

Date: 15 July 2019
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GOVERNANCE AND AUDIT COMMITTEE

24 JULY 2019

A meeting of the Governance and Audit Committee will be held at **7.00 pm on Wednesday, 24 July 2019** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillor Day (Chairman); Councillors: Boyd, Campbell, Crittenden, Dexter (Vice-Chairman), Farrance, Garner, Kup, Pat Moore, S Piper, Scott, Shrubbs and Yates

A G E N D A

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1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST** (Pages 3 - 4)
To receive any declarations of interest. Members are advised to consider the advice contained within the Declaration of Interest advice attached to this Agenda. If a Member declares an interest, they should complete the [Declaration of Interest Form](#).
3. **MINUTES OF PREVIOUS MEETING** (Pages 5 - 6)
To approve the Minutes of the Governance and Audit Committee meeting held on 6 March 2019, copy attached.
4. **INTERNAL AUDIT QUARTERLY UPDATE REPORT** (Pages 7 - 30)
5. **INTERNAL AUDIT ANNUAL REPORT** (Pages 31 - 58)
6. **ANNUAL GOVERNANCE STATEMENT 2018-2019** (Pages 59 - 74)
7. **HOMES ENGLAND AUDIT 2017/18** (Pages 75 - 82)
8. **CORPORATE RISK REVIEW - QUARTERLY UPDATE** (Pages 83 - 88)
9. **ANNUAL TREASURY MANAGEMENT REVIEW 2018-19** (Pages 89 - 104)
10. **EXTERNAL AUDIT - AUDIT FINDINGS REPORT**
Report to follow.
11. **AUDIT COMMITTEE ASSURANCE STATEMENT**
Report to follow.
12. **FINAL STATEMENT OF ACCOUNTS 2018-19 AND MANAGEMENT'S LETTER OF REPRESENTATION**
Report to follow.

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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.

If you need to declare an interest then please complete the declaration of [interest form](#).

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 6 March 2019 at 7.00 pm in Council Chamber, Cecil Street, Margate, Kent.

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

In Attendance: Councillor Gregory

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Bambridge, Connor, Dennis and Evans.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF PREVIOUS MEETING

Councillor Larkins proposed, Councillor Messenger seconded and Members agreed the minutes of the meeting held on 5 December 2018.

4. EXTERNAL AUDIT ANNUAL CERTIFICATION LETTER 2017/18

Mr Wells, Grant Thornton UK LLP (GT) introduced the item which advised of the certification of Thanet District Council's Housing Benefit Subsidy claim.

Members noted the certification letter.

5. EXTERNAL AUDIT 2018/19 AUDIT PLAN

Mr Wells introduced the item which provided an overview of the scope and timing of the audit for the year ending 31 March 2019.

Members noted the report.

6. INTERNAL AUDIT QUARTERLY UPDATE

Mr Webb, Deputy Head of East Kent Audit Partnership, introduced the report noting that there had been eight internal audit assignments and seven follow up reviews completed since the last committee meeting. EKAP's performance was shown in annex 4 of the report.

During consideration of the item, it was noted that:

- The assurance rating for performance management had increased to reasonable after the follow up review.
- Mr Webb offered to provide Councillor Messenger with information about a parking permit scheme that would be implemented in April 2019.
- It was agreed that complaint data from previous years would be included in the Complaints Monitoring audit report for comparison purposes.

Councillor Larkins proposed, Councillor Messenger seconded and Members agreed the recommendations in the report, namely:

- 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 Annex 1 of the attached report be approved.

7. INTERNAL AUDIT 2019-20 AUDIT PLAN

Ms Parker, Head of the East Kent Audit Partnership introduced the Internal Audit Plan 2019-20.

Councillor Campbell proposed, Councillor Larkins seconded and Members agreed that the 2019-20 Internal Audit Plan be approved.

8. CORPORATE RISK REGISTER QUARTERLY UPDATE

Mr Willis, Deputy Chief Executive and S151 Officer 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 homelessness risk score had reduced to nine and should be shaded in yellow in the report.
- The limited resources risk score had risen for 12 to 16, which was the maximum possible risk score.

Members noted the report.

9. RISK MANAGEMENT STRATEGY

Mr Willis introduced the report which provided the Committee with an update to the Risk Management Strategy that had been approved in 2015.

During consideration of the item it was noted that:

- Councillor Ashbee was the Risk Management Champion.
- It was often the case that opportunities came with an associated risk.

It was proposed by Councillor Campbell, seconded by Councillor Larkins and Members agreed to adopt the revised Risk Management Strategy.

10. THE LOCAL CODE OF CORPORATE GOVERNANCE UPDATE

Mr Howes, Director of Corporate Governance, introduced the report noting that the document would be subject to review and form the basis of the Annual Governance Statement.

It was proposed by Councillor Campbell, seconded by Councillor Larkins and Members agreed to adopt the revised Code of Corporate Governance.

11. CHAIRMAN'S ANNUAL REPORT TO COUNCIL

Members noted the Chairman's report.

Meeting concluded: 8.00pm

	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.	
<i>There are no equity or equalities issues arising from this report.</i>		

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 31st May 2019.

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

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

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

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

- 1.6 The purpose of the Council's Governance and Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

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

2.0 Summary of Work

2.1 There have been seven internal audit assignments completed during the period.

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

2.3 For the two-month period to 31st May 2019, 49.71 chargeable days were delivered against the revised target of 323.98 days which equates to 15.34% 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

Annex List

<i>Annex 1</i>	East Kent Audit Partnership Update Report – 24-07-2019
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Background Papers

Title	Details of where to access copy
<i>Internal Audit Annual Plan 2018-19</i>	Previously presented to and approved at the 6 th March 2019 Governance and Audit Committee meeting
<i>Internal Audit working papers</i>	Held by the East Kent Audit Partnership

Corporate Consultation

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

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 31st March 2019.

2.0 SUMMARY OF REPORTS

Service / Topic		Assurance level	No. of Recs.	
2.1	Dog Warden	Substantial	C H M L	0 0 0 0
2.2	EKS Debtor Accounts	Substantial	C H M L	0 0 0 1
2.3	Cash Collection; Income; and Bank Reconciliation.	Reasonable/Limited Substantial Substantial	C H M L	0 4 2 0
2.4	Community Safety	Reasonable	C H M L	1 3 6 2
2.5	EKHR - Absence Management	Reasonable	C H M L	0 0 4 0
2.6	EKHR - Payroll	Reasonable	C H M L	0 0 2 0
2.7	EKS - Housing Benefit Quarterly Testing (Quarters 3 and 4 of 2018-19)	Not Applicable		

2.1 Dog Warden - Substantial Assurance:

2.1.1 Audit Scope

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To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council has an effective dog warden service encompassing both the recovery and kennelling of stray dogs.

2.1.2 Summary of Findings

The Environmental Protection Act 1990, section 149, requires local authorities to appoint an appropriate officer to deal with stray dogs and to impose and confer the functions within this section, such as:

- maintaining a register of stray dogs;
- identifying ownership of dogs (where possible);
- detaining stray dogs for up to 7 days;
- charging the statutory fee to owners before returning dogs; and
- ensuring that dogs are properly fed and cared for whilst in detention.

