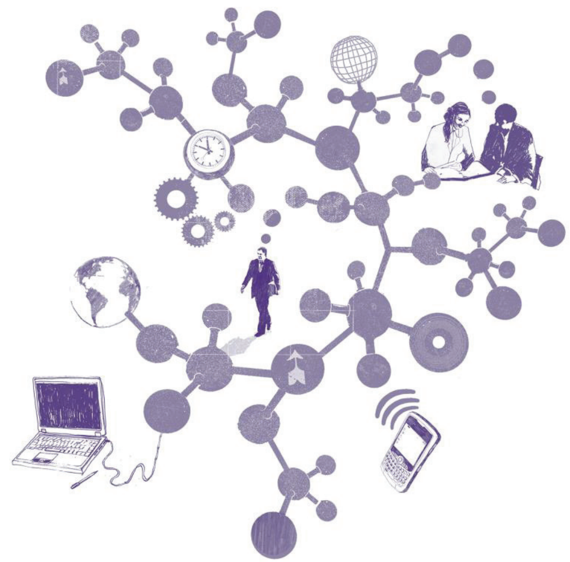
Grant Thornton

The Annual Audit Letter for Thanet District Council

Year ended 31 March 2017

23 October 2017



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

Matt Dean
Engagement Manager
T 020 7728 3181
E matthew.dean@uk.gt.com

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

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Thanet District Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 27 September 2017.

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's financial statements (section two)
- assess the Council's 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 2017.

Value for money conclusion

We were satisfied 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 2017. We reflected this in our audit opinion on 29 September 2017.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts.

We received an objection from a local elector relating to a couple of areas of the Council's Accounts. At the date of issuing this Letter we are still considering these objections, and will update the Council once we are in a position to conclude our work in this area.

As a result we are unable to certify the completion of the audit until we have finished our consideration of this objection.

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 2017. We will report the results of this work to the Governance and Audit Committee in our Annual Certification Letter.

Executive summary

Working with the Council

From 2017/18, the statutory deadlines for preparation and audit of the financial statements will be brought forward and the Council will be required to produce draft statements by 31 May, and secure an audit opinion by 31 July 2018.

We will work in partnership with the Council to complete a substantial amount of early audit testing prior to March 2018 which will help to drive efficiencies within the year end audit process.

Moving towards an earlier deadline, particularly within the more complex environment within which you now operate, will require an element of redesign of some of the closedown processes, arrangements and internal business processes.

We have worked with many clients to successfully implement faster close and will continue to work with the Council during the coming year to support the achievement of the earlier deadlines.

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 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £2.579 million, 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 also set a lower level of specific materiality for Cash of £500k, as was reported within our Audit Findings Report.

We set a lower threshold of £128,000, above which we reported errors to the Governance and Audit 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 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 the Director of Corporate Resources 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 included in the Statement of Accounts on which we gave 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.

Agenda Item 4

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	Findings and conclusions
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Thanet District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Thanet District Council, mean that all forms of fraud are seen as unacceptable. Therefore we did not consider this to be a significant risk for Thanet District Council.	Our audit work did not identify any issues in respect of revenue recognition.
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet represents a significant estimate in the financial statements.	We undertook the following work in relation to this risk: • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary; • We wrote to the auditor of the Kent Superannuation Fund to gain assurance over the data provided to the Actuary by the Fund on behalf of the Council to enable them to come up with a reasonable estimate for inclusion within the Council's Accounts.	Our audit work did not identify any significant issues in relation to the risk identified. We used an auditor's expert to provide assurance on the Council's actuary's work. Our expert concluded that the assumptions used by the actuary to be reasonable in most cases although in some instances the assumptions fall outside of expected ranges. Looking at the impact of all assumptions holistically, we obtained sufficient assurance that the pension fund liability is not materially misstated.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during 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 27 September 2017.

During the course of our work we identified several minor presentation and disclosure amendments which the Council processed in the final version of the Accounts. We also noted the following issues:

1) Our testing of the Council's Property, Plant and Equipment valuations included within the Accounts identified that the valuation for assets other than Council Dwellings had been performed as at 1st April 2016. The Council had then undertaken a review of the movements between this date and year end to determine whether the values included within the Accounts were materially correct. This produced a potential movement which was very close to our level of materiality, which meant it required a considerable level of work to obtain sufficient assurance over this area.

The Council also does not revalue its full PPE asset base each year, choosing to value 20% of the number of assets per year, rather than this being done on a percentage of value basis. This left a significant monetary balance which hadn't been valued for over a year. A review was performed to confirm that the carrying value in the Accounts wasn't materially different to the current value at the Balance Sheet date. This also required additional unplanned audit work to confirm the balance included within the Accounts was materially correct.

Going forward the Council needs to have more robust arrangements in place to ensure the values included within the Accounts are materially accurate and the level of uncertainty in this area is reduced.

2) The Council, with the other East Kent districts, has made a guarantee to cover the pensions of staff who transferred to East Kent Housing (EKH) when it was set up. The guarantee ensures that the pension liability of all staff who transferred will be protected should EKH cease trading for any reason. This is common where councils set up Arms-Length Management Operations (ALMOs) or subsidiary companies and staff are transferred to the new organisation. For many years the Council has disclosed this as a contingent liability.

Recent reconsideration has challenged this treatment with the view that an appropriately determined liability should be recognised in the accounts. The Council has made a judgement that the liability is not material, and the risk of the guarantee being implemented is negligible and therefore no liability is recognised in the accounts. We have considered this and are satisfied this is not an unreasonable judgement to make.

Annual Governance Statement and Narrative Report

We are 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.

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 2016 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 performed are set out in table 2 overleaf.

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 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
Overall Financial Position - Medium Term Financial Plan The Council has identified that a significant level of savings are needed over the life of the next Medium Term Financial Plan (MTFP). Council reserves have been depleted over the past few years reducing future flexibility.	We performed the following work in respect of this area: • reviewed the assumptions behind the Medium Term Financial Plan for the coming four years. • Considered the 2016-17 Budget outturn and any implications for the MTFP, along with the latest year to date outturn against budget for 2017-18; • reviewed the savings proposals which have been identified to date in respect of the savings gap, along with how the Council is planning to identify the remaining gap at this stage.	The key points from our work in this area are the following: • The Council delivered a breakeven position against its General Fund Budget in 2016-17, within which it managed some small under and overspends within each of the Council's directorates to achieve the breakeven position. This allowed the Council to maintain its General Fund Balance at £2.011m. • The Council also delivered £7.68m of its Capital Programme, which was initially set at £11.915m. The Council has deferred the remaining spend into 2017-18 to ensure the planned projects are still delivered. • The Council set a balanced budget for 2017-18, which included the need for it to identify £2.6m of savings or additional income to deliver this position. Within the £2.6m is a use of £450k of Earmarked Reserves, which the Council has stated is a one-off decision to deal with some of the particular pressures arising during the course of the year. Clearly this demand on reserves is going to be unsustainable longer term given the level of reserves used by the Council over recent years, which the Council itself does recognise, and it is planning to build up its reserves again over the coming years, although the planned replenishment in these years is quite small in comparison. • In terms of the remainder of the savings or additional income which the Council is looking to generate, these are set across four broad themes, such as Income Generation, Digitalisation, Alternative Delivery Models, and the Council making the most of the assets it owns. The Council had fully identified the £2.15m of savings and additional income which is needed via these streams ahead of the year, which is a relatively strong position for the Council to be in. • The Council's latest Financial Plan (MTFP) covers the period from 2017 to 2021. Whilst the 2017-18 savings have been fully identified, the Council has yet to set out its plans for delivering the savings needed over the remainder of the Plan. There is a risk of the Council not identifying all of £3.417m of savings needed over the remainder of the MTFP (from 2018/19 onwards) in a timely manner. This also continues to put pressure on the savings identified in any one year to deliver as there are a lack of contingency plans should some of these savings not deliver as required. As raised in the previous year, the Council should 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 during the course of the MTFP, as well as reducing the need to rely on reserves to meet any shortfall. There is also a need for the Council to look further ahead with its savings plans to ensure it is well placed ahead of the new Local Government Funding Settlement, which takes effect from 2020.

Value for Money (continued)

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
Dreamland The Council has committed a significant level of funding and resource into the Dreamland Project, but is still in dispute with one of its former owners over the level of compensation that is due to that owner, which could end up being a significant sum.	We performed the following work in respect of this area: • reviewed the current progress in respect of the project and undertake discussions with key members of Council Staff to obtain the latest position. • monitored the progress of the compensation process to see if any resolution is likely to be achieved over the short term.	The financial situation of Dreamland has altered considerably over the past 12 months, following the investment of £15m by the Arrowgrass Private Equity Fund, which has considerably strengthened the financial standing of the park. There has been no further progress with the compensation process on the back of the Compulsory Purchase Order (CPO). An outcome will not be determined until the case is heard at a Lands Tribunal.

Appendix A: Reports issued and fees

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

Fees

	2016/17 Proposed fee £	2016/17 Actual fees £	2015/16 fees £
Statutory audit of Council	66,296	66,296	66,296
Housing Benefit Grant Certification	34,883	TBC	31,836
Total fees (excluding VAT)	**101,179**	**TBC**	**98,132**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, would be shown under 'Fees for other services', but there are no items of this type to be considered in 2016-17.

Our final fee for this work will only be confirmed once we have completed all of the work required by this certification, which will be completed by the end of November 2017, which is the national deadline for the completion of this work.

Reports issued

Report	Date issued
Audit Plan	28 June 2017
Audit Findings Report	27 September 2017
Annual Audit Letter	24 October 2017

Fees for other services

Service	Fees £
Audit related services:	
• Pooling of Housing Capital Receipts	2,000
• Harbour Accounts	1,500
Non-audit services:	None

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.

- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to Thanet District Council	Fees	Threat?	Safeguard
Audit related services	Pooling of Housing Capital Receipts Return	£2,000	No	Fee is low in comparison to the Council's audit fee. A separate independent engagement is performed and a report will be given in line with a separate engagement letter.
	Audit of Harbour Accounts	£1,500	No	Fee is low in comparison to the Council's audit fee. A separate independent engagement is performed and a report will be given in line with a separate engagement letter.
Non-audit services	N/A	N/A		
	TOTAL	£3,500		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Governance and Audit Committee.

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QUARTERLY INTERNAL AUDIT UPDATE REPORT

6th December 2017

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 2017.

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

That any changes to the agreed 2017-18 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 2017-18 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.

	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 or equalities issues arising from this report.	

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 2017.

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 eight internal audit assignments completed during the period, of which four concluded substantial assurance, and four concluded Reasonable assurance.

2.2 In addition, four follow-up reviews have been completed during the period, one of which (Grounds Maintenance) remains Limited Assurance after follow-up.

