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Date: **27 November 2018**
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thanet district council

GOVERNANCE AND AUDIT COMMITTEE

5 DECEMBER 2018

A meeting of the Governance and Audit Committee will be held at **7.00 pm on Wednesday, 5 December 2018** in the Council Chamber, Cecil Street, Margate, Kent.

Membership:

Councillor Day (Chairman); Councillors: Bambridge, Buckley, Braidwood, Campbell, Connor, Dennis, Dexter, Dixon, Evans, Larkins (Vice-Chairman), Messenger, R Potts, Pugh and Townend.

A G E N D A

Item
No

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTEREST**

3. **MINUTES OF PREVIOUS MEETING** (Pages 1 - 2)

   To approve the Minutes of the Governance and Audit Committee meeting held on 26 September 2018, copy attached.

4. **EXTERNAL AUDIT UPDATE REPORT** (Pages 3 - 14)

5. **TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW REPORT 2018-19** (Pages 15 - 32)

6. **TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2019-20** (Pages 33 - 70)

7. **CORPORATE RISK MANAGEMENT - QUARTERLY RISK REVIEW** (Pages 71 - 76)

8. **EXCLUSION OF PRESS AND PUBLIC** (Pages 77 - 80)

9. **INTERNAL AUDIT QUARTERLY UPDATE REPORT** (Pages 81 - 110)

   Declaration of Interests Form

Please scan this barcode for an electronic copy of this agenda.

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GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 26 September 2018 at 7.00 pm in Council Chamber, Cecil Street, Margate, Kent.

Present: Councillor Simon Day (Chairman); Councillors Bambridge, Buckley, Braidwood, Campbell, Connor, Dexter, Dixon, Evans, Larkins, Messenger and Pugh.

In Attendance: Councillors L Piper and S Piper.

1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Dennis.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF PREVIOUS MEETING

Councillor Campbell proposed, Councillor Larkins seconded and Members agreed the minutes of the meeting held on 25 July 2018.

4. ANNUAL AUDIT LETTER 2017-18

Mr Willis, Deputy Chief Executive and Director of Corporate Resources, introduced the report which presented Grant Thornton's Annual Audit Letter summarising the work carried out at Thanet District Council for 2017-18.

Councillor Reverend Piper spoke under council procedure rule 20.1.

During consideration of the item it was noted that:

- The Letter confirmed that Grant Thornton gave an unqualified option on the Council's financial statements on 31July 2018, and were satisfied that the Council had proper arrangements in place to ensure economy, efficiency and effectiveness in its use of resources.
- The Harbour and Port accounts had been audited by Grant Thornton as it formed part of the Councils accounts. They were also subject to an additional review by Grant Thornton in accordance with the Harbours Act 1964.
- The 2017/18 accounts that the Committee agreed at the last meeting were correct, they had been produced in accordance with all relevant legislation and had been confirmed as accurate by the external auditor. Mr Willis offered to meet with Members if they wished to seek clarification on any element of the 2017/18 accounts.

Members noted the report.

5. QUARTERLY INTERNAL AUDIT UPDATE REPORT

Mr Webb, Deputy Head of the East Kent Audit Partnership (EKAP), introduced the report noting that there had been four internal audit assignments completed since the last committee meeting; three concluded substantial assurance and one concluded substantial/reasonable assurance. Five follow up reviews had also been completed. EKAP's performance was shown in appendix 4 of the report.

During consideration of the item, it was noted that:

- Since publication of the agenda, the East Kent Housing – Safeguarding Children and Vulnerable Groups follow up review had been completed. The level of assurance had risen from reasonable/limited to reasonable.
- The next audit of East Kent Services - Business Rates would review the business rate retention scheme pilot.
- The Your Leisure and Museums audits had been postponed as these departments were currently undergoing an internal review. It was expected that these audits would be included in the 2019/20 audit plan.

Members agreed to note the report, and agreed that changes to the 2018-19 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of Annex 1 of the report be approved.

6. CORPORATE RISK MANAGEMENT - QUARTERLY UPDATE

Mr Willis introduced the report which provided the Committee with an update of corporate risk in accordance with the risk strategy.

During consideration of the item it was noted that:

- The risk levels for the Local Plan, Health and Safety at Work and Information Governance had reduced since the last meeting of the Committee.
- The Homelessness risk level remained at 12, however a lot of work had been done to reduce homelessness within the District which appeared to be having a positive impact. It was hoped that this success may have led to a reduction in risk level when the Committee received the update at the next meeting.

Members noted the report.

Meeting concluded: 7.40pm

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Audit Progress Report and Sector Update

Thanet District Council

Year ending 31 March 2019

5 December 2018

Agenda Item 4

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Introduction

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Governance and Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk

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

Progress at November 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure was issued on the 31 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit was presented as part of the Agenda for September's meeting.

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2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2017/18 claim was completed by the end of November 2018 deadline.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with Finance Officers in early November as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in July to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next events are the Local Government Accounting Update Sessions, which will be held in February 2019 at our Finsbury Square Office. Invites will be sent to members of your finance team imminently.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial Value for Money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Governance and Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statements, Annual Governance Statement and Value for Money Conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

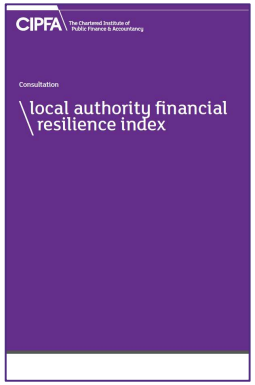
Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

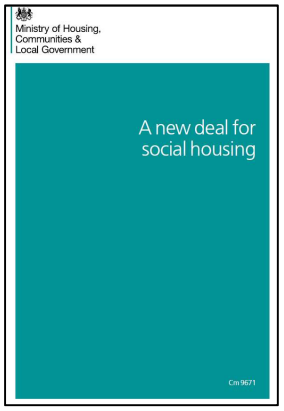
The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:
https://www.gov.uk/government/consultations/a-new-deal-for-social-housing

Social Housing Green Paper Consultation



Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent wo which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services, However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report https://www.ifs.org.uk/uploads/publications/comms/R148.pdf.

In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies).These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly owned | **Joint Ventures** | **Social Enterprise**

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment

  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could me more mergers and insolvencies.

- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in todays austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.

Download the report here

Links

Grant Thornton website links

https://www.grantthornton.co.uk/

http://www.grantthornton.co.uk/industries/publicsector

https://www.grantthornton.co.uk/en/insights/a-caring-society/

https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/

Ministry of Housing, Communities and Local Government links

https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing

Institute for Fiscal Studies

https://www.ifs.org.uk/uploads/publications/comms/R148.pdf

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TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW REPORT 2018-19

Meeting	**Governance and Audit Committee – 5 Dec 2018**
Report Author	**Tim Willis, Deputy Chief Executive & Section 151 Officer**
Portfolio Holder	**Councillor Ian Gregory, Cabinet Member 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 2018-19.

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 Deputy Chief Executive, 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 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised 2017).

1.2 Treasury management is defined as:

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

1.3 The primary requirements of the Code include 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.

1.4 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 2018-19 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The council's capital expenditure (see also the Capital Strategy) and prudential indicators;
- A review of the council's investment portfolio for 2018-19;
- A review of the council's borrowing strategy for 2018-19;

- A review of any debt rescheduling undertaken during 2018-19;
- A review of compliance with Treasury and Prudential Limits for 2018-19.

1.5 The Treasury Management Strategy was agreed by council on 8 February 2018, and the Capital Strategy and Non-Treasury Investment Report were both agreed by Cabinet on 18 September 2018. As at 30 September 2018, there have been no key changes to these documents.

2 Link's Interest rate forecasts (issued by Link on 3 October 2018)

2.1 The council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

2.2 The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the Monetary Policy Committee (MPC) came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. Link does not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Link also feels that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

2.3 The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong Gross Domestic Product (GDP) growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than Link currently anticipates.
- 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, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the European Union (EU) when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.
- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Federal Reserve (Fed) causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing (QE), 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.
- The Bank of England is too slow in its 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 Link currently expects.

- UK inflation, whether domestically generated or imported, returning to sustained 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 2018-19, which includes the Annual Investment Strategy, was approved by the council on 8 February 2018. 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 net reprofiling of £7.2m General Fund and £3.5m HRA.

Capital Expenditure	2018-19 Original Estimate £m	Current Position – Actual at 30-09-18 £m	2018-19 Revised Estimate £m
General Fund	4.689	5.974	13.512
HRA	4.484	2.218	7.408
Total	**9.173**	**8.192**	**20.920**

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	2018-19 Original Estimate £m Total	Current Position – Actual at 30-09-18 £m	2018-19 Revised Estimate £m GF	2018-19 Revised Estimate £m HRA	2018-19 Revised Estimate £m Total
Total spend	**9.173**		**13.512**	**7.408**	**20.920**
Financed by:					
Capital receipts	0.941		4.161	0.655	4.816
Capital grants	3.425		4.511	1.857	6.368
Reserves	4.257		0.202	4.486	4.688
Revenue	0.300		0.006	0.410	0.416
Total financing	**8.923**		**8.880**	**7.408**	**16.288**
Borrowing need	**0.250**		**4.632**	**0.000**	**4.632**

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

	2018-19 Original Estimate £m	Current Position – Actual at 30-09-18 £m	2018-19 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR – non housing	29.850		27.086
CFR – housing	26.321		20.786
Total CFR	56.171		47.872
Net movement in CFR	**11.572**		**3.273**
	2018-19 Original Indicator £m	**Current Position – Actual at 30-09-18 £m**	**2018-19 Revised Indicator £m**
Prudential Indicator - the Operational Boundary for External Debt			
Borrowing	55.000	30.771	55.000
Other long term liabilities*	22.000	2.447	22.000
Total debt	**77.000**	**33.218**	**77.000**

** Any 'on balance sheet' PFI schemes and finance leases etc (including the leisure centre deferred credit). Both the Operational Boundary and Authorised Limit Indicators include an estimate for the recognition of leases under International Financial Reporting 16 (IFRS 16). The impact of IFRS 16 has not been reflected in the Actual or elsewhere in this report, pending further information from CIPFA.*

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 2018-19 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.