The Council is providing a dog warden service in accordance with the above legislation. In addition to the statutory fee the Council is also recharging to the owner an administration fee and any kennelling costs. The Council has vetted the kennelling provider and is satisfied that dogs are being properly cared for.

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

- Stray dog reporting, collecting and returning processes are in place and working well.
- Statutory and administration fees and any kennelling costs are being paid by the owner before the dog is returned.
- Processes are in place to record and deal with dog noise complaints and dog fouling reports.
- Market testing has been carried out for the provision of dog kennelling and rehoming services; a waiver has been approved as only one quote could be provided.
- Comprehensive information about the dog warden service is provided on the Council's website, including various online reporting options.

2.2 EKS Debtor Accounts – Substantial Assurance

2.2.1 Audit Scope

To ensure that the processes and procedures used by CIVICA UK are sufficient to provide the level of service required by the partner Councils and incorporate relevant internal controls regarding debtors.

2.2.2 Summary of Findings

The recovery of Sundry Debts is covered by the Local Government Act 1972, the Accounts and Audit Regulations 2011, The Harbours Act 1964 and the Late Payment of Commercial Debts Regulations 2002. Sundry debts relate to

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all monies owed to Local Authorities other than Council Tax, Business Rates and Housing Benefit overpayments. The collection of sundry debts has been outsourced to CIVICA.

Management can place Substantial Assurance on the system of internal controls in operation. This audit review has focused on the role carried out by CIVICA UK and not the elements of the debtors process carried out by Officers at Canterbury City Council and Dover District Council.

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

- Established processes are in place for the sundry debtor process carried out by the Corporate Income Team within CIVICA.
- Performance is regularly and accurately reported by CIVICA to the partner Councils.
- Credit notes are not used to cancel debts where collection methods have been unsuccessful.
- Debts are only written off after all available recovery methods have been exhausted.

Scope for improvement was however identified around procedures for obtaining approval of credit notes, this was raised with CIVICA staff during the audit and positive action has already commenced to make improvements to the credit note approvals process.

2.3	Cash Collection, Income and Bank Reconciliation	-
Substantial/Reasonable/Limited Assurance:		

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that all income due to the Council is promptly collected, and completely and accurately accounted for in a timely manner and to ensure that the bank reconciliation is calculated correctly. The scope of the audit will include:

- a) Cash collection;
- b) Processing of Waybills;
- c) Postal Remittances;
- d) Processing of cheque payments;
- e) Processing of Nat West, Giro, Adelante, Gateway kiosk, and PayPoint Bill Payments imports;
- f) Phone payments (both automated and Call Centre; which are processed through Adelante);
- g) Internet payments;
- h) Face to Face chip and pin payments;
- i) Cash or cheque payments received at the Gateway kiosk; Current Kiosk is cash only. Cheques are taken by Gateway staff;
- j) Allocations from the Council's main income suspense account;

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- k) Interface of income into other systems i.e. Cedar e-financials, Sundry Housing Benefit, Debtors, Housing Rents, Business Rates, Council Tax, etc; and
- l) Bank Reconciliation.

2.3.2 Summary of Findings

Income is described in the Council's Financial Procedure Rules as an asset that can be vulnerable and that effective income collection systems are necessary to ensure that all income due is identified, collected, receipted and banked properly; this improves the Council's cashflow and reduces the time and cost of administration.

The Council has recently undergone some changes with regard to cash collection, notably the retirement of the in house cash collector and the switch over to a temporary cash collection service supplied by Contract Security Services (CSS). The contract has been let on a six month temporary basis (expiring in November 2018) to enable time for a competitive tendering process to take place, however the number of potential suppliers is said to be very limited service.

Cash Collection

Whilst Management can generally place Reasonable Assurance on the system of internal controls in operation for Cash Collection, there are deficiencies in some of the key controls surrounding the Gateway kiosk and change orders which suggest a partially limited assurance conclusion, particularly as it has a detrimental impact upon income processing and the timely completion of the Council's bank reconciliation.

The primary findings giving rise to this split level Assurance opinion in this area are as follows:

- Cash is regularly and securely collected
- Cash is recorded at source
- Cash income is reconciled to that counted and paid in at bank but with some difficulty and delay; cash readings for the kiosk are lost when the machine is reset due to shutdowns
- Cash is securely held and adequate insurance cover is in place

Scope for improvement was however identified in the following areas:

- The current cash collector is unable to provide the same level of attention to the kiosk as previously provided in house, resulting in more failures. A new machine has just been delivered however this will also shut down if bank note storage is full and/or change hoppers are low. The Council should therefore consider whether or not it wishes to continue to offer a cash kiosk, if so it should consider whether it is prepared to monitor more closely and attend to the cash in the

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machine to prevent further shut downs and, responsibility for this should be made clear.

- Copies of change orders should be provided to relevant staff (as noted in the report)
- A cost comparison of an in house cash collection service and an outsourced service should be made, including the benefits and disadvantages for each type of service.

Bank Reconciliation

Management can place Substantial Assurance on the system of internal controls in operation for Bank Reconciliation.

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

- Bank reconciliation is carried out on monthly basis
- Variances are investigated
- The bank reconciliation process is clearly documented
- Adequately trained staff are in place to provide cover for this role
- Bank reconciliation statements are signed off by the appropriate manager.

Scope for improvement was however identified in the following areas:

- Copies of all change orders should be supplied to aid the bank reconciliation process

Income processing

Management can place Substantial Assurance on the system of internal controls in operation for Income processing.

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

- Systems are in place to accurately account for Internet, telephone and direct payments
- Exceptions in auto-matched payments are investigated, identified and allocated to the appropriate account
- Cheques are recorded and dealt with in a secure manner
- Cheques are paid into the Council's bank account on a daily basis

Scope for improvement was however identified in the following areas:

- Reports from the kiosk should be requested to help investigate any payment disputes made by customers

2.4 Community Safety – Substantial Assurance

2.4.1 Audit Scope

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To provide assurance on the adequacy and effectiveness of the input from the Council to the Community Safety Partnership in order to achieve the Council corporate objectives and to meet legislation which places a duty on local councils to consider how their services impact on crime and disorder.

2.4.2 Summary of Findings

The Community Safety Partnership (CSP) is established to tackle community concerns around crime and disorder; the vast majority of communities identify Anti-Social Behaviour (ASB) as a key issue. CSPs have become expert at tackling ASB through multi-agency intervention and enforcement. Often this is undertaken through the Council's community safety team which is often referred to by the shorthand misnomer of 'the CSP team'. This incorrect assumption can often be problematic as partners associate the actual CSP with a team working in the Council. That said, the Council's community safety team will normally be charged with the responsibility of supporting the CSP, as well as delivering certain parts of the plan and procuring outsourced services.

The Council's Community Safety Team comprises of:

- A community Safety Team Leader;
- A Safeguarding Officer;
- 3 Community Safety Officers; and
- A Safer Neighbourhoods Support Officer.