2.3 For the six-month period to 30th September 2017, 131.33 chargeable days were delivered against the planned target of 265.31 days which equates to 50% 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 2017-18 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 Ramesh Prashar, Head of Financial Services.

Annex List

Annex 1	East Kent Audit Partnership Update Report – 06-12-2017

Background Papers

Title	**Details of where to access copy**
Internal Audit Annual Plan 2017-18	Previously presented to and approved at the 8th March 2017 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
DOVER • SHEPWAY • THANET • CANTERBURY
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 2017.

2.0 SUMMARY OF REPORTS

	Service / Topic	Assurance level	No. of Recs.	
2.1	Phones, Mobiles and Utilities	Substantial	C H M L	0 0 1 0
2.2	Scheme of Officer Delegations	Substantial	C H M L	0 0 1 3
2.3	Procurement	Substantial	C H M L	0 0 0 2
2.4	EKS – Business Rates	Substantial	C H M L	0 1 2 0
2.5	Right to Buy	Reasonable	C H M L	0 0 2 0
2.6	Operational Services – Vehicle Fleet Management	Reasonable	C H M L	0 2 6 5
2.7	East Kent Housing – Performance Indicator Data Quality	Reasonable	C H M L	0 0 1 2
2.8	EK Services – ICT Software Licencing	Reasonable	C H M L	0 2 6 0

2.1 Phones, Mobiles and Utilities – Substantial Assurance:

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that Council expenditure on telephones, mobiles and utilities is adequately monitored and reviewed.

2.1.2 Summary of Findings

The Council currently has 450 mobile phones (including sims in iPads and smart phones) issued to TDC and EK Services staff. This is analysed across the organisation as follows:

- 115 - EK Services.
- 3 - Chief Executive;
- 84 - Community Services;
- 19 – Corporate Governance;
- 10 – Corporate Resources;
- 2 – Elected Members; and
- 217 – Operational Services.

Expenditure on Phones, mobiles and utilities over the past three years was a follows:

	2014-15	2015-16	2016-17
Telephones	£151,612	£156,598	£165,818
Mobile devices	£39,188	£31,054	£31,983
Electricity	£631,801	£769,520	£773,544
Gas	£81,369	£72,786	£67,707
Water	£216,417	£272,394	£271,972

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

- Market testing of telephone land line provision has been undertaken in accordance with Contract Standing Orders.
- Expenditure on land line telephone calls is monitored against budget and any variances investigated.
- A list is maintained of all mobiles devices in use.
- All requests for a new, or for the reallocation, of a mobile device are submitted on a designated form and signed by an authorised signatory.
- The terms and conditions surrounding the use of mobiles have been defined, and users are required to sign to confirm that they will adhere to these conditions.
- Employees are required to sign a declaration confirming that any private use of the Council Mobile phone is insignificant and are required to maintain a diary of any private use.
- Guidance on the use of mobile phones in motor vehicles is readily available to staff.
- Market testing of mobile phone provision has been undertaken in accordance with Contract Standing Orders.

- Expenditure on mobile phone calls is monitored against budget and any variances are investigated.
- Market testing of gas and electricity provision has been undertaken in accordance with Contract Standing Orders.
- Expenditure on gas, water and electricity is monitored against budget and any variances investigated.

Scope for improvement was however identified in the following areas:

- Expenditure monitoring arrangements should be established over the new telephone system.

2.2 Scheme of Officer Delegations – Substantial Assurance:

2.2.1 Audit Scope

To provide assurance that the approved Scheme of Delegations complies with any national guidance and best practice, is adequately advised to Officers and Councillors and that it is being complied with.

2.2.2 Summary of Findings

Under the Local Government and Housing Act 1989 the Monitoring Officer is responsible for the operation of the Council's Constitution; the Scheme of Delegations forms part of this document.

One outcome of the Peer Review process was a recommendation that the Constitution be reviewed. This review process gave an ideal opportunity to re-asses the Scheme of Delegations with a view to improve upon any shortcomings. As a result, the Standards Committee considered the constitution including the Scheme of Delegations at its meeting on 21 January 2016 and the Full Council approved the revised Constitution on 25 February 2016, the Constitution has been regularly reviewed and updated since then, with the latest version being published in April 2017.

The key difference in relation to the scheme of delegations is that the new scheme specifies those functions which have been reserved for committees, the Leader, Cabinet or Portfolio holders with the balance being delegated to Directors (who may then sub-delegate in their own scheme of delegations). The changes provide simplicity and clarity and avoid the need to specify all legislation and individual functions and responsibilities. Any legislative changes will be accommodated by the generic nature of the delegations. If new legal powers are given to the Council, the Council will only need to determine which powers are reserved to the Council or its committees etc.

This is a new way of working and places ownership across all levels of the Council whilst giving clarity on how a decision is to be made, reported and recorded.

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

- The Constitution and scheme of delegations are well written and up to date;
- The streamlined approach to the Scheme of Delegations provides more clarity and ownership for decisions at all levels;

- Compliance with the scheme is being monitored and recorded accordingly; and
- Training needs are continually being identified and met.

Scope for improvement was however identified in the following areas:

- Publication arrangements for the Constitution and Scheme should concord with those arrangements documented via Article 16 of the Constitution and webpages of the Council;
- Ensure that any Scheme for Corporate Governance is completed and published.

2.3 Procurement - Substantial Assurance

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to develop Procurement strategies and policies to improve benefits to the Council and its partners and stakeholders, including the development of e-procurement options.

2.3.2 Summary of Findings

Procurement is the process of acquiring goods, works and services, covering both acquisitions from third parties and from in-house providers. The process spans the whole cycle from identification of needs, through to the end of a service contract or the end of the useful life of an asset. The primary purpose of the Procurement team is to ensure that the Council gets the best value for money in all of its contracts, and that correct procedures are followed throughout the procurement and tendering process.

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

- Procurement processes and procedures are well established;
- Procurement controls are working effectively;
- Compliance with Regulation; Contract Standing Orders; Financial Procedure Rules and Purchasing Guide;
- The procurement card regime is working well; and
- Roles and responsibilities for both procurement activity and for purchasing are well established and help strengthen accountability.

Scope for improvement was however identified in the following areas:

- There is a need to review and clarify Contract Standing Order 3.6 which requires risk assessments to be undertaken for high value/profile contracts; and
- Purchase Order Processing training records suggest some officers setup on the system have not received training on the system.

2.4 EK Services Business Rates – Substantial Assurance:

2.4.1 Audit Scope

To ensure that the processes and procedures established by EK Services are sufficient to provide the level of service required by the partner councils and incorporate relevant internal controls regarding the administration of Business Rates, especially the recording of accounts, valuation, billing and monitoring of accounts including changes in responsible person.

2.4.2 Summary of Findings

Business rates are calculated using the rateable value of premises (set by the Valuation Office Agency) and the business rates multipliers as set by central government. East Kent Services as the collection agent for Canterbury City Council and Dover and Thanet District Councils collected over £125 million pounds in total (99% Collection Rate) for 2016/17 for the three authorities.

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

- A good collection rate of 99% for business rates reflects the hard work that the officers undertake to ensure actions are carried out in a timely manner and that revised bills are issued and monies are collected.
- Established and well documented testing schedules are in place when the CIVICA system is updated or year-end / year-end processes have to be carried out.

Scope for improvement was however identified in the following areas:

- Processes need to be put in place to ensure that the Business Rates staff are kept up to date with information, legislation etc. on a weekly basis when the Business Rates Team Leader goes on maternity leave.
- The Discretionary Relief Check Sheet should be revised to include a sign off section that is completed both by the Officer completing the application and the authorising officer thus giving a complete audit trail of the authorisation process.

2.5 Right to Buy – Reasonable Assurance

2.5.1 Audit Scope

To examine and evaluate the whole system of controls, both financial and otherwise, established by management in order to carry on the business of the enterprise in regard to Right to Buy applications in an orderly and efficient manner, ensure adherence to management policies, safeguard the Authority's assets and secure as far as possible the completeness and accuracy of its accounting records

2.5.2 Summary of Findings

East Kent Housing (EKH) provides housing management services for Canterbury, Dover, Shepway and Thanet councils. This includes processing right to buy applications from council tenants. EKH manage the full process for Dover, Shepway and Thanet. Until recently EKH only processed any Canterbury applications at their initial stage, after which Canterbury took over the processing of the application. Following agreement by Canterbury, EKH took on responsibility for the full right to buy application process from 1st September 2017

Council tenants have the right to purchase their home under prescribed criteria and the Government introduced increased discounts to tenants wishing to buy their home under the right to buy (RTB) scheme almost four years ago. This has made the scheme popular with tenants and potential fraudsters alike.

In 2016/2017 a total of 105 homes were sold in the East Kent district.

Council	Total applications received (includes live applications at year end)	Total applications withdrawn	Total Properties sold	Selling price net of discounts	Discounts allowed
Canterbury City Council	62	38	25	£3,013,000	£1,819,000
Dover District Council	59	15	37	£2,606,000	£2,438,000
Shepway District Council	37	18	21	£1,740,775	£1,442,725
Thanet District Council	46	7	22	£1,622,440	£1,467,310

There are no published figures yet for the councils for 2016/2017 in respect of investigated social housing fraud, these statistics do not just include right to buy fraud but also include other tenancy fraud such as tenancy fraud i.e. subletting. The exception to this is Shepway who have disclosed on their website that no social housing fraud had been investigated in 2016/2017. This is not to say that for each council action taken by EKH officers in validating a right to buy application has not prevented fraud; it means that the sale did not go ahead, often as the application was declined in the first instance due to checks made.

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

- Guidance is available to tenants via the EKH Website, including links to relevant government guidance.
- Tenancy agreements inform tenants of their right to buy their council property subject to specific criterion being met.
- Applications are being dealt with within prescribed timescales.
- Appropriate verification and qualification checks are in place.
- Property sale prices are being correctly calculated based on current data.
- Taking into account the resources available appropriate checks are being made to prevent and detect fraud.

Scope for improvement was however identified in the following areas:

- EKH should make use of county wide tenancy fraud resources available by regular attendance at the newly formed Kent Tenancy Fraud Forum.
- All pages from completed documents, including those where no data has been recorded, should be scanned and retained as an omission of information may be significant as the information provided in the event of future legal action being required.

2.6 Operational Services Vehicle Fleet Management – Reasonable Assurance:

2.6.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Waste & Recycling, and Street Cleansing service is performed in an efficient and effective manner which safeguards Council assets and minimises the risks associated with the management of a large vehicle fleet including the control of fuel stocks and materials, and the management of the Manston Road depot.