	2018-19 Original Estimate £m	Current Position – Actual at 30-09-18 £m	2018-19 Revised Estimate £m
Gross borrowing	41.274	30.771	35.133
Plus other long term liabilities*	2.290	2.447	2.277
Total gross borrowing	**43.564**	**33.218**	**37.410**
CFR (year end position)	56.171		47.872

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	2018-19 Original Indicator £m	Current Position – Actual at 30-09-18 £m	2018-19 Revised Indicator £m
Borrowing	60.000	30.771	60.000
Other long term liabilities*	27.000	2.447	27.000
Total	**87.000**	**33.218**	**87.000**

** Any 'on balance sheet' PFI schemes and finance leases etc (including the leisure centre deferred credit). Both the Operational Boundary and Authorised Limit Indicators include an estimate for the recognition of leases under International Financial Reporting 16 (IFRS 16). The impact of IFRS 16 has not been reflected in the Actual or elsewhere in this report, pending further information from CIPFA.*

5 Investment Portfolio 2018-19

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 0.75% 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 £47.497m of investments as at 30 September 2018 (£40.882m at 31 March 2018) and the investment portfolio yield for the first six months of the year is 0.60% against a benchmark (average 7-day LIBID rate) of 0.44%. The constituent investments are:

Sector	Country	Up to 1 year £m	1 year – 370 days £m	Total £m
Banks	UK	13.771	0.000	13.771
Banks	Sweden	4.516	0.000	4.516
Money Market Funds	UK	29.210	0.000	29.210
Total		**47.497**	**0.000**	**47.497**

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 2018-19.

5.4 The council's budgeted investment return for 2018-19 is £0.062m and performance for the first half of the financial year is above budget at £0.136m.

5.5 Investment Risk Benchmarking

Investment risk benchmarks were set in the 2018-19 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 0.60% against a benchmark (average 7-day LIBID rate) of 0.44%.

5.6 Investment Counterparty criteria

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

6 Borrowing

6.1 The council's capital financing requirement (CFR) original estimate for 2018-19 is £56.171m. The CFR denotes the council's underlying need to borrow for capital purposes. If the CFR is positive the council may borrow

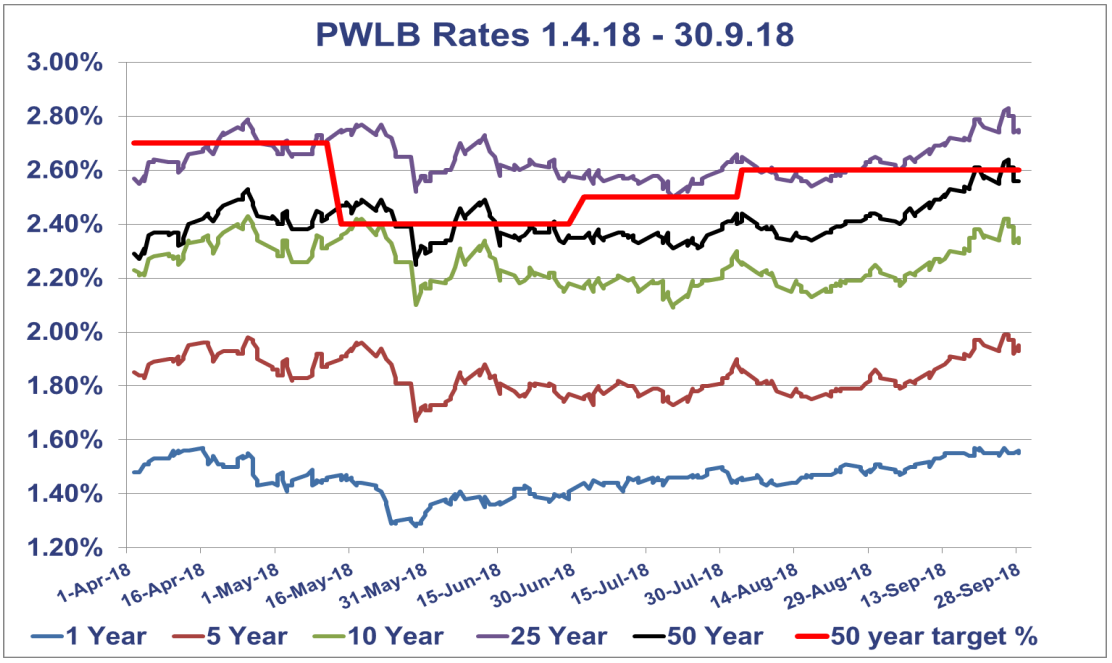
from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The council has borrowings of £30.771m (table 4.5) and has utilised an estimated £25.400m of cash 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 No new external borrowing was undertaken from the PWLB during the first half of this financial year.

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 2018.

6.5 PWLB certainty rates, half year ended 30th September 2018



	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%

6.6 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.

6.7 The council's budgeted debt interest payable for 2018-19 is £1.507m and performance for the first half of the financial year is below budget at £0.576m. The revised estimate for 2018-19 is £1.206m.

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.

%	2018-19 Original Indicator	2018-19 Revised Indicator
Non-HRA	10.5%	8.6%
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:

	2018-19 Original Indicator £m	Current Position – Actual at 30-09-18 £m	2018-19 Revised Indicator £m
Upper limits on fixed interest rates			
Debt only	87.000	30.771	87.000
Investments only	45.000	13.381	45.000
Upper limits on variable interest rates			
Debt only	87.000	0.000	87.000
Investments only	50.000	34.116	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.

	2018-19 Original Upper Limit	Current Position – Actual at 30-09-18	2018-19 Revised Upper Limit
Maturity structure of fixed rate borrowing			
Under 12 months	50%	20%	50%
1 year to under 2 years	50%	15%	50%
2 years to under 5 years	50%	16%	50%
5 years to under 10 years	55%	9%	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 UK Banks - Ring Fencing

8.1 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

8.2 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

8.3 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The council will

continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

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 (January 2019) and then council for approval.

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, Deputy Chief Executive & Section 151 Officer
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 2018-19

Corporate Consultation Undertaken

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

ANNEX 1 – ECONOMIC UPDATE AND DEBT MATURITY

1.0 Link's Economic Update (issued by Link on 3 October 2018)

1.1 **UK:** The first half of 2018-19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

1.2 Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

1.3 As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

1.4 In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, Link's central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

1.5 **USA:** President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an

upturn in inflationary pressures. With inflation moving towards 3%, the Federal Reserve (Fed) increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

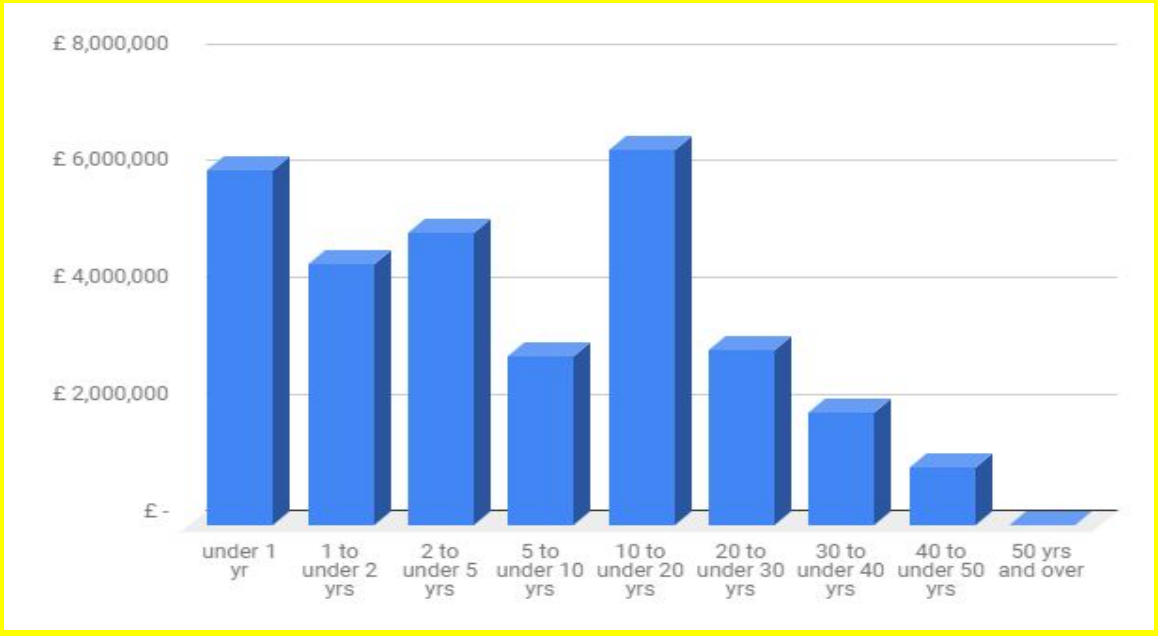
1.6 **EUROZONE:** Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

1.7 **CHINA:** 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.

1.8 **JAPAN**: Has been struggling to stimulate consistent significant GDP 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.

2.0 Debt Maturity

2.1 The maturity structure of the Council's borrowing as at 30 September 2018 (as per section 7 of the main report) is shown below in graph format.



ANNEX 2 – GUIDANCE ON THE TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW REPORT 2018-19

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.

TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2019-20

Meeting	**Governance and Audit Committee – 5 Dec 2018**
Report Author	**Tim Willis, Deputy Chief Executive & Section 151 Officer**
Portfolio Holder	**Councillor Ian Gregory, Cabinet Member 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, Annual Investment Strategy, Capital Strategy and Non-Treasury Investments Report for 2019-20

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 Deputy Chief Executive, 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.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget.

Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

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

Revised reporting is required for the 2019-20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare additional reports which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

For this council, these additional reports are the Capital Strategy and the Non-Treasury Investments Report.

1.2.2 Treasury Management reporting

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

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and 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).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and 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 2019-20

The strategy for 2019-20 covers two main areas:

Capital issues
- the capital expenditure plans and the associated 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, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG 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 following the local elections in May 2019.

The training needs of treasury management officers are periodically reviewed.

1.5 External service providers

The council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

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

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

The council uses the Institutional Cash Distributors (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 nine MMFs the council currently uses. The clearing house allows the authority to make several investments in different MMFs but only requires one payment to the clearing house, therefore saving the authority costs in CHAPS fees.

2 THE CAPITAL PRUDENTIAL INDICATORS 2019-20 – 2021-22

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	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
General Fund	6.234	13.512	12.456	13.436	4.014
HRA	4.492	7.408	15.909	7.579	6.582
Total	**10.726**	**20.920**	**28.365**	**21.015**	**10.596**

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	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
General Fund	6.234	13.512	12.456	13.436	4.014
HRA	4.492	7.408	15.909	7.579	6.582
Total	**10.726**	**20.920**	**28.365**	**21.015**	**10.596**
Financed by:					
Capital receipts - GF	1.816	4.161	5.181	0.503	0.314
Capital receipts - HRA	0.434	0.655	1.577	1.050	1.300
Capital grants - GF	3.206	4.511	4.588	5.630	3.200
Capital grants - HRA	0.376	1.857	0.192	0.000	0.000
Reserves - GF	0.211	0.202	0.302	0.000	0.000
Reserves - HRA	2.881	4.486	6.875	3.222	1.950
Revenue - GF	0.000	0.006	0.089	0.050	0.000
Revenue - HRA	0.392	0.410	0.856	0.300	0.300
Net financing need for the year	**1.410**	**4.632**	**8.705**	**10.260**	**3.532**

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 £2.911m of long term liabilities (excluding pensions) as at 31 March 2018.