These officers are responsible for dealing with the case management of ongoing ASB issues, problem-solving problematic locations and managing persistent offenders of ASB, generally through the use of the escalation process. The Council's Community Safety Team are also responsible for establishing:

- 'dispersal zones', which are small geographical areas in which groups of two or more people can legally be removed for 24 hours if considered to be likely to cause ASB; and
- 'controlled drinking zones', which can ban the consumption of alcohol in public places.

The statutory and non-statutory duties for this team are detailed within the Safer Neighbourhoods Service Plan and Community Safety Action Plan with all work undertaken on a daily basis being recorded within a computerised system known as M3.

There are two working groups that the Council's Community Safety Team support, these are the Community Safety Unit and Margate Task Force, both involve multi-agency working. The first of which is governed by the Council's committee and work assigned via the use of the action plan. The Margate Task Force is Police led and a separate entity from the CSU. They link up on a monthly basis to discuss cases in order to move them forward.

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

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- Management, elected members, and the public are kept informed of the works being undertaken by the Community Safety Team via a number of corporate documents, namely the Corporate Plan, the Service Plan and the Community Safety Plan;
- The Safer Neighbourhoods Service plan recognises and highlights the statutory functions, project work, corporate priority and legislative duty for the Community Safety Unit to be effective in its day to day work;
- There are good clear working practices being used across the team which have been fully documented via procedures and work flow-charts;
- Effective use of all forms of communication to ensure staff, elected members and the general public are kept informed is in place;
- The multi agency work is being effectively managed, monitored and reported on.

Scope for improvement was however identified in the following areas:

- Revise the Council's webpages to produce a more cohesive and informative platform for the general public.
- Review and refresh the Service and Community Safety Action plans to ensure they are up to date with the corporate restructure and process as well as highlighting the works that have been undertaken to date by the team and other external agencies.
- Ensure that the M3 system is being used in accordance with GDPR and retention schedules.
- Ensure that pocket notebooks are being used to maximise evidence for case building.

2.5 EKHR Absence Management – Reasonable Assurance:

2.5.1 Audit Scope

To provide assurance that staff absences are valid and authorised by management either in advance or in the case of sickness immediately after the event. To ensure that staff resources are adequately controlled and managed.

2.5.2 Summary of Findings

Dover District Council, Canterbury City Council and Thanet District Council (including EK Services) are committed to delivering excellent local services and recognise that this can only be achieved through our employees. They want a healthy, flexible workforce that is capable of responding to the changes and challenges facing local government.

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

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- Established EKHR monthly processes are in place for processing sickness absences through the payroll and also for the calculating of annual leave records for each employee.
- Supporting policies and procedures are in place to support managers and employees in monitoring and recording of annual leave, sickness and flexi time.
- Managers across each council and EKS are monitoring flexi records of employees on a regular basis. The assurance for this has been taken from questionnaire responses (from a sample of 35 employees) as there are several time recording systems (Both electronic and paper) in place.
- Managers are also recording sickness and approving annual leave on East Kent People in accordance with policies and procedures.

Scope for improvement was however identified in the following areas:

- As part of the annual review of the service level agreement EKHR should review and update the documentation to ensure that it reflects the changes in reporting processes and service provision for absence management following on from the manager's dashboard being released.
- Dover and Thanet District Councils may wish to consider including the actions to be carried out in relation to absence frequency and the periods of time in the Addendum to the Absence Management Procedure so that managers and employees are fully aware of the actions that will need to be carried out for each of the trigger points and that they can be consistently applied.
- Managers should be reminded of the need to ensure that they are recording the actions that relate to the trigger points for sickness absences.

2.6 EKHR Payroll – Reasonable Assurance:

2.6.1 Audit Scope

To ensure that the payroll service administered by EKHR on behalf of Canterbury, Dover and Thanet Councils, including EK Services is adequately controlled to ensure that the right people are getting paid the right amounts at the right time. Also that all additional payments and expenses are valid and properly authorised

2.6.2 Summary of Findings

The EKHR payroll service supports Canterbury City Council, Dover and Thanet District Councils and East Kent Housing and transmits in excess of 1800 salary payments each month. The Marlowe Theatre has recently been designated a private Trust and EKHR is providing a payroll service under a contractual agreement.

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

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- EKHR is working to a recently updated SLA (February 2019);
- Many payroll reconciliation procedures are in place and no controls have changed since the previous audit in 2018;
- Statutory payments are made in line with requirements; and
- Payroll system access is password protected and passwords are renewed every 90 days.

Scope for improvement was however identified in the following area:

- Inconsistencies in the mileage claims being made and the eligibility of these were found in all three authorities as there appears to be some functioning issues within the system which require further investigation.

2.7 EKS Housing Benefits Quarterly Testing Quarters 3 & 2018/19 – an assurance is not applicable for this work

2.7.1 Introduction

Over the course of 2018/19 financial year the East Kent Audit Partnership will complete a sample check of Council Tax, Rent Allowance and Rent Rebate and Local Housing Allowance benefit claims.

2.7.2 Findings

For the second 2 quarters of 2018/19 financial year (October 2018 to March 2019) 40 claims including new and change of circumstances of each benefit type were selected by randomly selecting the various claims for verification.

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

2.6.3 Audit Conclusion

For this period forty benefit claims were checked and none of the claims had any financial errors and there were 2 (5%) data quality errors.

For 2018/19 a total of eighty benefit claims have been checked of which none had a financial error that impacted on the benefit calculation and 2 (2.5%) had a data quality error.

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

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

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Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs. Not yet implemented	
a)	Garden Waste & Recycling Income	Reasonable	Reasonable	C	0	C	0
				H	1	H	1
				M	3	M	1
				L	0	L	0
b)	East Kent Housing – Contract Management	Limited	Reasonable / Limited	C	3	C	1*
				H	5	H	2*
				M	0	M	0
				L	0	L	0
c)	EKS ICT Software Licensing	Reasonable	Reasonable	C	0	C	0
				H	2	H	0
				M	6	M	3
				L	0	L	0
d)	EKHR Apprenticeships	Substantial / Reasonable	Substantial / Reasonable	C	0	C	0
				H	2	H	0
				M	5	M	0
				L	1	L	0
e)	EKHR Allowances & Expenses	Substantial / Reasonable	Substantial / Reasonable	C	0	C	0
				H	0	H	0
				M	3	M	2
				L	2	L	1
f)	Complaints Monitoring	Limited	Reasonable	C	0	C	0
				H	2	H	0
				M	1	M	0
				L	5	L	0

* The Three partially outstanding recommendations are no longer relevant as there is a new contract in place with a new contractor.

3.2 Details of any individual Critical and High priority recommendations still to be implemented at the time of follow-up are included at Appendix 3 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 officer and Members' of the Governance and Audit Committee.

The purpose of escalating high-priority recommendation which have not been implemented is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

3.3 As the assurance for the Contract Management review is partially limited at the time of follow up, a management response has been included within this report.