2.6.2 Summary of Findings

The Manston Road depot is the main location for the Council's fleet of refuse and street cleansing vehicles, equipment and staff. Maintenance, fuelling facilities, stores and administrative support are located in offices and workshops on the site. Data collected during the course of the audit shows that: -

- There is a fleet of 35 waste and recycling vehicles in operation which range from 7.5 Tonne to 26 Tonne vehicles, and 27 street cleansing vehicles ranging from 15 Tonne sweepers to small narrow road sweepers;
- The Manston Road Depot has the ability to hold up to 55,000 litres of white diesel in the underground tank & 10,000 litres of red diesel in the emergency fuel tank at any one time at the current cost of around £0.89 per litre;
- 40,210 litres of fuel is dispensed on average each month & recharged internally;

The area under review is directly linked to the Corporate Priority 1 (*A clean and welcoming environment)* which aims to:

- Continue to improve waste and recycling services, reducing waste and increasing recycling; and
- Keeping streets, parks and open spaces clean for residents and visitors.

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

- Most of the Critical and High priority service risks are being mitigated;
- Vehicle safety routines are well established (i.e. drivers are responsible for checking vehicles at the beginning and end of each day, a planned vehicle maintenance schedule is in place and pre-MOT testing is working effectively);
- Measures are in place that ensure the effective Control of Substances Hazardous to Health (COSHH) in accordance with regulations.
- Vehicle overloading (waste and recycling) has significantly reduced from 14% in 2014 to just 1.6% in 2017 with repeat offenders being identified and reported as part of this audit;
- Stock controls are generally operating flexibly but effectively; and

- Whilst there are many controls which require some form of improvement there is an adequate system of internal control in operation which is being managed effectively.

Scope for improvement was however identified in the following areas:

- There was not adequate physical security of the 55,000 litre fuel storage facility. This was rectified immediately when identified during the audit;
- The Council should take appropriate action against a number of staff identified as repeat vehicle overloading offenders during the course of this audit; and
- Administrative processes and staff record management could be improved to ensure the Council has robust evidence in place.

2.7 East Kent Housing Performance Indicator Data Quality – Reasonable Assurance:

2.7.1 Audit Scope

Assess the methodology of the collection and measurement of performance indicators particularly where data is subject to manual intervention and manipulation to calculate and provide assurance in this regard and in respect of any reporting information that has been adjusted. There is a desire to be able to compare apples with apples once the new single system is in place, so challenging (and fully understanding) the indicators now, is important.

2.7.2 Summary of Findings

There are in total 35 individual performance indicators in use by East Kent Housing (EKH). EKH record this performance information on a monthly basis and produce a selection of PI data in a formal quarterly report for debate at its management team. The report is useful for recognising achievement, addressing any issues and driving improvement.

The formal quarterly report is issued to the partner councils in accordance with their individual requirements and timetable deadlines.
The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- PIs are agreed, recorded, monitored, interpreted and challenged;
- The PI reports are submitted to partner councils within the agreed deadlines;
- PIs are checked where possible before being issued to clients, and;
- 14 PIs were tested; 96.3% (52/54) of the data was verified as correct (including PIs which are subject to manual intervention and manipulation); the maximum variance was 1.5% and did not change the status of the PI.

Scope for improvement was however identified in the following areas:

- Where there is not enough time to check the quarterly report, consider sending it out under the condition that data is provisional and should there be any significant revisions, the councils will be notified;
- If the Single System is for any reason unable to accommodate complaints recording, complaints should be recorded directly to Covalent,
- Once the new single system has been implemented, the method of calculating some PIs will need to be reviewed, and;
- All workings should be consistently recorded.

2.8 EK Services ICT Software Licensing – Reasonable Assurance:

2.8.1 Audit Scope

To ensure that the procedures and internal controls established by EK Services are sufficient to provide an effective, efficient, secure and economical ICT service to the three partner authorities of Canterbury CC, Dover DC and Thanet DC. An important aspect of this being the administration of software licencing of ICT applications on behalf of the partners.

2.8.2 Summary of Findings

Software Licensing is a complicated and difficult area to manage and control particularly across a shared service because there is always a risk in gaps of responsibility in respect of good software license management. There are approximately 100 back office ICT systems that are not managed or controlled by EK Services, therefore the management of licenses is also not under their control. Two of the major back office software packages that are managed and controlled by EK Services are Adobe, Microsoft Office and Google Suite.

EK Services are in the final stages of rolling out 'TOP desk' which is a helpdesk and facilities management software package used to manage and integrate IT functions and processes. The product includes a module for asset management (including a Software Asset Management Programme - SAM) and is due to be rolled out later this year. This functionality will eventually help EK Services and each Council identify, control, monitor and manage license numbers across the network. A large focus of this audit has therefore been on project governance, project controls, risk management and then the routine internal controls that need to be embedded once the SAM module is in place.

Management can place Reasonable Assurance on the systems of internal control in relation to the management and monitoring of Software Licenses in operation. This opinion is based on the limited scope of testing that could be undertaken without the assistance of the SAM module.

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

- No breach of license conditions was detected during testing;
- The Expression of Interest Process (EOI) is an effective control which helps prevent software from being purchased or installed without high level approval from a senior officer from within a Council;
- All devices across the network are set up to prevent software from being installed without administrator authorisation; and
- Sophos antivirus scanning ensures ICT are notified when certain types of software are detected.

Scope for improvement was however identified in the following areas:

- The Software Asset Management system has not yet been rolled out which will detect and help manage software and software licenses;
- There were some instances where software controlled by administrators with individual councils did not have access to the licensing agreement or thought that responsibility lay elsewhere;

- Roles and Responsibilities require re-assessment and re-evaluation to ensure there are no gaps.

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

3.1 As part of the period's work, four 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. Not yet implemented	
a)	Grounds Maintenance	Limited	Limited	C H M L	3 11 9 0	C H M L	3 8 1 0
b)	EK Services – Housing Benefit Payments	Substantial	Substantial	C H M L	0 0 0 1	C H M L	0 0 0 0
c)	EK Services – Customer Services	Substantial	Substantial	C H M L	0 0 1 3	C H M L	0 0 0 0
d)	EKH Tenancy & Estate Management	Substantial	Substantial	C H M L	0 5 6 3	C H M L	0 0 0 0

3.2 Details of any individual Critical and High priority recommendations still to be implemented at the time of 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 high-priority recommendation which have not been implemented 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:

a) Grounds Maintenance:

The Council's in-house Grounds Maintenance service is responsible for the maintenance and upkeep of parks and open spaces across the District. Corporate Priority 1 within the current Corporate Plan is 'keeping parks and open spaces clean for residents and visitors'. Therefore the Grounds Maintenance Service is key to the achievement of Corporate Priority 1 in the current Corporate Plan.

The initial audit in this area was finalised on 28th June 2016 with management agreement to implement all of the recommendations by 31st March 2017 and the follow-up review was originally scheduled for April 2017. However, due to changes in the establishment in this area, the follow-up review was delayed.

A new permanent Open Spaces Manager has only been in post since the 1 June 2017. Management have reported that within her first 3 months of employment she has made significant service improvement to parks and open spaces and indicates a positive direction of travel with the aim of having all of the recommendations fully implemented by revised implementation dates, the latest of which is June 2018. It should be noted that this is 2 years after the date of the initial audit and 15 months after the dates of the originally agreed dates for the implementation of the recommendations.

It has previously been reported that a common theme at Thanet District Council in recent years has been the lack of continuity of management, which has a detrimental impact upon the implementation of audit recommendations as well as upon the organisation's control and risk management environment. So often, at the time of follow-up the auditor finds that the Manager who originally agreed to the recommendations is no longer in the Council's employ and that they are now dealing with a replacement (often an interim). This has certainly been the case with this follow-up as none of the officers who agreed the recommendations at the time of the initial audit are now employed by the Council. Members of Governance and Audit Committee should be aware of this risk as it impacts upon the risk management and internal control framework of the organisation; this risk has previously been recognized in the corporate risk register.

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: Local Code of Corporate Governance, Risk Management, Garden Waste & Recycling Income, and Service Contract Management.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2017-18 internal audit plan was agreed by Members at the meeting of this Committee on 8th March 2017.

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 2017, 131.33 chargeable days were delivered against the planned target of 265.31 days which equates to 50% 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 not implemented at the time of follow-up.
Appendix 2 Summary of services with Limited / No Assurances.
Appendix 3 Progress to 30th September 2017 against the agreed 2017-18 Audit Plan.
Appendix 4 EKAP Balanced Scorecard of Performance Indicators to 30th September 2017.
Appendix 5 Definition of Audit Assurance Statements & Recommendation Priorities

SUMMARY OF CRITICAL & HIGH PRIORITY RECOMMENDATIONS NOT IMPLEMENTED AT THE TIME OF FOLLOW-UP – APPENDIX 1		
Original Recommendation	**Agreed Management Action , Responsibility and Target Date**	**Manager's Comment on Progress Towards Implementation.**
Grounds Maintenance:		
Critical - Develop service standards for all aspects of the Grounds Maintenance Service.	Work has started on service restructure and specification which will be implemented in early 2017. **Proposed Completion Date:** By 31/03/17 **Responsibility:** Open Spaces Manager	The permanent Open Spaces Manager did not start at TDC until the 1st June 2017. This recommendation is now being prioritised. **New Proposed Completion** Date: June 2018 **Responsibility**: Open Spaces Manager
Critical - Obtain Corporate approval of service standards for the Grounds Maintenance service.	Work has started on service restructure and specification which will be implemented in early 2017. **Proposed Completion Date:** By 31/03/17 **Responsibility:** Open Spaces Manager	The permanent Open Spaces did not start at TDC until the 1st June 2017. This recommendation is now being prioritised. **New Proposed Completion** Date: By June 2018 **Responsibility**: Open Spaces Manager
Critical - Develop suitable performance indicators to ensure delivery of the Grounds Maintenance service in accordance with approved Corporate standards	Draft Key Performance Indicators to be created for GM and then to be agreed by Head of Service and Director. **Proposed Completion Date:** By 31/03/17 **Responsibility:** Open Spaces Manager	The permanent Open Spaces did not start at TDC until the 1st June 2017. This recommendation is now being prioritised. **New Proposed Completion** Date: By March 2018 **Responsibility**: Open Spaces Manager
Ensure that procedures are developed, and resources identified to facilitate ongoing monitoring and review of the work carried out by Grounds Maintenance crews.	Round sheets and better supervision. A review of the current supervision is also taking place. **Proposed Completion Date:** By	Full review of grass cutting and gardeners round scheduled for Oct 17th 2017. Winter works programme has been drafted.