The council is asked to approve the CFR projections below:

£m	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
Capital Financing Requirement					
CFR – General Fund	23.812	27.086	28.086	33.442	32.235
CFR – HRA	20.787	20.786	26.337	29.210	32.056
Total CFR	**44.599**	**47.872**	**54.423**	**62.652**	**64.291**
Movement in CFR	**(2.484)**	**3.273**	**6.551**	**8.229**	**1.639**

Movement in CFR represented by					
Net financing need for the year (above)	1.410	4.632	8.705	10.260	3.532
Less HRA – loan repayments	0.000	0.000	(0.858)	(0.134)	(0.186)
Less GF – liability repayments	(2.963)	(0.294)	(0.000)	(0.347)	(0.000)
Less MRP/VRP and other financing movements	(0.931)	(1.065)	(1.296)	(1.550)	(1.707)
Movement in CFR	**(2.484)**	**3.273**	**6.551**	**8.229**	**1.639**

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	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
Fund balances / reserves	19.826	18.848	15.717	17.157	18.267
Capital receipts	9.221	4.006	2.429	1.379	0.079
Earmarked reserves	13.021	8.819	8.285	7.833	8.706
Total core funds	**42.068**	**31.673**	**26.431**	**26.369**	**27.052**
Balances incl working capital*	9.416	6.789	11.880	14.899	13.670
(Under)/over borrowing	(10.602)	(10.462)	(10.311)	(13.268)	(12.722)
Expected investments	**40.882**	**28.000**	**28.000**	**28.000**	**28.000**

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

2.4 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).

MHCLG 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 MHCLG 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.

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

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory MRP, VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose any cumulative overpayment made each 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 appropriate 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 overall treasury management portfolio as at 31 March 2018 and for the position as at 30 September 2018 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual 31 March 2018	Actual 31 March 2018	Actual 30 Sept 2018	Actual 30 Sept 2018
Treasury Investments	**£000**	**%**	**£000**	**%**
Banks	17.814	43.6	18.287	38.5
Money Market Funds	23.068	56.4	29.210	61.5
Total (all managed in-house)	40.882	100.0	47.497	100.0
Treasury External Borrowing				
PWLB	26.547	85.4	26.236	85.3
LOBOs	4.500	14.5	4.500	14.6
Salix	0.039	0.1	0.035	0.1
Total	**31.086**	**100.0**	**30.771**	**100.0**
Net treasury investments / (borrowing)	**9.796**		**16.726**	

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
External Debt					
Debt at 1 April	31.669	31.086	35.133	42.175	48.134
Expected change in Debt	(0.583)	4.047	7.042	5.959	2.525
Other long-term liabilities (OLTL) at 1 April	3.264	2.911	2.277	1.937	1.250
Expected change in OLTL	(0.353)	(0.634)	(0.340)	(0.687)	(0.340)
Actual gross debt at 31 March	**33.997**	**37.410**	**44.112**	**49.384**	**51.569**
The Capital Financing Requirement	44.599	47.872	54.423	62.652	64.291
Under / (over) borrowing	**10.602**	**10.462**	**10.311**	**13.268**	**12.722**

Within the range of 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 2019-20 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	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
Debt	55.000	63.000	71.000	73.000
Other long term liabilities (incl leases)	22.000	20.000	20.000	20.000
Total	77.000	83.000	91.000	93.000

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	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
Debt	60.000	68.000	76.000	78.000
Other long term liabilities (incl leases)	27.000	25.000	25.000	25.000
Total	87.000	93.000	101.000	103.000

Historically the Council has also been limited to a maximum HRA CFR through the HRA self-financing regime. However, the HRA cap that controls local authority borrowing for house building was abolished from 29 October 2018 in the Budget.

Composition of Operational Boundary and Authorised Limit

Debt (in both the Operational Boundary and Authorised Limit above) for 2019-20 onwards includes:

a) £3m to allow for capital expenditure being incurred in advance of generating capital receipts to fund this expenditure. As this is anticipated to be a relatively short-term timing difference it has not been reflected elsewhere in this report.

b) £5m to allow for any commercial activities/non-financial investments that the council may pursue. This has not been reflected elsewhere in this report, pending the formulation and approval of any such items.

Other long term liabilities (in both the Operational Boundary and Authorised Limit above) includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16). Once full details are known, the Operational Boundary and/or Authorised Limit may need to be revised for approval. The impact of IFRS 16 has not been reflected elsewhere in this report, pending further information from CIPFA.

3.3 Link's economic and interest rate forecast (issued by Link on 30 October 2018)

The Council has appointed Link 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 Link's central view.

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%
12 Month LIBID	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%	3.60%	3.70%
50yr PWLB Rate	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.40%	3.50%

The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the Monetary Policy Committee (MPC) came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. It is unlikely that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Similarly, the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The overall longer run future trend is for gilt yields, and consequently Public Works Loan Board (PWLB) rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets. In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth. That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Federal Reserve (Fed) has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.00 – 2.25% in September 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We have, therefore, seen US 10 year bond Treasury yields rise above 3.2% during October 2018 and also seen investors causing a sharp fall in equity prices as they sold out of holding riskier assets.

Rising bond yields in the US have also caused some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure has been 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, emerging market developments and sharp changes in investor sentiment. 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.

Investment and borrowing rates

- Investment returns are likely to remain low during 2019-20 but to be on a gently rising trend over the next few years.

- Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. 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 (the difference between higher borrowing costs and lower investment returns) to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

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 2019-20 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 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.

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 - management of risk

The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy and Non-Treasury Investments Report (separate reports).

The Council’s investment policy has regard to the following: -

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** 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.

3. **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.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in annex 2 under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments at £5m (see paragraphs 4.2 and 4.4).

6. **Lending limits** (amounts and maturity) for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraphs 4.2 and 4.4).

8. Investments will only be placed with counterparties from foreign countries which have a specified minimum **sovereign rating**, (see paragraph 4.3). This does not apply to pooled investment vehicles.

9. This authority has engaged **external consultants**, (see paragraph 1.5) to provide expert advice on how to optimise an appropriate balance of security, liquidity and

yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

10. All investments will be denominated in **sterling**.

11. As a result of the change in accounting standards for 2018-19 under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. The Ministry of Housing, Communities and Local Government (MHCLG), are currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria are unchanged from last year apart from changing the duration threshold from 364 to 365 days (in line with revised investment guidance).

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 Link 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 ring-fenced operations. 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 invested.
- Bank subsidiary and treasury operations: If separately rated, the council will use those that meet the ratings/criteria for banks outlined above. If not separately rated, the council will use these where the parent bank has the necessary ratings/criteria 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
- Housing associations
- Supranational institutions

A limit of £5m will be applied to the use of investments with a maturity of over 365 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.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a

non-ring-fenced bank (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings (and any other metrics considered) will be considered for investment purposes.

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). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Link's Investment returns expectations (issued by Link on 30 October 2018): Bank Rate is forecast to increase steadily but slowly over the next few years to

reach 2.00% by quarter 1 2022. Bank Rate forecasts for financial year ends (March) are:

2018-19	0.75%
2019-20	1.00%
2020-21	1.50%
2021-22	2.00%

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

2018-19	0.75%
2019-20	1.00%
2020-21	1.50%
2021-22	1.75%
2022-23	1.75%
2023-24	2.00%
Later years	2.75%

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are probably also even and are dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Investment treasury indicator and limit - total principal funds invested for greater than 365 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 following treasury indicator and limit: -

Upper limit for principal sums invested for longer than 365 days			
£m	**2019-20**	**2020-21**	**2021-22**
Principal sums invested for longer than 365 days	£5m	£5m	£5m
Investments as at 31 September 2018 invested for longer than 365 days	£nil	£nil	£nil

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 2019-20 to 2021-22, including the Authorised Limit Prudential Indicator.
- The Minimum Revenue Provision (MRP) Policy.
- The Treasury Management Strategy for 2019-20 to 2021-22 and the Treasury Indicators.
- The Investment Strategy for 2019-20 contained in the Treasury Management Strategy, including the detailed criteria.
- The Capital Strategy for 2019-20.
- The Non-Treasury Investments Report for 2019-20.

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, Deputy Chief Executive & Section 151 Officer
Reporting to:	Madeline Homer, Chief Executive

Annex List

Annex 1	The Capital Prudential and Treasury Indicators 2019-20 – 2021-22 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)
Annex 4	Capital Strategy 2019-20
Annex 5	Non-Treasury Investments Report 2019-20

Corporate Consultation Undertaken

Finance	Gary Whittaker, Interim Head of Financial and Procurement Services
Legal	Tim Howes, Director of Corporate Governance & Monitoring Officer

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ANNEX 1 - THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019-20 – 2021-22 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	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
General Fund	6.234	13.512	12.456	13.436	4.014
HRA	4.492	7.408	15.909	7.579	6.582
Total	**10.726**	**20.920**	**28.365**	**21.015**	**10.596**

2. Affordability prudential indicators

The previous section covers 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.

%	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
General Fund	6.0%	8.6%	10.9%	13.7%	14.8%
HRA	5.8%	6.0%	5.7%	5.2%	5.9%

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

b. HRA ratios

£	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
HRA debt £m*	20.040	20.040	25.857	25.723	28.687
HRA rents £m	13.006	12.925	12.499	12.854	13.327
Ratio of debt to rents %	154.1%	155.0%	206.9%	200.1%	215.3%

£	2017-18 Actual	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
HRA debt £m	20.040	20.040	25.857	25.723	28.687
Number of HRA dwellings	3,015	3,017	3,022	3,044	3,034
Debt per dwelling £	6,647	6,642	8,556	8,451	9,455

3. 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:

Maturity structure of fixed interest rate borrowing 2019-20		
	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%

Maturity structure of variable interest rate borrowing 2019-20		
	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%

5. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4 of the main report.

ANNEX 2 - TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018, 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 adopts 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, housing associations, 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 that meet the above criteria or, if not separately rated, 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 invested.

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 council's 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 council has applied a limit of £5m for investments with a maturity of over 365 days.

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 Link 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.

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.

MRP Policy Statement

This describes the method for calculating the annual MRP contribution described above (section 2.4 of report).

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.

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 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.
- 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).

ANNEX 4: THANET DISTRICT COUNCIL - CAPITAL STRATEGY 2019-20

1. Background

A revision to the CIPFA Prudential Code for Capital Finance in Local Authorities was issued in December 2017 (with guidance notes issued in September 2018), with a new requirement being that local authorities produce a Capital Strategy for consideration and approval by Members.

The Capital Strategy forms part of this council's integrated revenue, capital and balance sheet planning. Capital expenditure and associated investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. Due consideration is given to both risk and reward, and impact on the achievement of priority outcomes.