Management Response to Contract Management

Management recognises that 'Limited Assurance' has been placed upon the Gas Servicing and Heating Installations audit and Audit Committee members are reminded of the previous reports detailing the challenges of these contracts and the management of them. The ability of EKH and the Client Councils to resolve a number of the partially outstanding matters will be influenced by the decision of the contractor to bring the contracts to an end and we continue to seek resolution as part of the final account process in collaboration with the Client Councils and contractor.

East Kent Housing - Former Director of Property Services

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: Street Cleansing, Street Scene Enforcement, Printing, Postage and Photocopying, Housing Repairs & Maintenance, Welfare Reform, and Tenant Health & Safety.

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 two month period to 31st May 2019, 49.71 chargeable days were delivered against the revised target of 323.98 days which equates to 15.34% plan completion.

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- 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 Progress to 31st May 2019 against the agreed 2018-19 Audit Plan.
- Appendix 2 Definition of Audit Assurance Statements & Recommendation Priorities
- Appendix 3 Summary of Critical and High priority recommendations not implemented at the time of follow-up.
- Appendix 4 Summary of services with Limited / No Assurances.

THANET DISTRICT COUNCIL:

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-05-2019	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	10	10	0	Quarter 3
Treasury Management	10	10	0	Quarter 3
External Funding Protocol	10	10	0	Quarter 3
Insurance & Inventories of Portable Assets	12	12	0	Quarter 3
RESIDUAL HOUSING SERVICES:				
HRA Business Plan	10	0	0	Postponed to accommodate responsive reviews
GOVERNANCE RELATED:				
GDPR Compliance	13	13	0	Quarter 4
Anti-Fraud & Corruption	2	2	0.24	Quarter 2
Shared Service Monitoring	10	10	0	Quarter 4
Partnerships	8	8	0	Quarter 4
Risk Management - Review of Mitigation Controls	10	10	0	Quarter 2

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Corporate Advice/CMT	2	2	0	Work-in-progress throughout 2019-20
s.151 Officer Meetings and Support	9	9	3.01	Work-in-progress throughout 2019-20
Governance & Audit Committee Meetings and Report Preparation	12	12	3.21	Work-in-progress throughout 2019-20
2020-221 Audit Plan and Preparation Meetings	9	9	0	Quarter 4
CONTRACT AUDITS				
CSO Compliance	12	12	0.78	Work-in-progress
SERVICE LEVEL:				
Environmental Health & Safety at Work	10	10	0	Quarter 2
Grounds Maintenance	12	12	0	Quarter 2
Grants	10	10	0	Quarter 3
Commercial Properties & Concessions	10	10	0.18	Quarter 2
Ramsgate Marina	12	12	0.57	Quarter 3
Ramsgate Harbor Accounts	3	3	0	Quarter 2
Planning Applications, Income & s106 Agreements	12	12	0.18	Work-in-progress
Building Control	10	10	0	Quarter 2
Printing & Post	10	10	3.26	Work-in-progress
Sports & Community Development	10	10	0	Quarter 3
Visitor Information Arrangements	10	0	0	Postponed to accommodate responsive Homelessness review
Waste & Street Cleansing Vehicle Fleet Management	10	10	0	Quarter 4
Climate Change	6	6	0	Quarter 2
OTHER :				
Liaison With External Auditors	1	1	0	Work-in-progress throughout 2019-20
Follow-up Reviews	15	15	1.32	Work-in-progress throughout 2019-20
FINALISATION OF 2018-19 AUDITS:				
Days under delivered in 2018-19	0	38.98		Allocated
Income			0.18	Finalised
Dog Warden & Street Scene Enforcement			10.23	Finalised
Street Cleansing	5	5	8.2	Work-in-progress
Business Continuity & Emergency Planning			0	Draft Report

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Community Safety			0.36	Finalised
RESPONSIVE WORK:				
Homelessness	0	14	13.73	Draft Report
Electoral Registration	0	6	4.26	Work-in-progress
TOTAL	285	323.98	49.71	15.34% as at 31-05-2019

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 31-05-2019	Status and Assurance Level
Planned Work:				
CMT/Audit Sub Cttee/EA Liaison	4	4	2.51	Work-in-progress throughout 2019-20
Follow-up Reviews	4	4	1.76	Work-in-progress throughout 2019-20
Rent Accounting, Collectio & Debt Mngmt.	40	40	0	Quarter 2
Rechargeable Works	10	10	0	Quarter 3
Tenant Health & Safety	15	15	12.35	Work-in-progress
Customer Contact	12	12	0	Quarter 4
Improvement Plan	10	10	0	Quarter 3
Estate Management Inspections	15	15	0	Quarter 2
Anti-Social Behaviour	15	15	0	Quarter 4
Employee Health, Safety & Welfare	15	15	0	Quarter 2
Finalisation of 2018-19 Audits:				
Days under delivered in 2018-19	0	19.50	0	Allocated as below
Staff Performance Management	0		4.55	Work-in-progress
Welfare Reform	0		2.05	Work-in-progress
Repairs & Maintenance	0		16.21	Work-in-progress
Service Level Agreements	0		0.97	Finalised
Responsive Work:				
None thus far				
Total	140	159.50	40.40	25.33% at 31-05-2019

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EKS, EKHR & CIVICA:

Review	Original Planned Days	Revised Planned Days	Actual days to 31-05-2019	Status and Assurance Level
EKS & Civica Reviews:				
Housing Benefit Appeals	15	15	2.94	Work-in-progress
Housing Benefit Testing	15	15	0	Quarter 2
Business Rate Reliefs & Credits	15	15	0	Quarter 2
Council Tax	20	20	0	Quarter 3
ICT Disaster Recovery	15	15	0	Quarter 4
ICT - Physical & Environment	15	15	3.77	Work-in-progress
KPIs	5	5	0	Quarter 2
EKHR Reviews:				
Payroll	15	15	0	Quarter 3
Recruitment	15	15	0	Quarter 2
Employee Benefits-in-kind	15	15	0	Quarter 4
Other;				
Corporate/Committee	8	8	2.96	Work-in-progress throughout 2019-20
Follow up	7	7	3	Work-in-progress throughout 2019-20
Days under delivered in 2018-19	0	27.26	0	Allocated as below
Finalisation of 2018/19 Audits:				
Housing Benefit Testing 2018-19	0		8.58	Finalised
Payroll			0.68	Work-in-progress
PCI-DSS Compliance			4.39	Work-in-progress
Total	160	187.26	26.32	14% at 31/05/2019

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

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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.