SUMMARY OF CRITICAL & HIGH PRIORITY RECOMMENDATIONS NOT IMPLEMENTED AT THE TIME OF FOLLOW-UP – APPENDIX 1		
Original Recommendation	**Agreed Management Action , Responsibility and Target Date**	**Manager's Comment on Progress Towards Implementation.**
	31/12/2016 **Responsibility:** Open Spaces Manager	**Partially Implemented**
Develop unit costs, and from there cost related performance indicators for the Grounds Maintenance Service.	Budget management vs SOR. Rationalising of the budgets is taking place. **Proposed Completion Date:** 31/03/2017 **Responsibility:** Open Spaces Manager	The permanent Open Spaces did not start at TDC until the 1st June 2017. This recommendation is now being prioritised. **New Proposed Completion** Date: By March 2018 **Responsibility**: Open Spaces Manager
Ensure that there are sufficient numbers of trained drivers available to maintain a normal service provision at all times across all aspects of the Grounds Maintenance Service	Potential drivers being put forwards for driving lessons and test. Better use of current drivers also being reviewed **Proposed Completion Date:** 30-09-2016 **Responsibility:** Open Spaces Manager	Drivers' course booked for staff starting 11th September 2017. **Partially Implemented**
Fit vehicle trackers to all vans; ride on mowers, tractors and JCB's as soon as practical.	Prices gained and business case completed. Once order approved then as new vehicles arrive **Proposed Completion Date:** Ongoing **Responsibility:** Open Spaces Manager	As part of the Capital Vehicle Replacement Programme new vehicles have arrived and are being used by the service. Trackers to be fitted. Via Manston Rd Depot. **Proposed Completion Date**: Ongoing **Responsibilit**y: Open Spaces Manager **Partially implemented – on-going.**
Update the driver declarations form so that it states the vehicle cannot be used for personal	Driver declarations form to be signed explaining the permitted usage of the	Declaration sheet in log book to be reprinted.

SUMMARY OF CRITICAL & HIGH PRIORITY RECOMMENDATIONS NOT IMPLEMENTED AT THE TIME OF FOLLOW-UP – APPENDIX 1		
Original Recommendation	**Agreed Management Action , Responsibility and Target Date**	**Manager's Comment on Progress Towards Implementation.**
journeys and then ensure that all drivers sign the revised declaration.	council's vehicles. **Proposed Completion Date:** 31/07/2016 **Responsibility:** Open Spaces Manager	**Outstanding** **Proposed Completion Date**: **: March 2018**
Update chemical safety data sheets for all chemicals held at the Dane Park Depot.	Work in progress and new form being agreed. MSDS have been collated. **Proposed Completion Date:** 31/07/2016 **Responsibility:** Open Spaces Manager	Survey of chemicals being used currently being done, this includes Crematorium, Cemeteries and the Foreshore teams. Forms to be returned by Sept 15th 2017). COSHH sheets will be re issued following this. **Partially Implemented.**
Provide a means for operatives to report near misses and accidents while away from Dane Park.	New form being created and will be implemented after a toolbox talk explaining what a near miss is. **Proposed Completion Date:** 31/07/2016 **Responsibility:** Open Spaces Manager	New tool box talks in place, will be rolled out to staff during winter months. **Partially Implemented**
Provide a toolbox talk to all operatives on the requirements to report near misses.	New form being created and will be implemented after a toolbox talk explaining what a near miss is. **Proposed Completion Date:** 31/07/2016 **Responsibility:** Open Spaces Manager	Toolbox talks data updated by Health and Safety Advisor Stewart Bundy, talks scheduled to take place from Oct 2017. **Partially Outstanding.**

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED – APPENDIX 2			
Service	**Reported to Committee**	**Level of Assurance**	**Follow-up Action Due**
Officers' Code of Conduct and Gifts & Hospitality	March 2017	Limited	Winter 2017
Building Control	March 2017	Limited	Winter 2017
Local Code of Corporate Governance	June 2017	Limited	Winter 2017
Project Management	June 2017	Limited	April 2018

PROGRESS TO DATE AGAINST THE AGREED 2017-18 AUDIT PLAN – APPENDIX 3

THANET DISTRICT COUNCIL:

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2017	Status and Assurance Level
FINANCIAL SYSTEMS:				
Car Parking & Enforcement	12	12	1.18	Work-in-Progress
Creditors & CIS	10	10	0.21	Work-in-Progress
Income	10	10	0.21	Work-in-Progress
Insurance & Inventories of Portable Assets	12	0	0	Postponed
RESIDUAL HOUSING SERVICES:				
Right to Buy	8	0	0	See 2016-17 Finalisation work below
GOVERNANCE RELATED:				
Data Protection, FOI & Information Management	14	14	0.18	Quarter 4
Anti-Fraud & Corruption	10	10	6.46	Work-in-Progress
Performance Management	10	10	0	Work-in-Progress
Risk Management	10	10	1.18	Work-in-Progress
Shared Service Monitoring	10	10	0	Quarter 4
Partnerships	8	8	0	Quarter 4
Scheme of Officer Delegations	8	8	10.23	Finalised - Substantial
Corporate Advice/CMT	2	2	2.45	Work-in-progress throughout 2017-18
s.151 Officer Meetings and Support	9	9	6.89	Work-in-progress throughout 2017-18
Governance & Audit Committee Meetings and Report Preparation	12	12	7.43	Work-in-progress throughout 2017-18
2018-19 Audit Plan and Preparation Meetings	9	9	0.41	Quarter 4
CONTRACT RELATED:				
Receipt & Opening of Tenders	8	8	6.18	Finalised - Substantial
SERVICE LEVEL:				
Inward Investment	10	10	0	Quarter 4
S11 Safeguarding Return to KCC	1	0	0	Not Required
Pollution, Contaminated Land, Air & Water Quality	10	10	0.18	Work-in-Progress

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2017	Status and Assurance Level
Land Charges	8	8	8.74	Finalised - Substantial
Asset Management	10	10	0	Quarter 4
Allotments	8	8	8.02	Finalised – Reasonable
Local Plan	10	10	0	Quarter 4
Your Leisure	12	12	0	Quarter 4
Sports Development	8	8	0	Quarter 4
Operational Services - Vehicle Fleet Management	15	15	16.88	Finalised - Reasonable
Garden Waste & Recycling Income	10	10	0.18	Work-in-Progress
OTHER :				
Liaison With External Auditors	1	1	0	Work-in-progress throughout 2017-18
Follow-up Reviews	15	16	12.32	Work-in-progress throughout 2017-18
FINALISATION OF 2016-17 AUDITS:				
Days over delivered in 2016-17	0	-19.69		
Local Code of Corporate Governance	5	25	0.27	Finalised - Limited
Procurement			10.08	Finalised - Substantial
Project Management			1.48	Finalised - Limited
Service Contract Management			11.13	Finalised - Limited
Phones, Mobiles & Utilities			9.19	Finalised - Substantial
Right to Buy			3.4	Finalised - Reasonable
RESPONSIVE ASSURANCE:				
Social Housing – External Decorations Contract	0	0	4.43	Work-in-Progress
Social Housing – Fire Precaution Works	0	0	2.02	Work-in-Progress
TOTAL	**285**	**265.31**	**131.33**	**50% as at 30-09-2017**

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2017	Status and Assurance Level
Planned Work:				

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2017	Status and Assurance Level
CMT/Audit Sub Ctte/EA Liaison	4	4	1.8	Work-in-progress throughout 2017-18
Follow-up Reviews	4	4	0.78	Work-in-progress throughout 2017-18
Finance Systems & ICT Controls	15	15	0	Quarter 4
Data Protection & Information Management	12	12	0.18	Quarter 4
Leasehold Services	15	15	0	Quarter 4
Fire Safety	15	15	14.46	Work-in-Progress
Safeguarding Children & Vulnerable Groups	10	10	10.55	Work-in-Progress
Anti-Fraud & Corruption	10	10	0	Work-in-Progress
Risk Management	10	10	0.18	Work-in-Progress
Performance Management	5	5	0	Quarter 4
Complaints Monitoring	10	10	0.18	Work-in-Progress
Single System – Post Implementation Review	10	10	0	Quarter 4
Property Services Improvement Plan	20	20	0	Quarter 3/4
Days under delivered in 2016-17		7.84	0	Completed
Responsive Assurance:				
Performance Indicator Data Quality	0	0	8.62	Finalised - Reasonable
Total	**140**	**147.84**	**36.75**	**25% at 30-09-2017**

EK SERVICES:

Review	Original Planned Days	Revised Planned Days	Actual days to 30/09/2017	Status and Assurance Level
EKS Reviews;				
Housing Benefits Payments	15	16	15.51	Completed - Substantial
DDC / TDC HB Testing	20	20	11.10	Work-in-progress throughout 2017-18
Business Rates	20	20	10.10	Work-in-progress
Council Tax Reduction Scheme	15	15	0	Quarter 3

Review	Original Planned Days	Revised Planned Days	Actual days to 30/09/2017	Status and Assurance Level
ICT – Data Management	15	15	0.17	Quarter 3
ICT – Procurement & Disposal	15	15	0	Quarter 4
EKHR Reviews;				
Payroll	15	15	0.07	Quarter 3
Employee Allowances & Expenses	15	15	0	Quarter 3
Employee Health & Safety	15	0	0	Responsibility transferred
Other;				
Corporate/Committee	8	10	2.38	Ongoing
Follow up	7	12	6.02	Ongoing
Days under delivered in 2016-17	17.70	24.70		Completed as below
Finalisation of 2016/17 Audits:				
Housing Benefit Subsidy			7.92	Completed - Substantial
ICT Change controls			2.34	Completed – Substantial
ICT Software Licensing			3.45	WIP -Draft Report
EKHR – Payroll & BIK			7.33	Completed - Substantial
Total	**177.7**	**177.70**	**66.39**	**37% at 30/09/2017**

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APPENDIX 4

BALANCED SCORECARD – QUARTER 2

INTERNAL PROCESSES PERSPECTIVE:	2017-18 Actual Quarter 2	Target	FINANCIAL PERSPECTIVE: Reported Annually	2017-18 Actual	Original Budget
Chargeable as % of available days	83%	80%	• Cost per Audit Day	£	£309.77
			• Direct Costs	£	£385,970
Chargeable days as % of planned days					
CCC	54%	50%	• + Indirect Costs (Recharges from Host)	£	£10,530
DDC	46%	50%			
SDC	40%	50%			
TDC	49%	50%	• - 'Unplanned Income'	£	Zero
EKS	37%	50%			
EKH	25%	50%	• = Net EKAP cost (all Partners)	£	£396,500
Overall	43%	50%			
Follow up/ Progress Reviews;					
• Issued	34	-			
• Not yet due	21	-			
• Now due for Follow Up	18	-			
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 2

CUSTOMER PERSPECTIVE:	**2017-18 Actual** Quarter 2	**Target**	**INNOVATION & LEARNING PERSPECTIVE:** Quarter 2	**2017-18 Actual** Quarter 2	**Target**
Number of Satisfaction Questionnaires Issued;	31		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	16 = 52%		Percentage of staff holding a relevant higher level qualification	38%	38%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	14%	N/A
• Interviews were conducted in a professional manner	100%	100%			
• The audit report was 'Good' or better	100%	100%	Number of days technical training per FTE	1.71	3.5
• That the audit was worthwhile.	100%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	38%	38%

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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TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2018-19

Meeting	**Governance and Audit Committee – 6 Dec 2017**
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 2018/19.