2. Priorities and Objectives

Like most councils, this council has capital expenditure needs that far exceed its potential capital resources, particularly given public sector funding cuts and resource pressures.

Accordingly, this council's Capital Protocol is that financial resources and assets are used to their maximum effect, and that Financial Procedure Rules and Contract Standing Orders are adhered to, with the following objectives:

a) Corporate Plan/council priorities, including any environmental impact, are considered when prioritising limited resources (see section 3 below).
b) All financial implications arising from the project are identified e.g. match funding requirements and ongoing unsupported revenue costs etc.
c) The correct authorisation is obtained to enter into an agreement for capital expenditure.
d) The project progresses as approved.
e) Monitoring takes place in a timely manner.
f) All expenditure is properly incurred and recorded.
g) All project outcomes, outputs and results are achieved.
h) There is an audit trail for all expenditure and income relating to the project.
i) Issues that may arise for project delivery are identified and considered appropriately e.g. legal, VAT and capacity issues.
j) Any significant changes to the project are considered in the overall prioritisation of the capital programme and the correct authorisation is obtained.

3. Corporate Priorities and Values

The council will use its corporate priorities to help prioritise its investment in, and disposal of, assets. The current corporate priorities are:

a) A clean and welcoming environment.
b) Supporting neighbourhoods.
c) Promoting inward investment and job creation.

Additionally, the following corporate values identify the way the council will work to deliver these priorities:

a) Delivering value for money.
b) Supporting the workforce.
c) Promoting open communications.

4. Revenue Implications

As per section 2b, council rules require that all financial implications arising from a capital project are identified, including revenue implications which can include:

a) The cost of borrowing (Minimum Revenue Provision and interest charges).
b) Loss of investment income from capital receipts.
c) Running costs associated with the project.
d) The positive impact of investment and economic growth on the council's tax base and business rates income.

Accordingly, a key consideration is that council capital schemes generate revenue savings and/or are externally funded.

5. Focussing the capital programme on delivering the council's priorities

The capital programme demands significant resources which, if not managed effectively, can actually impede what the council is looking to deliver. The Capital Strategy is to pay particular attention to better aligning the capital programme to the council's corporate values and priorities.

In particular:

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

Assumptions that a council owned asset should be invested in or disposed of will be challenged - consideration of whether that asset could be better utilised will need to be evaluated and demonstrated.

Opportunities for non-treasury investment should be explored. Subject to (a) being able to stabilise its financial position, and (b) risk considerations, the council should consider investing in a wider choice of assets that can generate better economic returns. More information is given in the council's Non-Treasury Investments Report.

Corporate Management Team will be taking the lead on achieving the focus the capital programme requires.

6. Assessing and Monitoring Schemes

Officer arrangements for assessing and monitoring capital schemes is overseen by CMT (which includes the council's Section 151 Officer). The role of CMT in this regard is:

a) To coordinate all aspects of the council's Capital Programme including the assessment of bids, preparation of the programme, monitoring and post audit reviews.

b) To review annually the capital assessment and prioritisation methodology.
c) To evaluate and prioritise all projects submitted according to the council's prioritisation methodology.
d) To produce a capital programme based upon the prioritised scoring methodology .
e) To monitor capital schemes and to summarise all variation reports received by client officers.
f) To consider requests for capital bids during the year and, where the request is considered urgent, to score and prioritise within the whole programme, together with making funding arrangements.
g) To review the scheme evaluation reviews and ensure lessons learnt and where necessary, to amend the Capital Protocol.
h) To review all capital slippage and underspends at financial year end and re-evaluate with regards to the council's priorities and resources.

The criteria for capital bids include:

a) Meeting Corporate Priorities or requiring Health and Safety action.
b) Not having a revenue impact that cannot be funded.
c) Being clear as to the benefits the project provides.
d) Identifying how the project will be managed.
e) Having robust estimates for future costs and revenues.
f) The sensitivity of costs and revenues to both external and internal risks.

On the basis of recommendations drawn up by the CMT Capital Programme Group, Cabinet considers and approves the proposed draft capital programme for inclusion within the budget. This budget is then recommended to Full Council for approval of the final capital budgets for the year ahead. Cabinet is to receive quarterly capital budget monitoring reports and a final outturn report at year end showing scheme performance - specifically underspends, overspends and slippage supported by explanations.

7. Additional Resources and Links with External Bodies

Project appraisals consider additional and alternative funding sources, match funding requirements, bidding time frames and the likely success in being awarded grants.

Grants are allocated in relation to specific programmes or projects and this council aims to maximise such funding; developing appropriate partnership, joint working and cross agency initiatives to address council priority needs. Partners include central and local government, government agencies, representative bodies of the local community, voluntary groups, housing associations, health bodies, the police, and the private sector business community.

8. Asset Management

An Asset Management Plan is the report on the systematic preparation of information to optimise the deployment and utilisation of land, buildings and other assets. Accordingly the council's Asset Management Plan informs the links to both the council's capital strategy and capital programme.

9. The council's capital spending

Details of the Council's capital programme, capitalisation policies, capital financing, borrowing/funding restrictions, commercial activity, knowledge and skills, long-term liabilities

and treasury management are shown in the following documents (which are all available on the Council's website www.thanet.gov.uk):

a) Medium Term Financial Strategy
b) Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy
c) Flexible Use of Capital Receipts Strategy
d) Statement of Accounts
e) Non-Treasury Investments Report
f) Budget monitoring reports

The council's Section 151 Officer is satisfied with the affordability and risk associated with this Capital Strategy and, where appropriate, has access to specialised advice to enable him to reach this conclusion.

ANNEX 5: THANET DISTRICT COUNCIL - NON-TREASURY INVESTMENTS REPORT 2019-20

1. Background

A revision to the CIPFA Treasury Management in the Public Services Code of Practice was issued in December 2017 (with guidance notes issued in July 2018), with a new requirement being that local authorities produce a Non-Treasury Investments Report for consideration and approval by Members.

'Treasury management investments' activity covers those investments which arise from the council's cash flows and debt management activity, and ultimately represents balances which need to be invested until the cash is required for use in the course of business.

'Non-treasury investments' are investments in financial assets and property primarily for service purposes and/or financial return that are not part of treasury management activity.

2. Permissible non-treasury investments

This council may:

a) purchase property for service and/or commercial purposes.
b) make investments for service purposes.
c) make loans for service purposes.

Service investments are held in relation to operational services (including regeneration) whereas commercial investments are held for mainly financial reasons.

3. Existing non-treasury investments

This council's existing non-treasury investments include:

a) Investment Property

The council's 2017/18 Statement of Accounts show a 31 March 2018 balance sheet value of £22,865,000 for investment property. These accounts disclose a net yield of £913,000 from investment property (rental income less direct operating expenses), which represents an annual percentage yield of 4.0%.

b) Investments and Loans

East Kent Housing Limited (EKH): EKH is a company limited by guarantee without share capital, owned and controlled by this council, together with Canterbury City Council, Dover District Council and Folkestone & Hythe District Council. EKH, which was incorporated on 11 January 2011, is run as an Arms Length Management Organisation (ALMO) and its principal activity is to manage and maintain each of the four council's housing stock.

Your Leisure Kent Limited (YL): This council engages YL, which is an Industrial and Provident Society with charitable status, to run its leisure facilities. YL was registered on the Mutuals Public Register on 16 April 1999 and was called Thanet Leisure Force Limited until 26 March 2013. The principal activity of YL is to manage leisure, catering and entertainment facilities and associated service provision for the local communities of Dover and Thanet.

East Kent Opportunities LLP (EKO): To aid economic development and regeneration in Thanet, this Council in partnership with Kent County Council set up EKO as a limited liability partnership. EKO was incorporated on 4 March 2008 with this Council and Kent County Council having 50:50 ownership, control and economic participation in EKO.

The council acts as guarantor for EKH in respect of its pension liability and for YL in respect of certain loans taken out by YL. These arrangements are described in the Contingent Liabilities note to the council's Statement of Accounts.

In addition, the council makes loans from time to time to one or more of EKH, YL and EKO for service purposes.

4. Investment Management Practices

Non-treasury investments are subject to the council's normal approval processes for revenue and capital expenditure and need not comply with the specific requirements of the council's annual Treasury Management Strategy Statement and Investment Strategy. These processes ensure effective due diligence and consideration of the council's risk appetite (including proportionality in respect of overall resources), that independent and expert advice is taken where appropriate, that scrutiny arrangements are properly made, and that ongoing risk management is properly undertaken and acted upon.

Details of risk management, performance measurement and management, decision making, governance, due diligence, reporting and knowledge and skills are shown below and in the following documents (which are all available on the council's website www.thanet.gov.uk):

a) Medium Term Financial Strategy
b) Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy
c) Flexible Use of Capital Receipts Strategy
d) Statement of Accounts
e) Capital Strategy

The key principle of control of risk, and optimising returns consistent with the council's risk appetite, is applied across all investment activities (including any commercially based investments). Where any commercial investment does not give priority for security and liquidity over yield, whether because of the nature of the asset itself or for service reasons, then such a decision should be explicit, the additional risks set out clearly, and the impact on financial sustainability identified and reported.

5. Risk Management

The council's risk appetite for any non-treasury investment should be clearly determined, both individually and collectively, including the potential impact on the overall sustainability of the council if the investment does not perform as intended. Key considerations also include:

a) The significance of the amount and variability of both the investment income and capital value to balancing the council's budget.
b) How the investment is financed and its liquidity, given the council's cash flow requirements.
c) Maximum periods for which funds may prudently be committed.
d) The setting of quantitative indicators to better assess risk exposure (including how investments are funded and the rate of return over both the payback period of the investment and the length of any associated borrowing).

6. Performance Measurement and Management

Performance measurement and management of any non-treasury investment should include both the ongoing capital value/security and yield. Key considerations include:

a) Regular fair value assessments (at least annually), including the limitations and assumptions inherent in such assessments.
b) Procedures to highlight key ongoing risks and changes in market conditions that may adversely impact the security, liquidity and/or yield of any investment.
c) Ongoing repairs and other costs to maintain the income and value of any property investment.
d) Any mitigating action required and undertaken to protect the income and value of any investment.

7. Decision Making, Governance and Due Diligence

Decision making will be as open and transparent as possible, after allowing for any commercial sensitivity needs. Key considerations include:

a) The formulation and developments of business cases for approval.
b) Enhanced decision making and scrutiny, according to risk.
c) Arrangements for professional due diligence, including obtaining professional advice where appropriate.
d) The identification and quantification of any implied material subsidies in investments for service/regeneration purposes.

8. Reporting, Knowledge and Skills

Robust arrangements will be made for the assessment, implementation and monitoring of any non-treasury investments; including:

a) Reporting any material increase in risk to capital and/or yield.
b) Regularly reviewing performance and risk reporting arrangements.
c) Ensuring that the range of skills required (including finance, property and economic regeneration) are available, either in-house or externally sourced.
d) Arranging any specific staff training or qualifications that may be needed to meet future requirements (capacity, skills, knowledge and culture).