SUMMARY OF CRITICAL & HIGH PRIORITY RECOMMENDATIONS NOT IMPLEMENTED AT THE TIME OF FOLLOW-UP – APPENDIX 3		
Original Recommendation	Agreed Management Action , Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
<i>Garden Waste & Recycling Income - May 2019:</i>		
<p>1) The Head of Operational Services should support the Recycling and Waste Manager in identifying, procuring and implementing a system to maintain and manage waste services considering the current labour intensive 'manual work arounds' in place may be open to error.</p>	<p>The Waste and Recycling Section has already identified these concerns and is looking at new systems which would improve the management and income collection processes, not just for garden waste and recycling but across the waste management service. Report has been written with input and support from the digital communications officer and the digital programme manager. Report to be submitted to CMT via HoS, who is supporting the Service Manager. However, ultimately it is dependant on costs and the resources that are available. Unable to place completion date on this as out of my remit. HoS to advise report to CMT/SMT in March 2018.</p> <p>Proposed Completion Date & Responsibility March 2019 Head of Operational Services</p>	<p><u>Management Comment:</u> - Due to the Waste & Recycling Manager being away on long-term sickness absence this report has not been submitted to the Head of Service and is still being completed. This will now be completed on the Waste & Recycling Managers return to work around June 2019.</p> <p><u>Auditor Comment:</u> - Recommendation outstanding with revised implementation date of 31th July 2019.</p>

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED – APPENDIX 4			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
Performance Management	March 2019	Reasonable/Limited	Work-in-Progress
Compliance with General Data Protection Regulations	December 2018	Limited	Work-in-Progress
Asset Management	December 2018	Limited	Summer 2019
Tenancy & Right to Buy Fraud	March 2019	Limited	Autumn 2019

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INTERNAL AUDIT ANNUAL REPORT 2018-19

24th July 2019

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

Executive Summary:

This report provides a summary of the work completed by the East Kent Audit Partnership together with details of the performance of the EKAP against its targets for the year ending 31st March 2019.

Recommendation(s):

That the report be received by Members.

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	<p>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.</p> <p>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.</p>
	Please indicate which aim is relevant to the report.

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	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.	
<i>There are no equity or equalities issues arising from this report.</i>		

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 The primary objective of Internal Audit is to provide independent assurance to Members, the Chief Executive, Directors and the Section 151 Officer on the adequacy and effectiveness of those systems on which the Authority relies for its internal control. The purpose of bringing forward an annual report to members is to:

- Provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- Present a summary of the internal audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies,
- Draw attention to any issues the Head of the Audit Partnership judges particularly relevant to the preparation of the Annual Governance Statement.
- Compare actual audit activity with that planned, and summarise the performance of Internal Audit against its performance criteria.
- Comment on compliance with the Public Sector Internal Audit Standards (PSIAS), and report the results of the Internal Audit quality assurance programme.
- Confirm annually that EKAP is organisationally independent, whether there have been any resource limitations or instances of restricted access.

1.2 The report attached as Annex A therefore summarises the performance of the East Kent Audit Partnership (EKAP) and the work it has performed over the financial year 2018-19 for Thanet District Council, and provides an overall assurance on the system for internal control based on the audit work undertaken throughout the year, in accordance with best practice. In providing this opinion, this report supports the Annual Governance Statement.

1.3 The internal audit team is proactive in providing guidance on procedures where particular issues are identified during audit reviews. The aim is to minimise the risk of loss to the Authority by securing adequate internal controls. Partnership working for the service has added the opportunity for the EKAP to share best practice across the four sites within the East Kent Cluster to help drive forward continuous service improvement.

1.4 During 2018-19 the EKAP delivered 87.94% of the agreed audit plan days, with 38.99 days under delivered to be adjusted for in 2019-20. The performance figures for the East

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Kent Audit Partnership as a whole for the year show good performance against targets, particularly as the EKAP has delivered financial savings against its agreed budget to all its partners in the delivery of the service.

2.0 Options

2.1 That Members consider and note the internal audit annual report.

2.2 That Members consider registering their comments 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 comments after considering the work or coverage of internal audit for the year 2018-19.

Contact Officer:	Christine Parker, Head of the Audit Partnership, Ext. 42160 Simon Webb, Deputy Head of Audit, Ext 57189
Reporting to:	Tim Willis, Deputy Chief Executive (S151 Officer), Ext. 57617

Annex List

<i>Annex 1</i>	East Kent Audit Partnership Annual Report 2018-19
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Background Papers

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

Corporate Consultation

Finance	Tim Willis, Deputy Chief Executive (s.151 Officer)
Legal	Tim Howes, Director of Corporate Governance

Annual Internal Audit Report for Thanet District Council 2018-19

1. Introduction

The Public Sector Internal Audit Standard (PSIAS) defines internal audit as:

"Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

A more detailed explanation of the role and responsibilities of internal audit, is set out in the agreed Audit Charter. The East Kent Audit Partnership (EKAP) aims to comply with the PSIAS, and to this end has produced evidence to the s.151 and Monitoring Officers to assist the Council's review of the system of internal control in operation throughout the year.

This report is a summary of the year, a snapshot of the areas at the time they were reviewed and the results of follow up reviews to reflect the actions taken by management to address the control issues identified. The process that the EKAP adopts regarding following up the agreed recommendations will bring any outstanding high-risk areas to the attention of Members via the quarterly reports, and through this annual report if there are any issues outstanding at the year-end.

2. Objectives

The majority of reviews undertaken by Internal Audit are designed to provide assurance on the operation of the Council's internal control environment. At the end of an audit we provide recommendations and agree actions with management that will, if implemented, further enhance the environment of the controls in practice. Other work undertaken, includes the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services for which they are responsible. The annual audit plan is informed by special investigations and anti-fraud work carried out as well as the risk management framework of the Council.

A key aim of the EKAP is to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The EKAP aims to have an enabling role in raising the standards of services across the partners through its unique position in assessing the relative standards of services across the partners. The EKAP is also a key element of each councils' anti fraud and corruption system by acting as a deterrent to would be internal perpetrators.

The four partners are all committed to the principles and benefits of a shared internal audit service, and have agreed a formal legal document setting out detailed arrangements. The statutory officers from each partner site (the s.151 Officer) together form the Client Officer Group and govern the partnership through annual meetings. The shared arrangement for EKAP also secures organisational independence, which in turn assists EKAP in making conclusions about any resource limitations or ensuring there are no instances of restricted access.

3. Internal Audit Performance Against Targets

3.1 EKAP Resources

The EKAP has provided the service to the partners based on a FTE of 7.23. Additional audit days have been provided via audit contractors in order to meet the planned workloads.

3.2 Performance against Targets

The EKAP is committed to continuous improvement and has various measures to ensure the service can strive to improve. The performance measures and indicators for the year are shown in the balanced scorecard of performance measures at Appendix 5. The measures themselves were reviewed by the Client Officer Group at their annual meeting and no changes were made.

3.3 Internal Quality Assurance and Performance Management.

All internal audit reports are subject to review, either by the relevant EKAP Deputy Head of Audit or the Head of the Audit Partnership; all of whom are Chartered Internal Auditors. In each case this includes a detailed examination of the working papers, action and review points, at each stage of report. The review process is recorded and evidenced within the working paper index and in a table at the end of each audit report. Detailed work instructions are documented within the Audit Manual. The Head of Audit Partnership collates performance data monthly and, together with the monitoring of the delivery of the agreed audit plan carried out by the relevant Deputy Head of Audit, regular meetings are held with the s.151 Officer. The minutes to these meetings provide additional evidence to the strategic management of the EKAP performance.

3.4 External Quality Assurance

The external auditors, Grant Thornton, conducted a review in February 2019 of the Internal Audit arrangements. They have concluded that, where possible, they can place reliance on the work of the EKAP.