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, when it is prudent and economic, 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 2018-19

The strategy for 2018-19 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. During the current planning period Capita Asset Services is likely to be sold to The Link Group. The services provided will not change under the new ownership.

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 seven of the ten 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 2018-19 – 2020-21

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	2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
General Fund	8.087	14.768	4.689	3.988	11.682
HRA	5.156	21.882	4.484	3.695	3.188
Total	**13.243**	**36.650**	**9.173**	**7.683**	**14.870**

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	2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
General Fund	8.087	14.768	4.689	3.988	11.682
HRA	5.156	21.882	4.484	3.695	3.188
Total	**13.243**	**36.650**	**9.173**	**7.683**	**14.870**
Financed by:					
Capital receipts - GF	2.345	3.224	0.941	0.453	0.830
Capital receipts - HRA	0.336	2.444	0.000	0.000	0.000
Capital grants - GF	4.812	5.554	3.425	3.010	5.597
Capital grants - HRA	1.394	2.233	0.000	0.000	0.000
Reserves - GF	0.374	0.212	0.073	0.000	0.000
Reserves - HRA	2.850	9.244	4.184	3.395	2.888
Revenue - GF	0.000	0.296	0.000	0.025	0.050
Revenue - HRA	0.439	1.056	0.300	0.300	0.300
Net financing need for the year	**0.693**	**12.387**	**0.250**	**0.500**	**5.205**

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 indebtedness and so its 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 indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

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 £3.264m of long term liabilities (excluding pensions) as at 31 March 2017.

The Council is asked to approve the CFR projections below:

£m	2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Capital Financing Requirement					
CFR – General Fund	26.706	30.963	29.850	28.959	32.356
CFR – HRA	20.377	27.283	26.321	26.187	26.053
Total CFR	**47.083**	**58.246**	**56.171**	**55.146**	**58.409**
Movement in CFR	**(0.224)**	**11.163**	**(2.075)**	**(1.025)**	**3.263**

Movement in CFR represented by					
Net financing need for the year (above)	0.693	12.387	0.250	0.500	5.205
Less HRA – loan repayments	0.000	0.000	(0.962)	(0.134)	(0.134)
Less GF – lease terminations	0.000	(0.294)	0.000	0.000	(0.347)
Less MRP/VRP and other financing movements	(0.917)	(0.930)	(1.363)	(1.391)	(1.461)
Movement in CFR	**(0.224)**	**11.163**	**(2.075)**	**(1.025)**	**3.263**

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	2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Fund balances / reserves	17.164	14.361	12.261	11.241	8.439
Capital receipts	7.120	1.813	1.813	1.813	1.813
Earmarked reserves	11.706	6.523	6.237	5.993	6.064
Total core funds	**35.990**	**22.697**	**20.311**	**19.047**	**16.316**
Balances incl working capital*	14.148	17.832	17.296	18.246	20.907
(Under)/over borrowing	(12.150)	(24.529)	(12.607)	(12.293)	(12.223)
Expected investments	**37.988**	**16.000**	**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 and the Council's capital strategy. 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 2016, 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	2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
External Debt					
Debt at 1 April	29.220	31.669	31.086	41.274	40.903
Expected change in Debt	2.449	(0.583)	10.188	(0.371)	4.019
Other long-term liabilities (OLTL) at 1 April	3.655	3.264	2.630	2.290	1.950
Expected change in OLTL	(0.391)	(0.633)	(0.340)	(0.340)	(0.686)
Actual gross debt at 31 March	**34.933**	**33.717**	**43.564**	**42.853**	**46.186**
The Capital Financing Requirement	47.083	58.246	56.171	55.146	58.409
Under / (over) borrowing	**12.150**	**24.529**	**12.607**	**12.293**	**12.223**

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 2018-19 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 or speculative 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 and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Debt	50.000	55.000	55.000	55.000
Other long term liabilities (incl leases)*	12.000	22.000	22.000	22.000
Total	62.000	77.000	77.000	77.000

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	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Debt	55.000	60.000	60.000	60.000
Other long term liabilities (incl leases)*	15.000	27.000	27.000	27.000
Total	70.000	87.000	87.000	87.000

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	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
HRA debt cap	27.792	27.792	27.792	27.792
HRA CFR	27.283	26.321	26.187	26.053
HRA headroom	0.509	1.471	1.605	1.739

**Other long term liabilities (in both the Operational Boundary and Authorised Limit above) from 2018-19 includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16). The impact of IFRS 16 has not been reflected elsewhere in this report, pending further information from CIPFA.*

3.3 Capita's economic and interest rate forecast (issued by Capita on 23 October 2017)

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-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%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in the Monetary Policy Committee's (MPC) policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". (However, two new members of the MPC start in November who both appear likely to side with the doves on the committee; so this does complicate the outlook for the vote in November.) It is, therefore, possible that there will be an increase from 0.25% to 0.5% at the November MPC meeting but, if not, then at the February 2018 meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further, but gentle, increases in Bank Rate during 2018 and onwards.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to 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 in November 2016 has called into question whether the previous trend may go into reverse, especially now the Federal Reserve (Fed.) has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

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 stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will 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 are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, 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 towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

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 balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

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

- Bank of England monetary policy takes action too quickly to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea., but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. This could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England is too slow in its initial pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in the Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

- Investment returns are likely to remain low during 2018-19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. 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 the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of 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 2018-19 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 possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may 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 achieve this consideration 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 advisors, 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 the longer term bias outside the central rating view) 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 provided 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.
- Pooled investment vehicles (including money market funds, enhanced money market funds and bond funds) – AAA
- UK Government (including gilts, treasury bills 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**
Pooled investment vehicles (including money market funds, enhanced money market funds and bond 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 restrictions do not apply to pooled investment vehicles (including money market funds, enhanced money market funds and bond funds). The Council only invests in sterling denominated pooled investment vehicles.

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 short-term interest rates (i.e rates for investments up to 12 months).

Capita's Investment returns expectations (issued by Capita on 23 October 2017). 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:

2017-18	0.25%
2018-19	0.25%
2019-20	0.75%
2020-21	1.00%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are:

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 skewed to the upside after the September MPC meeting shocked financial markets with a sharp change to hawkish warnings that Bank Rate was likely to go up ‘in the coming months’. However, it is currently unclear as to whether these words reflect a desire to only do a one off withdrawal of the emergency rate cut of 0.25% in August 2016, probably then followed by a long pause before any further increases, or whether this implies an imminent start to a progressive gentle series of increases in Bank Rate during 2018 and then onwards.

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	**2018-19**	**2019-20**	**2020-21**
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, pooled investment vehicles 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 2018-19 to 2020-21, including the Authorised Limit Prudential Indicator.
- The Minimum Revenue Provision (MRP) Policy.
- The Treasury Management Strategy for 2018-19 to 2020-21 and the Treasury Indicators.
- The Investment Strategy for 2018-19 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 16 January 2018.

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.

Contact Officer:	Tim Willis, Director of Corporate Resources & Section 151 Officer, extn 7617
Reporting to:	Madeline Homer, Chief Executive

Annex List

Annex 1	The Capital Prudential and Treasury Indicators 2018-19 – 2020-21 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	Ramesh Prashar, Head of Financial Services
Legal	Tim Howes, Director of Corporate Governance & Monitoring Officer

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ANNEX 1 - THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2018-19 – 2020-21 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	2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Non-HRA	8.087	14.768	4.689	3.988	11.682
HRA	5.156	21.882	4.484	3.695	3.188
Total	**13.243**	**36.650**	**9.173**	**7.683**	**14.870**

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

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

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.

%	2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Non-HRA	6.7%	7.3%	10.5%	10.5%	11.6%
HRA	5.6%	6.0%	7.6%	7.0%	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

£	2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Council tax - band D *	(1.88)	(7.84)	(2.37)	(1.98)	36.94

**The 2020-21 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 2020-21 estimate reflects the full cost of the 2020-21 capital programme. The main element of the 2020-21 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

£	2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
Weekly housing rent levels *	(1.48)	(0.02)	(0.02)	0.01	0.18

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

**The 2020-21 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 2020-21 estimate reflects the full cost of the 2020-21 capital programme.*

d. HRA ratios

£	2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
HRA debt £m	20.041	20.040	25.821	25.687	25.554
HRA debt cap £	27.792	27.792	27.792	27.792	27.792
HRA rents £m	13.121	13.091	12.871	12.782	13.107
Ratio of debt to rents %	152.7%	153.1%	200.6%	201.0%	195.0%

£	2016-17 Actual	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate
HRA debt £m	20.041	20.040	25.821	25.687	25.554
Number of HRA dwellings	3,026	3,002	3,006	3,004	2,998
Debt per dwelling £	6,623	6,676	8,590	8,551	8,524

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;
- 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	2018-19	2019-20	2020-21
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates:			
• Debt only	87.000	87.000	87.000
• Investments only	45.000	45.000	45.000
Limits on variable interest rates			
• Debt only	87.000	87.000	87.000
• Investments only	50.000	50.000	50.000
Maturity structure of fixed interest rate borrowing 2018-19			
		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, enhanced money market funds and bond funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles 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.

QUARTERLY RISK UPDATE

Governance & Audit Committee – 6 December 2017

Report Author	***Tim Willis, Director of Corporate Resources***
Portfolio Holder	***Cllr Derek Crow-Brown, Portfolio Holder (Corporate Governance)***
Status	***For Information***
Key Decision	***No***
Ward:	***All***

Executive Summary:

This report provides Governance & Audit Committee with an update of corporate risk, in accordance with the Risk Strategy.

Recommendation(s):

To note the report.

CORPORATE IMPLICATIONS	
Financial and Value for Money	It is important that members and the public can have confidence in the council's accounts, and each year, the external auditor provides an independent opinion on the accounts. There are no direct financial implications of this report, but the integrity of the accounts forms part of a robust governance framework and helps manage risk. It is therefore encouraging that the auditor has, once again, given a clean opinion in respect of the 2016-17 accounts.
Legal	Whilst the corporate risk register includes consideration of legal matters in as far as they relate to risks to the Council, there are no legal implications for the recommendation required by this report.
Corporate	Governance & Audit Committee approved the Risk Management Strategy on 9 December 2015 which includes a requirement to provide regular corporate risk updates to G&A Committee.
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 is 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 or equalities issues arising from this report. The risk register identifies a number of activities designed to control risks and these will each need to be assessed for equality impact in their own right.	