CORPORATE RISK MANAGEMENT - QUARTERLY UPDATE

5 December 2018	**Governance and Audit Committee**
Report Author	**Tim Willis, Deputy Chief Executive and s151 Officer**
Portfolio Holder	**Councillor Ashbee, Portfolio Holder for Corporate Governance and Coastal Development**
Status	**For information**
Classification:	**Unrestricted**
Key Decision	**No**
Ward:	**All**

Executive Summary:

This report provides Governance & Audit Committee with a quarterly review of corporate risks.

Recommendation(s):

To note the report.

CORPORATE IMPLICATIONS	
Financial and Value for Money	The way in which the council manages risks has a financial impact on the cost of insurance and self-insurance. The council maintains reserves including a risk reserve, the size of which is commensurate with the financial impact of current and future risks. There are no specific financial implications arising from this report.
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 the council uses its resources effectively, and all that can be reasonable 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 and Coastal Development) 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 The Risk Strategy requires that there is a high-level review of corporate risk; this report presents the quarterly update of the corporate risk register.

2.0 Corporate risk register

2.1 A summary of the highest scoring corporate risks on the register is set out below, together with the comparative scores noted by Governance & Audit Committee on 26 September 2018. 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.

Ref	Description	Sept 18 Score	Dec 18 Score	Change
CR-05	Political Stewardship	12	16	**Increased**
CR-01	Limited Resources	12	12	No change
CR-02	Homelessness	12	12	No change
CR-09	Brexit	-	12	**New**
CR-07	Harbour flap gates	12	4	Reduced

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.

3.0 Highest-scoring risks

3.1 **Political Stewardship:** This continues to represent a risk to the council due to the number of political parties represented and the minority administration. Even though the Local Plan was recently adopted, it is still evident that there remain ongoing issues which could have a significant effect on the council. As a consequence, the score has increased since the last quarter. The council continues to pursue opportunities to support cross-party working and member training.

3.2 **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.

There remains continued uncertainty regarding the external funding environment and challenges still exist with delivering the 2018-19 budget and Medium Term Financial Strategy. Although decisions were made to set the 2018-19 budget, there still remains the challenge of staying within that budget, as evidenced by the quarterly monitoring reports.

Cabinet received an updated Medium Term Financial Strategy for 2019-23 in September showing that savings of £1.8m are estimated to be required to deliver the 2019-20 budget alone and steps are now being taken as part of the 2019-20 budget preparation to bridge this gap.

All of this is being undertaken within the context of an uncertain financial environment. For example, the government announcement to devolve business rates to local authorities has not been supplemented with the detail needed to assess its impact; also, the drive for devolution and the potential for restructuring of local government creates more uncertainty and costs.

Therefore, 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.

3.3 **Homelessness**: Homelessness has grown as a challenge for many local authorities over the last year, Thanet included. There are additional pressures on Housing as the gap between supply and demand increases but plans have been developed to ensure that this pressure is minimised. 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. This work will continue. The council has successfully bid for new government funding to support homelessness services locally, and has been awarded an additional flexible homelessness grant.

The Homelessness Reduction Act came into force in April 2018 and its implications have been incorporated in changed processes and structures. The council is also looking at introducing charges for residents in temporary and emergency accommodation to help with cost recovery with a Temporary Accommodation Officer leading on collection of charges, maximising housing benefit income and supporting households to move on to permanent homes.

One of the options to increase the supply of permanent homes for homeless families is the new housing acquisition programme which is being implemented. The capital programme includes provision for TDC developing or acquiring its own emergency and temporary accommodation to help reduce cost and improve quality.

4.0 New/escalated and elevated risks

4.1 **Brexit -** The UK is due to leave the European Union on 29 March 2019. UK Government is continuing to work on arriving at an agreed deal on exit and recent

developments seem promising in this respect. Significant risk prevails should no deal be agreed within the timescale. Whilst there are national concerns that must be addressed, the council must focus primarily on managing those risks which have a local and regional impact in particular. The scale of its effect should not be underestimated and the council has already begun some contingency planning for a disorderly Brexit. The significant issues to consider are those concerning the strategic transport network, funding and the port. In addition, the council has identified a number of issues that could potentially impact on the council's ability to deliver its services.

5.0 De-escalated risks

5.1 **Harbour Flap Gates:** A bid for an urgent capital project was agreed in 2017-18 to refurbish the gates and bridge including hydraulic and electrical systems to sustain the long term serviceability of both gate systems and the bridge and to support continued revenue income generation by providing a reliable service to marina customers. The contract was awarded to Ravenstein who completed all relevant surveys. The mitre gates and lift bridge were both removed on the 26th May, to be repaired and refurbished.

Works are now substantially complete with the flap gate and lifting bridge having been reinstalled and the new East and West Plant rooms are installed and operable. The Mitre gates have also now been fitted with the new hydraulic apparatus. The new plant is now being operated by harbour staff and the system is working on normal operation mode. There are still some works that require completion over the next 2 weeks but operational risk is now significantly reduced in the long term over the situation that existed before the works and during the early phase of the works.

6.0 Risk management strategy and processes

6.1 The Risk Management Strategy requires review and updating. Once the budget for 2019/20 has been approved attention will be given to revising the document and it is planned to present this to members in the spring.

7.0 Recommendation

7.1 To note the report.

Contact Officer:	Gary Whittaker, Interim Head of Financial and Procurement Services
Reporting to:	Tim Willis, Deputy Chief Executive and s151 Officer

Corporate Consultation

Finance	Gary Whittaker, Interim Head of Financial and Procurement Services
Legal	Tim Howes, Director of Corporate Governance

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EXCLUSION OF PUBLIC AND PRESS

5 December 2018	**Governance and Audit**
Report Author	**Committee Services Manager**
Status	**For Decision**
Classification:	**Unrestricted**
Key Decision	**No**

Executive Summary:

This report is necessary in order to exclude the press and public from the meeting for consideration of item 9 annex 2. It will weigh the public interest factors for disclosure against the public interest factors for exemption and explain why the exemption factors take priority.

The report will also state the which paragraph of Part 3 of Schedule 12A of the Local Government Act 1972 (as amended) the author is using in order to exclude the press and public from the meeting.

Recommendation(s):
That the public and press be excluded from the meeting for agenda item 9 annex 2 as it contains exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

CORPORATE IMPLICATIONS	
Financial and Value for Money	There are no direct financial implications.
Legal	As per Part 3 of Schedule 12A and Part VA of the Local Government Act 1972 (as amended).
Corporate	Thanet District Council will endeavour to keep the number of exempt reports it produces to a minimum in order to promote transparency.
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 specific equity and equality considerations that need to be addressed in 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	
Supporting the Workforce	
Promoting open communications	✓

1.0 Introduction and Background

1.1 Whilst the starting point for all public meetings of the Council is to admit the public and press, they may be excluded from meetings whenever it is likely, in view of the nature of the business to be transacted that confidential or exempt information would be disclosed. Under such circumstances, confidential or exempt information may be excluded from the public agenda. The public and press must be excluded from meetings if confidential information will be considered and disclosed, and such material must be excluded from the public agenda.

Meaning of confidential information

1.2 Confidential information means information given to the Council by a Government Department on terms which forbid its public disclosure or information which cannot be publicly disclosed by Court Order.

Exempt information – discretion to exclude public

1.3 Subject to Article 6 of the Human Rights Act 1998 (right to a fair trial) the public may be excluded from meetings whenever it is likely in view of the nature of the business to be transacted or the nature of the proceedings that “exempt” information would be disclosed.

2.0 Exempt information

2.1 The full rules are set out in Part 3 of Schedule 12A and Part VA of the Local Government Act 1972 (as Amended).

3.0 Reason Why Agenda Item 9 annex 2 is considered to be “exempt”

3.1 The report author has classified Agenda Item 9 annex 2 as disclosing exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended) thereby suggesting that the press and public be excluded from the meeting whilst this item is debated.

4.0 Justification/Public Interest Test

4.1 **PUBLIC INTEREST FACTORS FOR DISCLOSURE**

Factors suggested by the Information Commissioner as being relevant to an assessment of public interest apply to this information. Disclosure would:-

1. *Further public understanding of the issues involved;*

2. *Promote accountability and transparency by the Council for the decisions it takes;*

PUBLIC INTEREST FACTORS FOR EXEMPTION
Considerations which may weigh against a decision to disclose information include:

1. *Good local government depends on good decision-making and this needs to be based on the best advice available and a full consideration of all the options without fear of premature disclosure;*

2. *Advice should be broad based and there may be a deterrent effect on external experts or stakeholders who might be reluctant to provide advice because it might be disclosed;*

3. *The impartiality of the officers might be undermined if advice was routinely made public as there is a risk that officials could come under political pressure not to challenge ideas in the formulation of policy, thus leading to poorer decision making;*

4. *Members and officers also need to be able to conduct rigorous and candid risk assessments of their policies and programmes including considerations of the pros and cons without there being premature disclosure which might close off better options;*

5. *Some aspects of Legal advice to Members may need to be taken in private as disclosure of such information would prejudice the position of Council in the event of Court proceedings taking place thereafter;*

6. *Local Councils are obliged to adhere to legislation that include the Data Protection Act, 1998; where appropriate and failure to do so may result in litigation against Council by an aggrieved party thereby putting at risk the general public interest to protect the public purse.*

5.0 Not Excluding the Press and Public

5.1 There will be occasions when the meeting may decline to exclude the press and public from the meeting. If that occurs it does not simply mean that those members of the press and public who are present are allowed to stay for the discussion of the item(s). Declining to exclude the press and public would also mean that the press and public are allowed access to the actual report contained within the confidential part of the agenda (what Democratic Services refer to as the “pink pages”).

5.2 Members may wish to note that if a committee member is of the view that it is possible that the recommendation in this report may not be approved at the meeting, they should let Democratic Services know (as soon as they have read the agenda

papers before the meeting); in order that spare copies are made available ready to be distributed, if necessary, at the meeting.

5.3 If the referred item is not exempted, Democratic Services would also make arrangements for the report to be retrospectively published on the Council's website.

6.0 Decision Making Process

6.1 If the press and public are to be excluded for the agenda item; this Committee must exercise its power to agree the recommendation.

Contact Officer:	Nicholas Hughes, Committee Services Manager
Reporting to:	Tim Howes, Director of Corporate Governance

Annex List

None	

Background Papers

Title	Details of where to access copy
None	

Corporate Consultation

Legal	Timothy Howes, Director of Corporate Governance & Monitoring Officer

QUARTERLY INTERNAL AUDIT UPDATE REPORT

Governance and Audit	**5th December 2018**
Report Author	**Head of the Audit Partnership: Christine Parker**
Portfolio Holder	**Cllr Ian Gregory; 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 2018.