3.5 Liaison between Internal Audit and External Audit

Liaison with the audit managers from Grant Thornton for the partner authorities and the EKAP is undertaken largely via email to ensure adequate audit coverage, to agree any complementary work and to avoid any duplication of effort. The EKAP has not met with any other review body during the year in its role as the Internal Auditor to Dover District Council. Consequently, the assurance, which follows is based on EKAP reviews of Dover District Council's services.

3.6 Compliance with Professional Standards

3.6.1 The EKAP self-assessment of the level of compliance against the Public Sector Internal Audit Standards shows that some actions are required to achieve full compliance which EKAP will continue to work towards. There is however, no appetite with the Client Officer Group to pay for an External Quality Assessment of the EKAP's level of compliance, relying on a review by the s.151 officers of the self-assessment. Consequently the EKAP can only say that it partially conforms with PSIAS and this risk is noted in the AGS.

3.6.2 The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

3.6.3 In 2018-19 EKAP as required by the standards has demonstrated that it achieved the Core Principles in three key ways. Firstly, by fulfilling the definition of Internal Auditing which is the statement of fundamental purpose, nature and scope of internal auditing. The definition is authoritative guidance for the internal audit profession (and is shown at paragraph 1 above). Secondly by demonstrating that it has been effective in achieving its mission showing that it:-

- Demonstrates integrity.
- Demonstrates competence and due professional care.

- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

And thirdly by complying with The Code of Ethics, which is a statement of principles and expectations governing behaviour of individuals and organisations in the conduct of internal auditing. The Rules of Conduct describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Core Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

3.7 Financial Performance

Expenditure and recharges for year the 2018-19 are all in line with the Internal Audit cost centre hosted by Dover District Council. Financial management has delivered a cashable saving against budget.

The EKAP was formed to provide a resilient, professional service and therefore achieving financial savings was not the main driver, despite this considerable efficiencies have been gained through forming the partnership. The net result is a reduced EKAP cost per audit day below the original budget estimate.

4. Overview of Work Done

The original audit plan for 2018-19 included a total of 23 projects. We have communicated closely with the s.151 Officer, CMT and this Committee to ensure the projects actually undertaken continued to represent the best use of resources. As a result of this liaison some changes to the plan were agreed during the year. A few projects (9) have therefore been pushed back in the overall strategic plan, to permit some higher risk projects to come forward (5). The total number of projects undertaken in 2018-19 was 14, with 5 being WIP at the year end to be finalised in April. In addition 6 projects were finalised from the 2017-18 plan.

Review of the Internal Control Environment

4.1 Risks

During 2018-19, 89 recommendations were made in the agreed final audit reports to Thanet District Council. These are analysed as being Critical, High, Medium or Low risk in the following table:

Risk Criticality	No. of Recommendations	Percentage
Critical	3	3%
High	39	44%
Medium	29	33%

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Low	18	20%
TOTAL	89	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any critical or high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and members' attention through Internal Audit's quarterly update reports. During 2018-19 the EKAP has raised and reported to the quarterly Governance Committee meetings 89 recommendations, and whilst 80% were in the Critical, High or Medium Risk categories, none are so significant that they need to be escalated at this time.

4.2 Assurances

Internal Audit applies one of four 'assurance opinions' to each review, please see Appendix 1 for the definitions. This provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. The conclusions drawn are described as being "a snapshot in time" and the purpose of allocating an assurance level is so that risk is managed effectively and control improvements can be planned. Consequently, where the assurance level is either 'no' or 'limited', or where high priority recommendations have been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the fourteen pieces of completed work for Thanet District Council, together with the finalisation of the six 2017-18 audits is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	7	50%
Reasonable	2	14%
Limited	5	36%
No	0	0%
Work in Progress at Year-End	5	-
Not Applicable	6	-

* See list in the table below

NB: 'Not Applicable' is shown against special investigations or work commissioned by management that did not result in an assurance level.

Taken together 64% of the reviews account for substantial or reasonable assurance, whilst 36% of reviews placed a (partial) limited assurance to management on the system of internal control in

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operation at the time of the review, some of these have since been followed up. There were no reviews assessed as having no assurance.

There were six reviews completed on behalf of East Kent Housing Ltd. and the assurances for these audits were - 0 Substantial, 4 Reasonable, 2 Limited, 0 Not Applicable and 4 work in progress at the year-end.. Information is provided in Appendix 3.

There were eleven reviews completed on behalf of EK Services and the assurances for these audits were - 3 Substantial, 5 Reasonable, 3 Not Applicable and 4 work in progress at the year-end. Information is provided in Appendix 4.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, the follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. Those areas assessed as being as either 'limited' or 'no' assurance audit opinion during the year are detailed in the table at paragraph 6, these areas are also recorded as an appendix to the quarterly report until the follow up report is issued, so that they do not get overlooked. The results of any follow up reviews yet to be undertaken will therefore be reported to the Committee at the appropriate time.

4.3 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up/progress review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

- “closed” as they have been successfully implemented, or
- “closed” as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) “closed” as management has decided to tolerate the risk, or the circumstances have since changed, or
- (for critical or high risks only) escalated to the audit committee.

At the conclusion of the follow up review the overall assurance level is re-assessed.

The results for the follow up activity for 2018-19 are set out below. The shift to the right in the third column in the table from the original opinion to the revised opinion also measures the positive impact that the EKAP has made on the system of internal control in operation throughout 2018-19.

Total Follow Ups undertaken 9	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	2	2	5
Revised Opinion	0	0	4	5

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The reviews with an original limited assurance, together with the result of the follow up report, are shown in the following table which concludes there are no TDC reviews showing a limited assurance after follow up.

Area Under Review	Original Assurance	Follow Up Result
GDPR	Limited	Reasonable
Performance Management	Reasonable /Limited	Reasonable

East Kent Housing received seven follow up reviews for which the revised assurance levels were all Reasonable except one regarding Contract Management, which remains at a partially Limited assurance after follow up.

EK Services received four follow ups; the revised assurances were Substantial for one review, Reasonable for three reviews and there were none with a Limited assurance.

4.4 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its own responsibility in this area and is alert to the risk of fraud and corruption. Consequently the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. Whilst some responsive work was carried out during the year at the request of management, there were no fraud investigations conducted by the EKAP on behalf of Thanet District Council in 2018-19.

4.5 Completion of Strategic Audit Plan

Appendix 2 shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations or management requests. 284.37 audit days were completed for Thanet District Council during 2018-2019 which represents 87.94% plan completion. The 38.99 days behind at the year end, will be adjusted in 2019-20. The EKAP was formed in October 2007; it completes a rolling programme of work to cover a defined number of days each year. As at the 31st March each year there is undoubtedly some "work in progress" at each of the partner sites; some naturally being slightly ahead and some being slightly behind in any given year. However, the progress in ensuring adequate coverage against the agreed audit plan of work since 2007-08 concludes that EKAP is 38.99 days behind schedule as we commence 2019-20, as shown in the table below.