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 Background

1.1 Risk Management is a fundamental element of the council's arrangements for ensuring goals are achieved and opportunities are taken up. To this end the council has established its Risk Management Strategy and Process and has assigned responsibility to councillors and officers to ensure that resources are used effectively and all that can reasonably be done, is done, to mitigate risk.

1.2 Whilst primary member oversight on risk is provided by G&A Committee, Cabinet also has a member Risk Champion (the Portfolio Holder for Corporate Governance) who promotes risk management and its benefits throughout the council. At staff level, the high-level corporate risk register is regularly considered by Corporate Management Team (CMT) and risk is a permanent item on its agenda. G&A Committee considers changes to the corporate risk register, the reasons for the changes and the actions being taken to mitigate the likelihood and impact of those risks. A view is also taken regarding the extent to which the risks should be tolerated. Looking beyond the corporate level, Heads of Service are responsible for maintaining service-level risks and project managers are responsible for project risks.

1.3 A review of risk management processes is under way and in preparation for the annual review of risk, it is expected that some enhancement and refinement to current practice will be recommended to G&A Committee. This will incorporate any change to resource allocation to risk management in light of the corporate restructuring.

2.0 Corporate risk register

2.1 A summary of the latest Corporate Risk Register is set out below, together with the risk scores noted by Governance & Audit Committee on 27 September 2017. The scores are arrived at by multiplying the "likelihood" score by the "impact" score, where the maximum score for each is four, so the maximum total score is sixteen.

Description	Sept 17 risk score	Dec 17 risk score
Limited Resources	12	12
Health and Safety at Work	12	12
Political Stewardship	12	12
Local Plan	12	12
Homelessness	12	12
Harbour flap gates	9	12
Information Governance	9	9
Project Management	9	9
Safeguarding Vulnerable People	8	6

2.2 Each corporate risk is the responsibility of a member of CMT and they manage risk mitigation plans with the aim of reducing the likelihood and/or impact of each risk to a manageable level. As time moves on, the external environment changes and this can have an impact on the effectiveness of mitigating actions as well as on the likelihood and impact of a risk: hence the need to maintain vigilance in respect of mitigation plans as well as new and changing risks.

2.3 It is more difficult to take action to reduce the impact of a risk occurring, than it is to take action to reduce its likelihood. Hence in some cases, the scores after mitigation will remain relatively high.

3. New/escalated and elevated risks

3.1 **Harbour Flap gates**: The Inner Basin of Ramsgate Harbour accommodates approximately 212 vessels on floating pontoons, this is known as the Inner Marina. The water level in the Inner Basin is retained at high tide by two pieces of mechanical infrastructure this being the flap gate and the mitre gates. Maintaining the integrity of these systems ensures that there is always sufficient water within the Inner Basin where the majority of boats are moored permanently. A failure of any part of the system that resulted in a significant loss of water within the Inner Basin could cause damage to vessels giving rise to third party claims and potential loss of custom and future income.

3.2 The flap gate, mitre gates and lift bridge all require urgent refurbishment and improvement. The purpose of this project is to sustain the long term serviceability of both gate systems and the bridge to avoid negative impact on marina customers and loss of associated revenue income. It was agreed to fund this work due to the potential risk of failure and based on external third party estimates £750k was allocated, however following an OJEU procurement exercise the returning tenders were between £1.3 and £4m. This was well outside of our affordability envelope and it was agreed that the specification would be adjusted and that a second procurement would be undertaken but only for the replacement of the major infrastructure the flap gates and mitre bridge.

3.3 This has subsequently extended the replacement program to almost 8 months and due to recent high tides we have started to see an increase in issues that have required continually call out of staff, resulting in the increase in risk score.

4. Highest-scoring risks

4.1 **Limited Resources:** The high score for Limited Resources reflects the fact that it is one of the few risks that in extremis could result in the council losing control of its own destiny. This, coupled with the challenging and uncertain external financial environment, the savings required this year, next year and beyond, and the low level of reserves has resulted in a continuing high overall score.

4.2 The council is establishing a track record of managing its resources, e.g. some £1.2m of budget savings were delivered as part of the 2016-17 budget process; made a small contribution to reserves in 2016-17; and obtained a clean audit opinion on the accounts. Plans are under way to deliver income generation and cost savings projects to fund the £2.7m budget gap in 2017-18, although there is substantial pressure on delivering this year's budget, in particular due to increasing homelessness.

4.3 The severity of the impact of the risk becoming manifest (e.g. TDC having to terminate services, make large-scale redundancies and/or be externally governed or managed) has not diminished. The management of this risk is further compounded by the uncertainty created by the changing external environment, e.g. the review of local government funding.

4.4 **Health and Safety at Work:** There is a risk that the council and its staff will cause harm as a result of a lack of robust Health & Safety procedures, failure to embed those procedures, and failure to comply with the procedures. Despite the conclusion to the prosecution by the Health and Safety Executive, there remain substantial risks pending the mitigating actions including the implementation of a H&S management system. A new cloud based document management system (TAM) has now being leased and is presently being rolled out, but as this requires all existing information to be uploaded into a new format, a phased approach is been taken. Once this system is fully functional, CMT will be in a position to understand where the risks are and ensure measures can be put in place to mitigate them.

4.5 **Political Stewardship:** The council was boosted by the positive feedback from a visit in July from the LGA peer review team. However, due to the current position of a minority administration this continues to be a risk to the council especially in the light of the need to approve the local plan. The council continues to pursue opportunities for cross-party working and member training.

4.6 **Local Plan:** Not having an adopted Local Plan places us at risk of intervention by DCLG, diminished control over Development Management in the district, no ability to demonstrate 5-year housing land supply, losing Appeals or High Court challenges; and costs awarded against the Council. Not progressing the Local Plan could impact investment in the area, investor confidence, and the commitment of partner organisations. In order to mitigate this risk Officers must ensure the evidence base is robust and defendable and timeous decision making is maintained. The period from now until examination is critical if we are to maintain our published timeframe.

4.7 **Homelessness:** Homelessness is increasing, both locally and nationally. This represents a significant risk to the council, increasing the costs associated with securing temporary and emergency accommodation and impacting on the outcomes for residents. Temporary accommodation budgets are currently overspending and management actions are required to bring this back within budget. The council has reviewed and is delivering its homelessness strategy action plan, is regularly monitoring the levels of homelessness and has commissioned new services to address the increasing need for support. Alternatives to expensive temporary and emergency accommodation are being explored. The council has successfully bid for new government funding to support homelessness services locally, and been awarded additional flexible homelessness grant. Preparations for the introduction of the Homelessness Reduction Act in April 2018 are under way.

5. De-escalated risks

5.1 **Safeguarding:** Since the adoption of the Safeguarding Policy in November 2016 the Safer Neighbourhoods Team have worked to embed this across the authority. We now have a safeguarding forum established with champions from across the organisation, spreading the word on training, challenging behaviours and raising concerns. All procedures have been updated with regular checks and balances in place to ensure compliance. All posts have also been reviewed to ensure that those who are required to have undertaken a DBS check have had one, and that a complete record is maintained of expiry dates, to ensure they are renewed in a timely manner. This is a significant area of concern for the authority, as demonstrated by the recruitment of a safeguarding officer; however, through regular updates to senior managers we are confident that the risk is being managed.

6.0 Recommendation

6.1 To note the report.

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

Background Papers

Title	Details of where to access copy
G&A report 9 December 2015: Review of corporate approach to risk management	http://democracy.thanet.gov.uk/ieListDocuments.aspx?CId=114&MId=4078&Ver=4
G&A report 7 December 2016: Update report on the corporate risk register	http://democracy.thanet.gov.uk/ieListDocuments.aspx?CId=114&MId=4397&Ver=4

Corporate Consultation

Finance	Tim Willis, Director of Corporate Resources
Legal	Tim Howes, Director of Corporate Governance

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TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW REPORT 2017-18

Meeting	**Governance and Audit Committee – 6 Dec 2017**
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 2017-18.

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 2017-18 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 2017-18;
- A review of the Council's borrowing strategy for 2017-18;
- A review of any debt rescheduling undertaken during 2017-18;
- A review of compliance with Treasury and Prudential Limits for 2017-18.

1.7 There have not been any key changes to the Treasury and Capital Strategies during the first half of 2017-18.

2 Capita's Interest rate forecasts (issued by Capita on 3 October 2017)

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

	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%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%
50yr PWLB rate	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%

2.2 Capita Asset Services undertook its last review of interest rate forecasts on 9 August after the quarterly Bank of England Inflation Report. There was no change in Monetary Policy Committee (MPC) policy at that meeting. However, the MPC meeting of 14 September revealed a sharp change in sentiment whereby a majority of MPC members said they would be voting for an increase in Bank Rate "over the coming months". It is therefore possible that there will be an increase to 0.5% at the November MPC meeting. If that happens, the question will then be as to whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

2.3 The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

2.4 Downside risks to current forecasts for UK gilt yields and Public Works Loan Board (PWLB) rates currently include:

- 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.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

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 Federal Reserve (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 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 2017-18, which includes the Annual Investment Strategy, was approved by the Council on 9 February 2017. 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.

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 £6.456m General Fund and £16.276m HRA.

Capital Expenditure	2017-18 Original Estimate £m	Current Position – Actual at 30-09-17 £m	2017-18 Revised Estimate £m
General Fund	8.478	2.444	14.768
HRA	3.855	1.756	21.882
Total	**12.333**	**4.200**	**36.650**

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	2017-18 Original Estimate £m Total	Current Position – Actual at 30-09-17 £m	2017-18 Revised Estimate £m GF	2017-18 Revised Estimate £m HRA	2017-18 Revised Estimate £m Total
Total spend	12.333	4.200	14.768	21.872	36.650
Financed by:					
Capital receipts	0.582		3.224	2.444	5.668
Capital grants	3.421		5.554	2.233	7.787
Reserves	3.705		0.212	9.244	9.456
Revenue	0.350		0.296	1.056	1.352
Total financing	8.058		9.286	14.977	24.263
Borrowing need	**4.275**		**5.482**	**6.905**	**12.387**

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

	2017-18 Original Estimate £m	Current Position – Actual at 30-09-17 £m	2017-18 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR – non housing	32.237		30.963
CFR – housing	27.332		27.283
Total CFR	59.569		58.246
Net movement in CFR	**12.486**		**11.163**
Prudential Indicator – the Operational Boundary for external debt			
Borrowing	50.000	31.401	50.000
Other long term liabilities*	12.000	3.094	12.000
Total debt	**62.000**	**34.495**	**62.000**

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

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 2017-18 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.