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

That any changes to the agreed 2018-19 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 2018-19 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 2018.

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.

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

2.3 For the six-month period to 30th September 2018, 143.88 chargeable days were delivered against the revised target of 323.36 days which equates to 44.5% 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 2018-19 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, Deputy Chief Executive (S151 Officer), Ext. 7617 Ramesh Prashar, Head of Financial Services.

Annex List

Annex 1	East Kent Audit Partnership Update Report – 05-12-2018

Background Papers

Title	Details of where to access copy
Internal Audit Annual Plan 2018-19	Previously presented to and approved at the 6th March 2018 Governance and Audit Committee meeting
Internal Audit working papers	Held by the East Kent Audit Partnership

Corporate Consultation

Finance	Tim Willis, Deputy Chief Executive (S151 Officer)
Legal	*Tim Howes, Director of Corporate Governance*

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EAST KENT
DOVER•FOLKESTONE&HYTHE•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 2018.

2.0 SUMMARY OF REPORTS

	Service / Topic	Assurance level	No. of Recs.	
2.1	Food Safety	Substantial	CHML	0000
2.2	Housing Allocations	Substantial	CHML	0030
2.3	EKHR Apprenticeships	Substantial/ Reasonable	CHML	0341
2.4	EKS ICT Procurement & Disposal	Reasonable	CHML	0070
2.5	EKS Housing Benefit Discretionary Housing Payments	Reasonable	CHML	0130
2.6	EKS Public Sector Network Compliance	Not Applicable	CHML	0410
2.7	Compliance with General Data Protection Regulations	Limited	CHML	3963
2.8	Asset Management	Limited	CH	06

			M L	3 0

2.1 Food Safety – Substantial Assurance:

2.1.1 Audit Scope

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

2.1.2 Summary of Findings

The Council has a statutory duty to provide an effective food safety service which meets the requirements of the Food Standards Agency (FSA). Functions are carried out by authorised officers within the Public Protection Team under the provision of the Food Safety Act 1990 and the Food Safety & Hygiene (England) Regulations 2013.

The Council is currently responsible for registering all food businesses, and new businesses are identified locally by street auditing, social media and the Council's licensing department. However, in March 2019, the Food Standards Agency plans to introduce a centralised system for registering new businesses as part of its transformation model, Regulating Our Future (ROF); it is not yet known how this will work in practice and the system is currently being tested and debated. The number of establishments within the district as at April 2018 and categorised by risk rating (where A is the highest risk and F is the lowest risk), can be seen below:

Risk Rating	Number of premises
A	2
B	5
C	152
D	763
E	430
F	0
Not categorised	7
TOTAL	**1359**

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

- The Council follows the food law code of practice and is governed by the Food Standards Agency (FSA); it has a procedure manual and service plan which are both reviewed bi-annually and were being reviewed at the time of this audit;
- An inspection programme is generated automatically based on previous inspection dates entered into the M3 system;

- Inspection reports, enforcement action and supporting evidence had been satisfactorily recorded and documented in M3 for all cases within the testing sample; and
- The Council appropriately resolved all complaints within the testing sample.

2.2 Housing Allocations – Substantial Assurance:

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that housing property is allocated efficiently and effectively to qualifying tenants in accordance with Council policy and procedures and offers choice to prospective tenants through the allocations process in accordance with prevailing legislation.

2.2.2 Summary of Findings

The Council operates within the provisions of the Housing Act 1996 – Part VI (as amended) and takes into account the Government's statutory guidance on social housing allocations for local authorities in England. The Council must also fulfil its duty to the homeless under Section 184 of the Housing Act 1996 Part VII.

- Thanet District Council is owner and landlord of 3,034 properties as at 1 April 2018 (a slight net reduction of 13 properties since 2013)
- In 2017/18, 132 households were allocated a property (this number was 282 in 2012/13)
- The number of households on the Housing Register at 1 October 2018 was 2612
- The number of households placed in temporary accommodation has been steadily increasing, from 44 at 31 March 2015 to 179 at 30 September 2017, consequently this has increased costs significantly.

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

- The Council has an Allocations Policy and Tenancy Strategy, both of which incorporate Localism (Act 2011) and both of which have recently been reviewed as per the five year term.
- All housing applications within the testing sample had been appropriately assessed and banded.
- All households within the testing sample had been allocated a property according to priority and suitability e.g. medical needs.
- Of the tenancy agreements that were viewed, all matched the tenant's details, the tenancy term allocated and, all had been signed by the tenant.
- The Council compares its performance and shares its experiences with the Kent wide housing partnership.

Scope for improvement was however identified in the following areas:

- It would be beneficial to introduce credit checks at the allocation stage to ensure the applicant is fully entitled to the property.
- It would be beneficial to explore membership to the National Anti-Fraud Network (NAFN) to provide low cost credit checks and assistance with housing fraud investigations.

- Try to agree a data sharing agreement with the DWP to allow access to their system for assessment and allocation purposes.

2.3 EKHR Apprenticeships – Substantial/Reasonable Assurance

2.3.1 Audit Scope

To ensure that the processes and procedures established by EKHR and the partner councils are sufficient to provide the level of control required to be in place regarding apprenticeships and training for partner councils. Especially concerning the administration of the apprenticeship levy that is required to be paid by the partner councils.

2.3.2 Summary of Findings

Since May 2017 all three Councils plus East Kent Housing have had to pay 0.5% of their monthly gross wage bill towards a new HMRC administered Apprenticeship Levy each month. The scheme has been introduced by the Government in an attempt to increase the number of apprenticeships in England by 3 million by 2020. HMRC collects the levy from large organisations, adds some government funding and then distributes the funds back to all organisations based on a formula which is made available to use solely on specific types of apprenticeship training. If the funds are not used within two years then the Government claws it back. As a consequence each Council has put in place an Apprenticeship Strategy or Apprenticeship Plan outlining what each Council intends to do in order to utilise the funds and meet Government targets. The Government have set a target of 2.3% of each Council's workforce to be apprentices by 2020. Performance figures have to be submitted to HMRC annually.

Dover District Council
Dover's apprenticeship target set in 2017 was to employ 18 apprentices by March 2020 in order to meet the 2.3% target set by the Government. As at August 2018 the Council had employed seven apprentices and was in the process of securing another eight in September 2018. The Council is therefore on target to meet the 2.3% target. The Council has contributed £42,285 towards the levy since May 2017 and has an apprenticeship levy balance of £39,874 available to utilise (at July 2018).

Canterbury City Council
Due to the size of the authority Canterbury's apprenticeship target set in 2017 was to employ 32 apprentices by March 2020 in order to meet the 2.3% target set by the Government. As at August 2018 the Council had employed one apprentice but was planning to enrol 12 existing staff members on ILM training from September 2018. If the Council achieves this, the Council will be 11 apprentices short of its apprenticeship target by the end of this financial year; however the transfer of the Marlowe to Trust will reduce the apprenticeship target. The Council has contributed £70,960 towards the levy since May 2017 and has an apprenticeship levy balance of £76,376 available to utilise (at July 2018).

Thanet District Council
Thanet's apprenticeship target was not specified in its Apprenticeship Strategy. EKHR have calculated that Thanet will need to have appointed approximately 38 apprentices by March 2020 in order to meet the 2.3% target set by the Government. However, the number of apprentices the Council need to appoint has reduced this year due to the TUPE transfer of staff from EK Services over to Civica. As at August

2018 the Council had employed one apprentice but was planning to enrol five new apprentices in September based on a combination of appointing new apprenticeships and setting up eligible training for existing staff members. The Council therefore will need to appoint a further 32 apprentices by March 2020. The Council has contributed £90,262 towards the levy since May 2017 and has an apprenticeship levy balance of £97,383 available to utilise (at July 2018).

Management can place Substantial Assurance on the controls operating with EKHR and at Dover District Council and Reasonable Assurance on the controls in place at Canterbury City Council and Thanet District Council.

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

- The governance arrangements put in place at Dover District Council to encourage and drive the uptake of apprenticeships are at a high enough level to ensure successful and sustainable outcomes;
- The EKHR Apprenticeships Policy and the roles and responsibilities contained within the policy are well documented;
- Payroll processes and manual checks undertaken within EKHR and by each of the councils are ensuring apprenticeship levy payments made monthly to HMRC are accurate, well documented and authorised; and
- All apprenticeships in place were supported by sufficient and secure documentation and the contractual arrangements in place were sufficient.

Scope for improvement was however identified in the following areas:

- Thanet District Council and Canterbury City Council need to re-visit their strategies and governance arrangements in place to ensure progress is sufficient to meet the Government apprenticeship target and to ensure Heads of Service (and EK Services) are actively encouraged to adopt more apprentices;
- There is a high probability that from May 2019 Canterbury and Thanet councils will not meet their apprenticeship targets that the Government will start to claw back significant levy funds each month currently available to each Council;
- All of the councils should report back quarterly at CMT level on the number of apprenticeships in place against the target and report to CMT on the funds available in the levy in order to ensure apprenticeships are being monitored.

2.4 EKS ICT Procurement & Disposal – Reasonable Assurance

2.4.1 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 to ensure that the controls over the administration of the procurement and the disposal of ICT equipment are robust.

2.4.2 Summary of Findings

EKS delivers ICT Services to the three partner Councils. Under this collaborative agreement EKS are tasked with obtaining quotes for procuring, supplying and installing ICT and telephone equipment and software whilst maintaining value for money and complying with Financial Procedure Rules and Contract Standing Orders.

EKS are also responsible for disposing of redundant equipment in a manner consistent with all statutory requirements such as data protection and waste disposal regulation; and certifying the removal or destruction of data from such equipment.

Sanitisation is the process of treating data held on storage media to reduce the likelihood of retrieval and reconstruction to an acceptable level. Some forms of sanitisation will allow you to re-use the media, while others are destructive in nature and render the media unusable.

There are a number of circumstances in which an organisation would want to sanitise storage media, for re-use, repair or disposal and destruction. In these cases the media, and therefore the authorities' data, may be outside its normal operating environment and is therefore subject to greater risk from a different set of users and from third parties.

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

- Roles and responsibilities for the procurement and disposal of ICT equipment are set out in the service level agreements.
- Clear instructions have been given to staff purchasing ICT equipment on behalf of the partner Councils.
- Procurement processes in place manage compliance with Contract Standing Orders.
- Hard drives are being appropriately wiped; although there is a backlog that requires sanitisation and these are being held securely.

Scope for improvement was however identified in the following areas:

- The asset management trail for ICT equipment has been protracted which has resulted in inconsistencies in asset management records as it was separated across two systems. Now that the asset register has been transferred to the current service desk system on which is also the purchasing module these inconsistencies should be addressed.
- All new assets purchased should be traceable from purchase through to asset registration and disposal, and the queries regarding new assets raised as part of this review should be resolved.
- Controls over removable media should be reviewed to ensure it takes into account new requirements under the GDPR.