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Year	Plan Days	Plus B/Fwd	Adjusted Requirement from EKAP	Days Delivered	Percentage Completed	Days Carried Forward (Days Planned – Days Delivered)
2008-09	400	0	400.00	397.61	99.40%	-2.39
2009-10	408	2.39	410.39	399.82	97.42%	-8.18
2010-11	430	10.57	440.57	466.04	105.78%	+36.04
2011-12	342	-25.47	316.53	309.32	97.72%	-32.68
2012-13	320	7.21	327.21	318.20	97.25%	-1.80
2013-14	300	9.01	309.01	288.70	93.43%	-11.30
2014-15	300	20.31	320.31	315.67	98.55%	15.67
2015-16	300	4.64	304.64	309.28	101.52%	9.28
2016-17	300	-4.67	295.33	315.05	106.67%	15.05
2017-18	285	-19.69	265.31	226.95	85.54%	-58.05
2018-19	285	-38.86	323.86	284.37	87.94%	-0.63
Total	3670			3631.01	98.94%	-38.99

Appendix 3 shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations for East Kent Housing Ltd. Thanet District Council contributed 25 days from its original plan in 2011-12 and 20 days in subsequent years as its share in this four way arrangement. From 2017-18 an additional 15 days has been contributed to the EKH Plan from each partner taking their total plan to 140 days. The EKH Annual Report in its full format will be presented to the EKH - Finance and Audit Sub Committee on 1st July 2019.

Appendix 4 shows the planned time for reviews undertaken, against actual time taken, follow up reviews and unplanned reviews resulting from any special investigations for East Kent Services. Thanet District Council contributed 60 days from its original plan as its share in this three-way arrangement. As EKS is hosted by TDC, the EKS Annual Report in its full format is presented at Appendix 4 of this report.

5. Overall assessment of the System of Internal Controls 2018-19

Based on the work of the EKAP on behalf of Thanet District Council during 2018-19, the overall opinion is:

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There are no major areas of concern, which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance. The Council can have a good level of assurance in respect of its main financial systems and a good level of assurance in respect of the majority of its Governance arrangements. The main financial systems that have been covered, which feed into the production of the Council's Financial Statements, have achieved good levels of assurance following audit reviews. The Council can therefore be assured in these areas. This position is the result of improvements to the systems and procedures over recent years and the willingness of management to address areas of concern that have been raised.

There were two new areas where a partially limited assurance level was given which reflected a lack of confidence in arrangements. Both of these reviews have been followed up as detailed in the table at Paragraph 4.3 the remaining three areas are shown in the table in Paragraph 6 which details the planned follow up activity.

There is one area regarding Contract Management within EKH which raised concerns, when taken together with previous reviews of procurement reinforce the concerns in the overall environment of asset management. Several EKH reviews, have noted a common theme of the lack of continuity through the use of interim staff which has a potential detrimental impact upon the implementation of agreed audit recommendations. Members of this Committee should be aware of this risk as it impacts upon the risk management and internal control framework of the organisation.

6. Significant issues arising in 2018-19

From the work undertaken during 2018-19, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports by the end of the year. There are occasions when audit recommendations are not accepted for operational reasons such as a manager's opinion that costs outweigh the risk, but none of these are significant and require reporting or escalation at this time. It is particularly noteworthy to report that after follow up there were no high-risk recommendations outstanding at the year-end.

The EKAP has been commissioned to perform only one follow up, there was one review that remained a partially Limited Assurance after follow up, and three recommendations that were originally assessed as high risk, which remained a high priority and outstanding after follow up were escalated to the Governance and Audit Committee during the year.

Reviews previously assessed as providing a Limited Assurance that are yet to be followed up are shown in the table below. The progress reports for these will be reported to the Committee at the meeting following completion of the follow up.

Area Under Review	Original Assurance (Date to Committee)	Progress Report
Cash Collection	Reasonable/Limited July 2019	Quarter Three 2019-20
Asset Management	Limited December 2019	Quarter Three 2019-20

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Complaints Monitoring	Limited March 2019	Quarter Three 2019-20
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And for EK Services there were no reviews previously assessed as providing a Limited Assurance that were followed up in 2018-19. Four follow up reviews were undertaken which resulted with 1 Substantial and 3 with Reasonable assurance. There are no reviews with a limited assurance awaiting a follow up.

And for East Kent Housing there was one review remaining at partially Limited assurance after follow up, and two recommendations that were originally assessed as high risk, which remained a high priority and outstanding after follow up were escalated to the Governance and Audit Committee at the year end. There are no reviews with no or limited assurance currently awaiting a follow up.

Consequently, there are no further fundamental issues of note arising from the audits and follow up undertaken in 2018-19. There are no Thanet reviews showing a limited assurance after follow up.

7. Overall Conclusion

The Internal Audit function provided by the EKAP has performed well against its targets for the year. Clearly there have been some adjustments to the original audit plan for the year 2018-19, however, this is as expected and there are no matters of concern to be raised at this time.

It is a requirement of s.151 of the Local Government Act 1974 for the Council to maintain an 'effective' internal audit function, when forming my opinion on the Council's overall system of control, I need to have regard to the amount of work which we have undertaken upon which I am basing my opinion.

From the work undertaken the EKAP assesses the overall system of internal control in operation throughout 2018-19 as providing reasonable assurance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

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.

Performance against the agreed 2018-19 Thanet District Council Audit Plan

Area	Original Planned Days	Revised Budgeted Days	Actual days to 31-03.19	Status and Assurance Level
FINANCIAL SYSTEMS:				
Car Parking & Enforcement	10	17	17.44	Finalised - Substantial
VAT	10	10	9.96	Finalised - Substantial
RESIDUAL HOUSING SERVICES:				
Housing Allocations	10	10	10.49	Finalised - Substantial
HRA Business Plan	10	10	0	Deferred
GOVERNANCE RELATED:				
Anti-Fraud & Corruption Assurance Mapping	10	10	5.39	Finalised – N/A
Complaints Monitoring	10	13	13.11	Finalised - Limited
Corporate Advice/CMT	2	2	2.91	Completed
s.151 Officer Meetings and Support	9	9	12.26	Completed
Governance & Audit Committee Meetings and Report Preparation	12	12	12.87	Completed
2019-20 Audit Plan and Preparation Meetings	9	9	11.88	Completed
SERVICE LEVEL:				
Thanet Lottery	10	10	0	Deferred
Safeguarding Children & Vulnerable Groups	10	0	0	Deferred
Community Safety	10	10	13.22	Work-in-Progress
CCTV	10	10	9.98	Finalised - Substantial
Dog Warden & Environmental Crime Enforcement	10	10	1.57	Finalised - Substantial