	2017-18 Original Estimate £m	Current Position – Actual at 30-09-17 £m	2017-18 Revised Estimate £m
Gross borrowing	43.799	31.401	31.086
Plus other long term liabilities*	2.975	3.094	2.630
Total gross borrowing	46.774	34.495	34.010
CFR (year end position)	59.569		58.246

** 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	2017-18 Original Indicator £m	Current Position – Actual at 30-09-17 £m	2017-18 Revised Indicator £m
Borrowing	55.000	31.401	55.000
Other long term liabilities*	15.000	3.094	15.000
Total	70.000	34.495	70.000

** 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 2017-18

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 shown by forecasts in Section 2, 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, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

5.2 The Council held £45.108m of investments as at 30 September 2017 (£37.988m at 31 March 2017) and the investment portfolio yield for the first six months of the year is 0.35% against a benchmark (average 7-day LIBID rate) of 0.11%. The constituent investments are:

Sector	Country	Up to 1 year £m	1 year – 370 days £m	Total £m
Banks	UK	13.275	0.000	13.275
Banks	Sweden	4.504	0.000	4.504
Money Market Funds	UK	27.329	0.000	27.329
Total		**45.108**	**0.000**	**45.108**

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 2017/18.

5.4 The Council's budgeted investment return for 2017/18 is £0.033m and performance for the first half of the financial year is above budget at £0.079m.

5.5 Investment Risk Benchmarking

Investment risk benchmarks were set in the 2017/18 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 0.35% against a benchmark (average 7-day LIBID rate) of 0.11%.

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

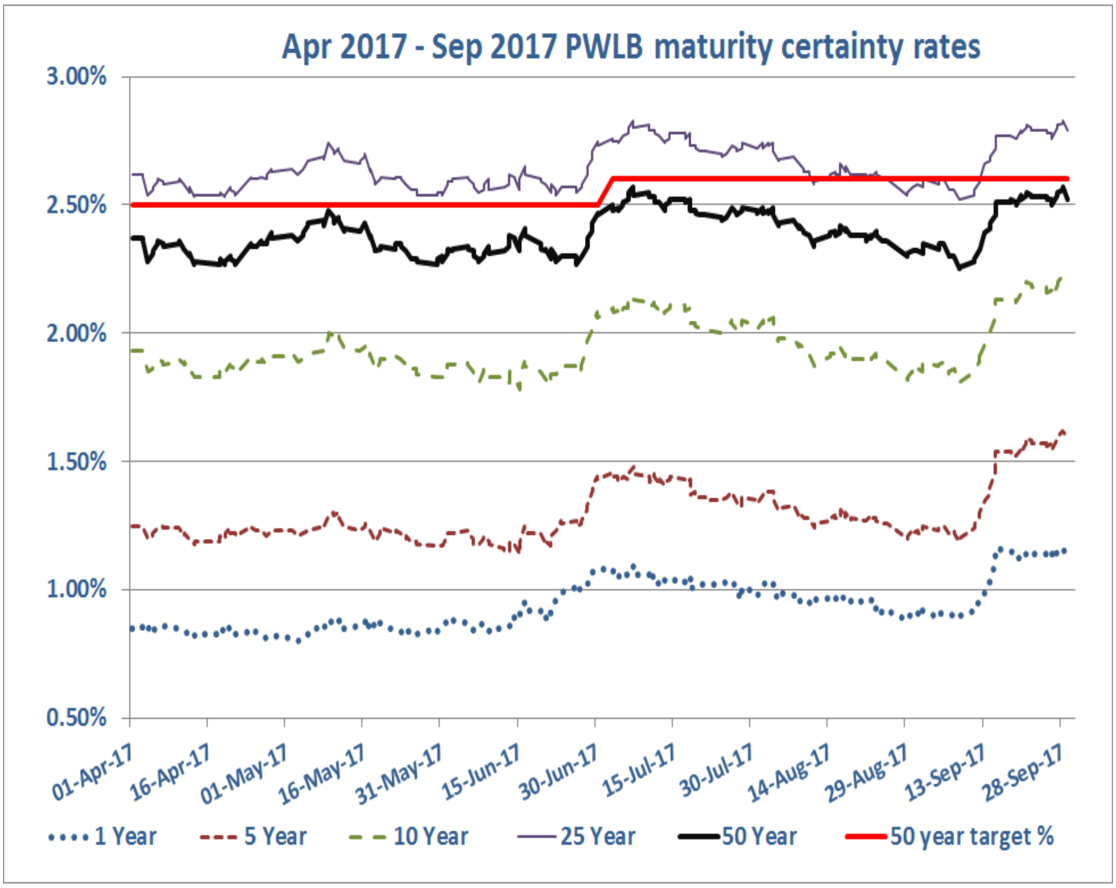
6.1 The Council's capital financing requirement (CFR) original estimate for 2017-18 is £59.569m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £31.401m (table 4.5) and has utilised an estimated £28.168m 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 £0.043m was undertaken during the first half of the financial year, for five years at zero interest rate repayable by equal instalments of principal over the term of the loan.

6.3 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.

6.4 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to 30 September 2017.

6.5 PWLB certainty rates, half year ended 30th September 2017



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.8	1.14	1.78	2.52	2.25
Date	03/05/2017	15/06/2017	15/06/2017	08/09/2017	08/09/2017
High	1.16	1.62	2.22	2.83	2.57
Date	15/09/2017	28/09/2017	28/09/2017	07/07/2017	07/07/2017
Average	0.9408	1.2981	1.9470	2.6475	2.3917

6.7 Debt rescheduling opportunities have been very limited in the current economic climate given the 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. No debt rescheduling has therefore been undertaken to date in the current financial year. 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 2017-18 is £1.666m 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.

%	2017-18 Original Indicator	2017-18 Revised Indicator
Non-HRA	9.1%	7.3%
HRA	7.6%	6.0%

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:

	2017-18 Original Indicator £m	Current Position – Actual at 30-09-17 £m	2017-18 Revised Indicator £m
Upper limits on fixed interest rates			
Debt only	70.000	31.401	70.000
Investments only	45.000	17.775	45.000
Upper limits on variable interest rates			
Debt only	70.000	0.000	70.000
Investments only	50.000	27.333	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.

	2017-18 Original Upper Limit	Current Position – Actual at 30-09-17	2017-18 Revised Upper Limit
Maturity structure of fixed rate borrowing			
Under 12 months	50%	16%	50%
1 year to under 2 years	50%	5%	50%
2 years to under 5 years	50%	29%	50%
5 years to under 10 years	55%	10%	55%
10 years to under 20 years	50%	21%	50%
20 years to under 30 years	50%	10%	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 Revised CIPFA Codes and MIFID II

8.1 Revised CIPFA Codes

The Chartered Institute of Public Finance and Accountancy (CIPFA) has been conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on this authority.

8.2 MIFID II

The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this authority apart from having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use apart from our cash deposits with banks and building societies.

9 Options

9.1 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.

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

10 Next Steps

10.1 This report is to go to Cabinet and then Council for approval. The next Cabinet meeting is on 16 January 2018.

11 Disclaimer

11.1 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 2017-18

Corporate Consultation Undertaken

Finance	Ramesh Prashar, Head of Financial Services
Legal	Tim Howes, Director of Corporate Governance & Monitoring Officer

ANNEX 1 – ECONOMIC UPDATE AND DEBT MATURITY

1.0 Capita's Economic Update (issued by Capita on 3 October 2017)

1.1 **UK.** After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of Gross Domestic Product (GDP), has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

1.2 The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected Consumer Price Index (CPI) inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September MPC meeting. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

1.3 It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

1.4 **EU.** Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the European Central Bank (ECB) eventually cutting its main rate to -0.4% and embarking on a massive programme of Quantitative Easing (QE). However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter 2 (2.3% y/y). However, despite providing massive monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

1.5 **USA.** Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its $4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

1.6 **Chinese economic growth** has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

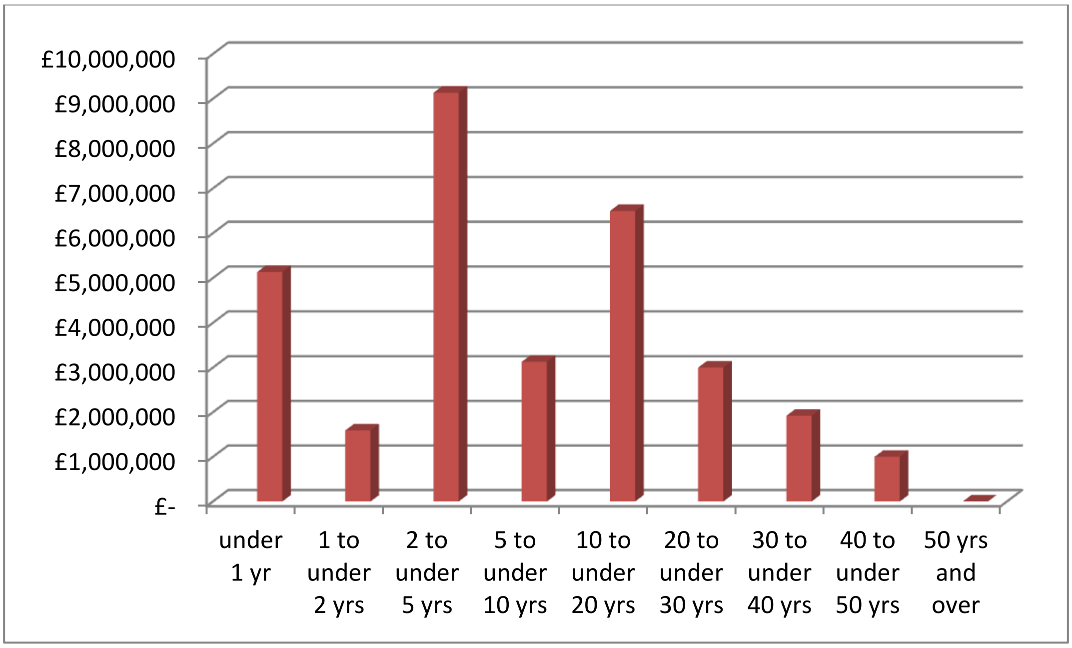
1.7 **Japan** is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

Agenda Item 8

Annex 1

2.0 Debt Maturity

2.1 The maturity structure of the Council's borrowing as at 30 September 2017 (as per section 7 of the main report) is shown below in graph format.



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ANNEX 2 – GUIDANCE ON THE TREASURY MANAGEMENT STRATGEY STATEMENT AND ANNUAL INVESTMENT STRTAGEY – MID YEAR REVIEW REPORT 2017-18

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, 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.