2.5 EKS Housing Benefit Discretionary Housing Payments – Reasonable Assurance

2.5.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to provide additional financial assistance to claimants who are already receiving Housing Benefit, and who are experiencing particular financial hardship with regard to paying the shortfall of housing rent by the evaluation of, and then approval or rejection of applications.

2.5.2 Summary of Findings

Discretionary Housing Payments (DHPs) are temporary top-up payments to assist people who have additional housing costs which are not being met by Housing

Benefit or Universal Credit (UC) housing cost entitlement. The DHP fund is a limited amount determined and provided each year by Central Government (DWP).

The budget is closely monitored on a weekly basis by Civica as the councils may wish to fund any shortfall or take alternative action. Legislation limits this additional funding to 2.5 x the central government budget. DDC does not generally allocate any extra funds, unless very slightly overspent TDC has also part funded the scheme in 2017/18. None of the councils have earmarked funds for DHP in 2018/19; however TDC has recently taken control of a large part (£275k) of the budget to target homelessness reduction and prevention.

The Civica benefits team currently has a target time of 20 working days to process a DHP claim; a new target time of 14 working days has been proposed in a revised DHP policy which is currently being discussed with the client authorities. Actual time taken is recorded on a spreadsheet and may be used in personal performance appraisals; however there is no requirement to report this performance to the client.

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

- Discretionary Housing Payments are made in accordance with the joint councils' policy and government guidance.
- The policy is reviewed annually and publicised on all council websites, except Canterbury.
- The same DHP application forms are available on all council websites.
- The budget is closely monitored on a weekly basis by Civica.
- Fifteen DHP applications were reviewed from 2017/18 and in the majority of cases; the reason and basis for the decision could be followed.
- Information about appeals is stored securely within the customer's record on CivicaW2/CivcaOR.

Scope for improvement was however identified in the following areas:

- More detailed information about the basis of the award decision and calculation method should be provided to the customer and saved in one place e.g. CivicaW2.
- Introducing a guide to 'expected household expenses' may offer more consistency when assessing DHP awards.
- Councils and Civica should ensure there is an agreed and published document retention schedule for services provided by Civica on behalf of the councils.

2.6 EKS Public Sector Network Compliance – An assurance is not applicable for this work

2.6.1 Audit Scope

This review is to provide options regarding the risks and costs associated with complying with the PSN requirements for June 2018.

2.6.2 Summary of Findings

The Public Services Network (PSN) is a secure private Wide-Area Network (WAN) which enables secure interactions between connected Local Authorities and

organisations that sit on the pan-government secure network infrastructure. Government requirements are designed to defend against common threats such as opportunistic hackers and abuses of business processes, while remaining proportionate and aligned with wider business goals.

Canterbury City Council, Dover and Thanet District Councils are local authorities that have to connect to the PSN so that they can receive benefits data from the DWP, GCSX email, DVLA information, Justice information and Police data for various business units.

Scope for improvement was identified in the following areas:

- Patch management of third party software is the biggest issue that needs to be addressed to enable the authorities to be PSN compliant.
- EK Services, who are responsible for delivering ICT services to the authorities, need to engage at a senior level to ensure that the councils are aware of the patch management risks and issues and the priority within the day to day services that they need to be given.
- The service level agreements do not currently reflect the relevant priority of patch management work sufficiently. This also raises a new risk since the relationship with Civica has been established.

2.7 Compliance with General Data Protection Regulations – Limited Assurance:

2.7.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that:

- The Council is compliant with the Data Protection Act 2018 and the General Data Protection Regulation.
- Where the Council is non-compliant the Council is working to ensure it is compliant as soon as possible.

2.7.2 Summary of Findings

The new General Data Protection Regulation (GDPR) came in to effect on 25th May 2018. The General Data Protection Regulation (GDPR) (EU) 2016/679 is a regulation in EU law on data protection and privacy for all individuals within the European Union (EU) and the European Economic Area (EEA). The GDPR aims primarily to give control to citizens and residents over their personal data and to simplify the regulatory environment. It is widely acknowledged that the majority or risk lays with people and processes.

The UK Institute of Internal Auditors (IIA) named GDPR as one of the highest risks facing organisations in 2017. As a result, this audit has focused on providing assurance on compliance.

Management can place Limited Assurance that the Council is compliant with GDPR and the Data Protection Act 2018.

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

- The Council is still in the process of putting together an Information Asset Register which is an essential tool used to identify and assess risk to personal data currently held within each service area. The register is one of the key building blocks to GDPR compliance and should have been completed by the Winter of 2017;
- The Council has not published all departmental Privacy Notices which are designed to communicate to customers (amongst others) who their personal data has been shared with in compliance with 93 (1) of the Data Protection Act 2018;
- The Council will remain non-compliant with Article 61 of the Data Protection Act 2018 and GDPR until a record of all data processing activities is completed.
- Various data sharing risks have been identified and need to be addressed particularly in relation to contractors and third parties;
- The Data Protection Policy needs to provide a little more clarity over Roles and Responsibilities to ensure there are no gaps in responsibility or accountability;
- There is a need for all Heads of Service to organise the completion of all five GDPR focused training modules on e-learning for themselves and their staff to ensure compliance with Section 71(2) of the Data Protection Act 2018; and
- The ability of the Council to deal with Subject Access Requests from members of the public in an effective, co-ordinated and organised manner will be severely affected until some of the issues contained within this report are addressed.

Effective control was however evidenced in the following areas:

- No instances of mishandling personal information was identified or witnessed;
- Management are using some useful tools to raise the awareness of GDPR, albeit that some of these could be improved;
- Management are currently working through a GDPR implementation plan which is focusing on high priority issues which almost matches the risks identified within this audit report;
- The Data Protection Policy and subsequent processes and procedures were well documented although some of these were missing on the intranet;
- The Data Protection Impact Assessment Procedure and Forms were well documented and communicated; and
- Data Protection is being monitored at a strategic level within the organisation inline with the Risk Management Framework.

2.8 Asset Management – Limited Assurance

2.8.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that:

- The Council has a corporate approach to asset management of the corporate portfolio
- That property and land owned by the Council is evaluated so that it only retains assets that best support the Council's overall aims and objectives.
- That adequate focus and support is being given corporately to reduce the corporate asset portfolio down to a size that can be adequately maintained by the maintenance budget set in the MTFS. This is a Corporate Risk.
- That there are adequate processes for consultation with the Service before new services/additional resources are required.
- That asset management initiatives to improve service delivery are identified.

2.8.2 Summary of Findings

The Council has a large corporate property portfolio comprising of 727 assets as at 2017 (excluding HRA). These assets are given within the Strategic Asset Management Plan as follows:

High Level Summary					
Ranked by Sites			Ranked by Assets		
Class	Sites	Assets	Class	Sites	Assets
Public Conveniences	45	45	Harbours & Ports	4	133
Plots of Land	39	49	Industrial Units	7	119
Car Parks	32	37	Retail Concessions	28	53
Retail Concessions	28	53	Plots of Land	39	49
Amenity Land	23	24	Public Conveniences	45	45
Public Shelters	23	37	Public Parks	10	41
Miscellaneous	23	30	Car Parks	32	37
Sports & Leisure	15	30	Public Shelters	23	37
Recreation Grounds	11	19	Miscellaneous	23	30
Public Parks	10	41	Sports & Leisure	15	30
Regeneration Holdings	10	14	Amenity Land	23	24
Public Gardens	8	12	Shops	7	24
Theatres & Museums	8	8	Recreation Grounds	11	19
Allotments	7	7	Regeneration Holdings	10	14
Industrial Units	7	119	Public Gardens	8	12
Shops	7	24	Cem's & Crem's	4	8
Tidal Pools	6	7	Theatres & Museums	8	8
Agricultural Land	5	7	Agricultural Land	5	7
Cem's & Crem's	4	8	Allotments	7	7
Bandstands	4	4	Tidal Pools	6	7
Clock Towers	4	4	Bandstands	4	4
Public Lifts	4	4	Clock Towers	4	4
TDC Operational	4	4	Public Lifts	4	4
Harbours & Ports	4	133	TDC Operational	4	4
Water Features	3	3	Water Features	3	3
Play Areas	2	2	Play Areas	2	2
Public Open Space	2	2	Public Open Space	2	2
Total	338	727	Total	338	727

The Estates Team is responsible for the landlord and tenant role for the Council estate, including optimising value; this may be a balance between satisfying communities and maximising income. Over recent years a lot of expertise has been lost from the team. As such some of the work has been contracted out and interim staff bought in, this can be appropriate for specialist areas of work but there are issues of resilience.

The information requested from the Port and Harbours was not forthcoming, not only for this review process but is also not being adequately provided to the estates team charged with managing the assets. Therefore opinion on the way these assets are being managed; reconciled; insured; income generated; leases etc. cannot be given. This is very concerning as according to the figures given within the Strategic Asset Management Plan these represent nearly 18% of the total assets owned and is the top ranked asset and may therefore benefit from a separate review.

With a permanent Head of Service now in post the direction of travel and focus this brings to the team is positive for the future. It will take time to bring the asset portfolio up to date, to bring solid working practices back into the team and to maintain a confident level of expertise.

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

- There are insufficient resources within the team to ensure that RCIS local authority asset management best practice is undertaken fully, although the strategic principles are adopted;
- The existing property register is maintained via the computerised system 'Estateman' however this system will soon be obsolete, no timescales were given for the transfer process to Google docs.
- The original copy of the lease agreements are held be the legal team. It would have been expected that these be scanned and held electronically within Estateman, from the samples tested this could not be evidenced.
- There was evidence – within the sample examined – of non-enforcement of lease terms and conditions.
- The disposal process needs to be reviewed and updated, the HOS confirmed this is underway and due to be presented to Cabinet early 2019;
- Reconciliation processes in place between various asset registers being maintained need to be strengthened; testing could not reconcile all assets and not all registers were provided during the audit;
- Staff training opportunities need to be recognised in order to maintain CPD within the team;
- There is currently one officer trained to undertake valuations and this officer will be leaving the Council shortly and therefore management have advised that this function has been outsourced.
- Recruitment difficulties have meant that in-house staff are being supplemented with qualified interim staff and external consultants.
- The outsourcing of work to external consultants may however have been procured without the appropriate CPR's being administered – management could not provide evidence of CSO compliance in this regard;
- The property and asset insurance schedules need to be reviewed to ensure that the valuations and insurances charged are correct;
- The insurance figures are calculated and uplifted annually and the method for this should be reviewed for accuracy.
- Clarity is required on the treatment of the market rent of assets being held at and managed for the Ports and Harbours needs to be sought. A decision needs to be made on whether the Port and Harbour have delegated authority to negotiate their own rents.