MIFID

The Markets in Financial Instruments Directive or MIFID (section 8.2 of report) is the EU legislation that regulates firms who provide services to clients linked to financial instruments, and the second of these directives (MIFID II) is to be introduced by 3 January 2018.

AUDIT OF 2016-17 FINAL ACCOUNTS

Governance & Audit Committee – 6 December 2017

Report Author	***Tim Willis, Director of Corporate Resources***
Portfolio Holder	***John Townend, Cabinet Member – Finance and Estates***
Status	***For Information***
Key Decision	***No***
Ward:	***All***

Executive Summary:

This report provides Governance & Audit Committee with an update of events related to the external audit of the final accounts, following the last G&A meeting on 27 September.

Recommendation(s):

To note the report.

CORPORATE IMPLICATIONS	
Financial and Value for Money	It is important that members and the public can have confidence in the council's accounts, and each year, the external auditor provides an independent opinion on the accounts. There are no direct financial implications of this report, but the integrity of the accounts forms part of a robust governance framework and helps manage risk. It is therefore encouraging that the auditor has, once again, given a clean opinion in respect of the 2016-17 accounts.
Legal	The audit of accounts is governed by the Accounts and Audit Regulations 2015 and the Local Audit and Accountability Act 2014. The Director of Corporate Resources is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Council.
Corporate	Under the Local Code of Corporate Governance accepted by Cabinet on 10 November 2004, the council is committed to publish and make available reports that give an objective and understandable account of its activities, achievements, financial position and performance. The published accounts must have been subject to Member scrutiny and must give a true and fair view of the council's financial position and its income and expenditure for the year.
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,

<table>
<tr><td></td><td>gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.
<table><tr><td colspan="2">Please indicate which is 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>
There are no equity or equalities issues arising from this report. The risk register identifies a number of activities designed to control risks and these will each need to be assessed for equality impact in their own right.</td></tr>
</table>

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 Chronology of events

1.1 The 2016-17 accounts needed to be approved and signed off by 30 September 2017. The draft accounts (they are referred to as draft up to the point they are signed off) were provided to Governance & Audit Committee members in advance of the meeting on 27 September. It was anticipated that the external auditor, Grant Thornton, would verbally advise the committee of his unqualified opinion on the accounts, and his opinion on value for money (that “proper arrangements (are) in place to secure economy, efficiency and effectiveness in (the council’s) use of resources”).

1.2 Unfortunately, Grant Thornton’s Director did not do this at the meeting. In a surprise to all TDC staff present, he stated that there was a material misstatement in the accounts which could lead to his opinion being qualified.

1.3 This matter was resolved the next day, and all members of the Committee were emailed accordingly (Annex 1) stating that the external auditor no longer believed there was a material misstatement and he accepted the view of council officers. Further to this, a briefing paper was circulated to all G&A members on 5 October (Annex 2).

1.4 A letter of complaint was written to Grant Thornton on 11 October. This resulted in a meeting of the Director of Corporate Resources and a partner at Grant Thornton, on 13 November. He wrote back on 21 November and this reply is included as Annex 3.

2.0 Recommendation

2.1 To note the report.

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

Corporate Consultation

Finance	Tim Willis, Director of Corporate Resources
Legal	Tim Howes, Director of Corporate Governance

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Message sent by Charles Hungwe**.**

Dear Members

<u>Message sent on behalf of Tim Willis, Director of Corporate Resources</u>

<u>Outcome of 2016-17 Final Accounts discussions at G&A Committee last night</u>

The Committee was presented with an apparently serious issue by Grant Thornton, the external auditor, which they argued amounted to a material misstatement. Members may recall that I pointed out the fact that the auditor had raised the issue only a matter of hours earlier, after previously agreeing all the G&A documentation that morning. I was additionally concerned that officers had already made the case to Grant Thornton in support of the accounts on earlier occasions, and I did so again last night.

As a result of this unfortunate dispute, G&A approved the accounts, subject to resolution of the issue, which related to asset valuations.

I shall brief members more fully next week, but I can report that the external auditor no longer believes there is a material misstatement, he accepts the view of council officers and has withdrawn his claim of a flaw in the methodology used in valuing assets. He will be issuing an unqualified audit opinion on the accounts, which have not changed in any way from those presented to G&A Committee last night.

Regards

Tim Willis
Director of Corporate Resources
Thanet District Council

Charles Hungwe
Senior Democratic Services Officer

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APPROVAL OF THE FINAL ACCOUNTS 21016-17	
To:	Governance & Audit Committee members
From:	Tim Willis, Director of Corporate Resources
Date:	5 October 2017

Reason for this briefing

Following the G&A Committee meeting on 27 September, I undertook to send a briefing note to all members of the committee, explaining the outcome of the external audit of the Council's accounts.

Under normal circumstances, there are often small last-minute issues being resolved between the auditor (Grant Thornton) and the Finance team in connection with the accounts, which tends to result in the last-minute circulation of documents supporting the committee decision. This was again the case for the 27 September meeting: the auditor confirmed his (unqualified) draft opinion on 22 September and didn't finalise his Audit Findings Report until 27 September. Although the lateness is something we would want to avoid in future, it wasn't the fault of any single party. After receipt of the confirmation from the auditor, the papers were circulated to all G&A Committee members.

Subsequent to that, the auditor raised a potentially serious matter, which, following a telephone call with the auditor, we at TDC thought had been resolved. We gave an undertaking to follow up the issue subsequent to the meeting, which seemed reasonable, given the lateness of the matter being raised.

Unfortunately, the auditor had a different view: the issue he raised earlier that day, he repeated at the committee. The potential consequences of the issue were that TDC's accounts included a material misstatement, that the accounts might be Qualified as a consequence, and so the Committee could not reasonably be asked to approve the accounts.

Committee members will have been aware of my deep concerns regarding the timing of the auditor's challenge, as well as its substance. These issues are being dealt with through a complaint to both Grant Thornton and the regulatory body that oversees external audit, the PSAA. This briefing focuses on the substantive issue that gave rise to the unfortunate and, as it turned out, unnecessary debate at G&A regarding the auditor's view of the accounts.

The substantive issue

It has been custom and practice at Thanet to carry out valuations of assets (mostly property) as at 1 April, and also not to value every asset every year. But the Council's accounts are produced as at 31 March, and the asset values in the balance sheet should be as at that date. This means that we know that the asset values we hold on record when we finalise the accounts are out of date – sometimes, up to five years out of date, if the asset is one of those that is only valued every five years; but at least one year old, because the latest valuation would have been as at 1 April.

So in order to show that the Council's balance sheet does not mislead the reader, we uprate the valuations to work out an estimate of the asset values, as if we had valued everything as at 31 March. This is not purely scientific and we seek help from property professionals. The end result represents the uprated value of assets, which we compare to the value in our accounts. If the difference between the two figures is large, it may be viewed by the auditor as "material" and so he could conclude that it represents a "material misstatement".

I think our current practice is not good enough and we shall be revising our valuation date in future. However, being mindful of this issue, we had written to the auditor in August, showing our workings on the above matter. It wasn't until the morning of 27 September that he raised a concern.

The auditor had used a percentage taken from our workings as a proxy annual uplift for valuations to all our assets in question, compounded for (in some cases) five years, and worked out that if we had used the same methodology, the resulting difference between the figure in our accounts, and the figure we should have used, was large – large enough to represent a material misstatement. This was the basis of his statements at G&A Committee.

Apart from the issues of process/timing, my concern was that the auditor's assertions were based on a flawed methodology. Whilst there were and are improvements to be made in the way we value our assets for the final accounts, my contention was that none resulted in the need to revise the accounts as presented to G&A and none amounted to a material misstatement.

This resulted in the debate at G&A and I understand why this gave G&A members cause for concern.

As I emailed on 28 September, the matter was quickly resolved. I emailed a spreadsheet to the auditor, then had a 15 minute telephone call, which resulted in his acceptance of our position. The essence of the spreadsheet and phone call were to point out the flaws in his methodology (that underpinned his assertions at G&A) and demonstrate the consistently-expressed TDC view: that the asset values in the accounts should be updated to a date closer to the relevant accounting date of 31 March; but any difference between the figures in the accounts, and the uprated estimated values, are not "material".

It continues to be a cause for concern that the auditor felt sufficiently strongly about the issue to raise it for the first time, on the day of G&A Committee, and debate it with me at the meeting; yet the issue was resolved extremely quickly the next day. All documents that formed part of the G&A Committee papers were and are accurate – it is as if the auditor had never raised the issue in the first place.

I apologise to committee members for the events on 27 September and whilst the external auditor operates independently, I will nonetheless put in place measures to minimise the likelihood of a repetition.

Tim Willis
Director of Corporate Resources
Thanet District Council
Tim.willis@thanet.gov.uk
Tel 01843 577617
Mob 07795 283498
Avaya internal: 57009

Grant Thornton
An instinct for growth™

Mr Tim Willis
Director of Corporate Resources
Thanet District Council
Cecil Street
Margate
Kent

Grant Thornton UK LLP
30 Finsbury Square
London EC2P 2YU

T +44 (0)20 7383 5100
F +44 (0)20 7184 4301
grantthornton.co.uk

21 November 2017

Dear Tim

Your complaint

Thank you for meeting with me last week to discuss your complaint about the finalisation of the 2016/17 audit and the lateness of raising a matter at the Governance and Audit Committee on the evening of 27th September

Firstly, we acknowledge that members and yourself were placed in a difficult position on the 27th September and the lateness of the issue raised alarm amongst members and questioned whether or not they could safely approve the accounts. We fully appreciate this is a position neither you nor Grant Thornton would wish to be in and we apologise for our part that lead to this unfortunate situation.

The area we were struggling to get assurance over was the judgement that property, plant and equipment and investment properties not revalued in the year were not materially misstated. At no time were we seeking to 'insert' our valuation of these assets into the accounts, rather it was to test the reasonableness of officers' judgement as we are required to do by auditing standards. We accept it might have felt different to your team.

An error on our part was the interpretation of information supplied to us on the 30th August and the lateness of our interpretation. As you set out in your letter, we provided an analysis of our interpretation to officers but this was on the 27th September. We followed this up with a telephone conversation. It is apparent that Grant Thornton and officers had different understanding of the outcome of the telephone call between us and finance staff. We understood finance staff agreed to provide information before the committee meeting to confirm Grant Thornton's interpretation was wrong and therefore provide assurance, finance staff understood this information could be provided after the committee meeting. This breakdown in communication lead to the lack of communication directly with you until the very start of the meeting and in part to the position we took at the Governance and Audit Committee - not withstanding our acceptance of the impact our error on the wrong interpretation applied to the information provided, played.

As we discussed, we remain fully committed to working closely with officers in the future to avoid such a situation arising again.

Yours sincerely

For Grant Thornton UK LLP

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