Effective control was however evidenced in the following areas:

- Budgets are being effectively managed, monitored and reported on;

- Workloads are being effectively managed and monitored to ensure that the leases, licences and rent renewals are up to date;
- Risks, priorities and performance indicators have been recognised and documented via the Strategic Asset Management Plan and Service Plan.

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)	Homelessness	Substantial	Substantial	C H M L	0 0 5 3	C H M L	0 0 1 0
b)	East Kent Housing – Safeguarding Children & Vulnerable Groups	Reasonable /Limited	Reasonable	C H M L	0 4 0 0	C H M L	0 0 0 0
c)	East Kent Housing – Complaints Monitoring	Reasonable	Reasonable	C H M L	0 2 2 3	C H M L	0 0 1 0
d)	Anti-Fraud & Corruption	Reasonable	Reasonable	C H M L	0 1 3 6	C H M L	0 1 1 4

3.2 The only high risk recommendation still in progress at the time of follow-up (Anti-Fraud and Corruption) is being addressed by a separately commissioned review of Anti-Fraud Mapping which will be reported to a future meeting of this committee.

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: Cash Collection, Income & Bank Rec, Business Continuity and Emergency Planning, Car Parking, Dog Warden, Street Scene Enforcement, and VAT

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2018-19 internal audit plan was agreed by Members at the meeting of this Committee on 6th March 2018.

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 responsive assurance / 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 2018, 143.88 chargeable days were delivered against the revised target of 323.36 days which equates to 44.5% 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.

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.

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 June 2018 against the agreed 2018-19 Audit Plan.
Appendix 4 Balanced Scorecard to 30th September 2018.
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.**
None this Quarter		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED – APPENDIX 2			
Service	**Reported to Committee**	**Level of Assurance**	**Follow-up Action Due**
Compliance with General Data Protection Regulations	December 2018	Limited	Work-in-Progress
Asset Management	December 2018	Limited	Spring 2019

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PROGRESS TO DATE AGAINST THE AGREED 2018-19 AUDIT PLAN – APPENDIX 3

THANET DISTRICT COUNCIL:

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2018	Status and Assurance Level
FINANCIAL SYSTEMS:				
Car Parking & Enforcement	10	10	0.28	Work-in-progress
VAT	10	10	2.85	Work-in-progress
RESIDUAL HOUSING SERVICES:				
Housing Allocations	10	10	4.71	Finalised - Substantial
HRA Business Plan	10	10	0	Quarter 4
GOVERNANCE RELATED:				
Anti-Fraud & Corruption Assurance Mapping	10	10	2.16	Work-in-progress
Complaints Monitoring	10	10	2.82	Work-in-progress
Corporate Advice/CMT	2	2	.10	Work-in-progress throughout 2018-19
s.151 Officer Meetings and Support	9	9	7.79	Work-in-progress throughout 2018-19
Governance & Audit Committee Meetings and Report Preparation	12	12	6.99	Work-in-progress throughout 2018-19
2019-20 Audit Plan and Preparation Meetings	9	9	0.89	Quarter 4
SERVICE LEVEL:				
Thanet Lottery	10	10	0	Quarter 4
Safeguarding Children & Vulnerable Groups	10	10	0	Quarter 4
Community Safety	10	10	4.17	Work-in-progress
CCTV	10	10	0	Quarter 4
Dog Warden & Environmental Crime Enforcement	10	10	0.31	Work-in-progress
Electoral Registration & Election Management	10	10	8.94	Finalised
Food Safety	10	10	9.72	Finalised - Substantial

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Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2018	Status and Assurance Level
Pest Control	7	7	0	Quarter 4
Business Continuity & Emergency Planning	10	10	0.34	Work-in-progress
Equality & Diversity	10	10	0.18	Work-in-Progress
Events Management	10	10	0	Quarter 3
Grounds Maintenance	15	15	0	Quarter 4
Licensing	10	10	6.88	Work-in-Progress
Museums	10	10	0.23	Postponed
East Kent Opportunities	10	10	7.58	Work-in-Progress
Street Cleansing	10	10	0.18	Quarter 3
Employee Health, Safety & Welfare	10	10	0	Quarter 4
OTHER :				
Liaison With External Auditors	1	1	0	Work-in-progress throughout 2018-19
Follow-up Reviews	15	15	5.86	Work-in-progress throughout 2018-19
FINALISATION OF 2017-18 AUDITS:				
Days under delivered in 2017-18	0	38.36	0	Allocated
Service Contract Management	5	5	0.95	Finalised - Reasonable
Compliance with GDPR			13.49	Finalised - Limited
Creditors & CIS			9.79	Finalised - Substantial
Cash Collection, Income & Bank Reconciliation			14.78	Finalised – Substantial/Limited
Performance Management			12.53	Work-in-Progress
Asset Management			16.67	Finalised - Limited
Your Leisure			0.54	Postponed
Inward Investment			0.22	Postponed
RESPONSIVE WORK:				
Duplicate Payments	0	0	1.15	Finalised

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Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2018	Status and Assurance Level
SHL Accounts Inspection	0	0	0.78	Finalised
TOTAL	**285**	**323.36**	**143.88**	**44.5% as at 30-09-2018**

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2018	Status and Assurance Level
Planned Work:				
CMT/Audit Sub Ctte/EA Liaison	4	4	2.22	Work-in-progress throughout 2018-19
Follow-up Reviews	4	4	4.71	Work-in-progress throughout 2018-19
Repairs & Maintenance	30	30	0.27	Draft Brief issued
Void Property Management	20	20		
Health & Safety	20	20	0	Quarter 4
Contract Monitoring	17	17	26.5	Finalised - Limited
Performance Management	15	15	2.05	Draft Brief issued
Welfare Reform	10	10	0.18	Quarter 2
Resident Involvement	10	10	0.18	Quarter 3
Service Level Agreements	10	10	0	Quarter 4
Finalisation of 2017-18 Audits:				
Days under delivered in 2017-18	0	10.94	0	Allocated
Complaints Management	0	0	0.36	Finalised - Reasonable
GDPR & Information Management	0	0	4.14	Finalised - Reasonable
Leasehold Services	0	0	1.15	Finalised - Reasonable
Tenancy & RTB Fraud Prevention	0	0	14.05	Work-in-Progress
Property Services Action Plan	0	0	8.14	Finalised - Reasonable
Responsive Work:				

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Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2018	Status and Assurance Level
Contract Management – supplementary work	0	0	4.74	Finalised
Single System Planned Maintenance Module	0	0	0.18	Finalised
Total	**140**	**150.94**	**68.87**	**45.63% at 30-09-2018**

EKS, EKHR & CIVICA:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2018	Status and Assurance Level
EKS & Civica Reviews:				
Housing Benefit Assessment	15	15	0.18	Quarter 3
Housing Benefit Testing	15	15	7.20	Work-in-Progress
Housing Benefits – DHPs	15	15	16.14	Finalised - Reasonable
Debtor Accounts	20	20	0.34	Quarter 3
ICT – Network Security	15	10	0.32	Quarter 4
ICT – PSN Review	0	5	16.11	Finalised – N/A
ICT – PCI-DSS Compliance	15	15	0	Quarter 4
KPIs	5	5	0.10	Quarter 4
EKHR Reviews:				
Payroll	15	15	0	Quarter 4
Apprenticeships	15	15	15.53	Finalised - Reasonable
Absence Management	15	15	.19	Quarter 3
Other;				
Corporate/Committee	8	8	3.85	Work-in-progress throughout 2018-19
Follow up	7	7	4.18	Work-in-progress throughout 2018-19
Days under delivered in 2017-18	0	47.79	0	Allocated
Finalisation of 2017/18 Audits:				

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Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2018	Status and Assurance Level
Housing Benefit Testing	0		6.82	Finalised – N/A
Payroll			4.96	Finalised - Substantial
Employee Allowances & Expenses			1.28	Finalised - Reasonable
ICT Procurement & Disposal			14.92	Finalised – Reasonable
Council Tax Reduction Scheme			9.92	Finalised - Substantial
Total	**160**	**207.79**	**102.03**	**49% at 30/09/2018**

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INTERNAL PROCESSES PERSPECTIVE:	2018-19 Actual	Target	FINANCIAL PERSPECTIVE:	2018-19 Actual	Original Budget
	Quarter 2		Reported Annually		
Chargeable as % of available days	87%	80%	• Cost per Audit Day	£	£300.38
			• Direct Costs	£	£385,970
Chargeable days as % of planned days					
CCC	48%	50%	• + Indirect Costs (Recharges from Host)	£	£10,530
DDC	47%	50%			
F&HDC	41%	50%	• - 'Unplanned Income'	£	Zero
TDC	44%	50%			
EKS	49%	50%	• = Net EKAP cost (all Partners)	£	£396,500
EKH	46%	50%			
			• Saving Target (10% of 2016-17)	£34,620	10%
Overall	45%	50%			
Follow up/ Progress Reviews;					
• Issued	30	-			
• Not yet due	20	-			
• Now due for Follow Up	30	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

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CUSTOMER PERSPECTIVE:	2018-19 Actual	Target
	Quarter 2	
Number of Satisfaction Questionnaires Issued;	26	
Number of completed questionnaires received back;	8	
	= 31%	
Percentage of Customers who felt that;		
• Interviews were conducted in a professional manner	100%	100%
• The audit report was 'Good' or better	100%	100%
• That the audit was worthwhile.	100%	100%

INNOVATION & LEARNING PERSPECTIVE:	2018-19 Actual	Target
Quarter 2		
Percentage of staff qualified to relevant technician level	76%	75%
Percentage of staff holding a relevant higher level qualification	37%	38%
Percentage of staff studying for a relevant professional qualification	14%	N/A
Number of days technical training per FTE	1.03	3.5
Percentage of staff meeting formal CPD requirements (post qualification)	37%	38%

Appendix 5

Definition of Audit Assurance Statements & Recommendation Priorities

Assurance Statements:

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

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

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

No Assurance - From the testing completed during this review a substantial number of the necessary key controls of the system have been identified as absent or weak. There is evidence of substantial errors or non-compliance with many key controls leaving the system open to fundamental error or abuse. The requirement for urgent improvement has been identified, to improve existing controls or new controls should be introduced to reduce the critical risk.

Priority of Recommendations Definitions:

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

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

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

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

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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THANET DISTRICT COUNCIL DECLARATION OF INTEREST FORM

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

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

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

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

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

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

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

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

An associated person is defined as:

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

An Authority Function is defined as: -

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

If you are at a meeting and you think that you have a significant interest then you **must** declare the existence **and** nature of the significant interest at the commencement of the

matter, or when the interest has become apparent, or the declarations of interest agenda item.

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

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

Gifts, Benefits and Hospitality

Councillors must declare at meetings any gift, benefit or hospitality with an estimated value (or cumulative value if a series of gifts etc.) of £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:

……

……

……

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