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Electoral Registration & Election Management	10	10	14.17	Finalised - Reasonable
Food Safety	10	10	9.72	Finalised - Substantial
Pest Control	7	7	0	Deferred
Business Continuity & Emergency Planning	10	10	13.97	Work-in-Progress
Equality & Diversity	10	10	0.18	Deferred
Events Management	10	10	0	Deferred
Grounds Maintenance	15	15	0	Deferred
Licensing	10	10	7.79	Work-in-Progress
Museums	10	10	0.23	Deferred
East Kent Opportunities	10	10	11.26	Finalised - N/A
Street Cleansing	10	10	2.22	Work-in-progress
Employee Health, Safety & Welfare	10	10	0	Deferred
OTHER :				
Liaison With External Auditors	1	1	0.24	Completed
Follow-up Reviews	15	15	15.09	Completed
FINALISATION OF 2017-18 AUDITS:				
Days under delivered in 2017-18	0	38.36		Allocated
Service Contract Management	5	5	0.95	Finalised - Reasonable
Compliance with GDPR			14.36	Finalised - Limited
Creditors & CIS			9.79	Finalised - Substantial
Cash Collection, Income & Bank Reconciliation			15.89	Finalised – Substantial/Limited
Performance Management			14.46	Finalised – Reasonable
Asset Management			16.67	Finalised - Limited
Your Leisure			0.54	Deferred
Inward Investment			0.22	Deferred
RESPONSIVE WORK:				

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Duplicate Payments	0	0	3.24	Finalised - N/A
SHL Accounts Inspection	0	0	1.32	Finalised - N/A
Google Access Review	0	0	3.48	Finalised - N/A
Electoral Registration	0	0	7.03	Work-in-Progress
Historic England Grant	0	0	0.47	Finalised - N/A
TOTAL	285	323.36	284.37	87.94%

Performance against the Agreed 2018-19 East Kent Housing Audit Plan

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-2019	Status and Assurance Level
Planned Work:				
CMT/Finance & Audit Sub Ctte/External Audit Liaison	4	4	6.46	Completed
Follow-up Reviews	4	14	15.68	Completed
Repairs & Maintenance	30	30	18.07	Work-in-Progress
Void Property Management	20	20		
Health & Safety	20	0	0	Carried Over to 2019-20
Contract Monitoring	17	27	27.58	Finalised - Limited
Staff Performance Management	15	15	8.48	Work-in-Progress
Welfare Reform	10	10	6.14	Work-in-Progress
Resident Involvement	10	0	0.35	Carried Over to 2019-20
Service Level Agreements	10	15	15.64	Work-in-Progress
Responsive Assurance Work:				
Contract Management	0	5	4.74	Finalised
Single System – Planned Maintenance Module	0	0	0.18	Finalised
Finalisation of 2018-19 Work-in-Progress:				
Days under delivered in 2017-18	0	10.94		Allocated
Complaints Management			0.36	Finalised - Reasonable
GDPR & Information Management			4.14	Finalised - Reasonable

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Leasehold Services			1.15	Finalised - Reasonable
Tenancy & RTB Fraud Prevention			14.34	Finalised - Limited
Property Services Action Plan			8.14	Finalised - Reasonable
Total	140	150.94	131.44	87.08%

Annual Internal Audit Report for EK SERVICES 2018-19

1. Introduction/Summary

The main points to note from this report are that the agreed programme of audits has been completed with some projects being finalised as work in progress at 31st March 2019. The majority of reviews have given a substantial or reasonable assurance and there are no major areas of concern that would give rise to a qualified opinion.

The financial management of the Internal Audit cost centre held by Dover District Council has performed well and has delivered a cashable saving against budget.

Overview of Work Done

The original audit plan for 2018-19 included a total of 10 projects. We have communicated closely with the s.151 Officers and the audit committees to ensure the projects actually undertaken continued to represent the best use of resources. As a result of this liaison some changes to the plan were agreed during the year. One project was swapped at management's request to accommodate changes. The total number of projects undertaken in 2018-19 was 6, with 4 being WIP at the year end to be finalised in April. In addition 5 reviews carried over from 2017-18 were also finalised.

2. Review of the Internal Control Environment

2.1 Risks and Assurances

During 2018-19, twenty three recommendations were made in the agreed final audit reports for EK Services. These are analysed as being High, Medium or Low risk in the following table, there were no critical risks raised:

Risk Criticality	No. of Recommendations	Percentage
High	5	17%
Medium	21	73%
Low	3	10%
TOTAL	29	100%

Naturally, more emphasis is placed on recommendations for improvement regarding high risks. Any high priority recommendations where management has not made progress in implementing the agreed system improvement are brought to management and Councillors' attention through Internal Audit's quarterly update reports. During 2018-19 the EKAP has raised 29 recommendations, and whilst 90% were in the High or Medium Risk categories, none are so significant that they need to be escalated at this time.

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Internal Audit applies one of four 'assurance opinions' to each review, this provides a level of reliance that management can place on the system of internal control to deliver the goals and objectives covered in that particular review. The conclusions drawn are described as being "a snapshot in time" and the purpose of allocating an assurance level is so that risk is managed effectively and control improvements can be planned. Consequently, where the assurance level is either 'no' or 'limited', or where high priority recommendations have been identified, a follow up progress review is undertaken and, where appropriate, the assurance level is revised.

The summary of Assurance Levels issued on the 11 pieces of work completed for EK Services over the course of the year is as follows:

NB: the percentages shown are calculated on finalised reports with an assurance level

Assurance	No.	Percentage of Completed Reviews
Substantial	3	38%
Reasonable	5	62%
Limited	0	0%
No	0	0%
Work in Progress at Year-End	4	-
Not Applicable	3	-

NB: 'Not Applicable' is shown against quarterly benefit checks.

Taken together 100% of the reviews account for substantial or reasonable assurance. There were no reviews assessed as having a limited assurance.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. Understandably, the follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. The results of any follow up reviews yet to be undertaken will therefore be reported to the quarterly committee at the appropriate time:

2.2 Progress Reports

In agreeing the final Internal Audit Report, management accepts responsibility to take action to resolve all the risks highlighted in that final report. The EKAP carries out a follow up progress review at an appropriate time after finalising an agreed report to test whether agreed action has in fact taken place and whether it has been effective in reducing risk.

As part of the follow up action, the recommendations under review are either:

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- “closed” as they are successfully implemented, or
- “closed” as the recommendation is yet to be implemented but is on target, or
- (for medium or low risks only) “closed” as management has decided to tolerate the risk, or the circumstances have since changed.

At the conclusion of the follow up review the overall assurance level is re-assessed. As Internal Audit are tasked to perform one progress report per original audit and bring those findings back, it is at this juncture that any outstanding high-risks are escalated to the Governance and Audit Committee via the quarterly update report.

Four follow up reports were carried out for EK Services during the year. The results for the follow up activity for 2018-19 will continue to be reported at the appropriate time. The results in the following table show the original opinion and the revised opinion after follow up to measure the impact that the EKAP review process has made on the system of internal control.

Total Follow Ups undertaken 4	No Assurance	Limited Assurance	Reasonable Assurance	Substantial Assurance
Original Opinion	0	0	3	1
Revised Opinion	0	0	3	1

There are no fundamental issues of note arising from the audits undertaken in 2018-19. There were no reviews previously assessed as providing a Limited Assurance that required follow up. Therefore, no reviews were required to be escalated to the Audit Committees during the year.

2.3 Special Investigations and Fraud Related Work

The prevention and detection of fraud and corruption is ultimately the responsibility of management however, the EKAP is aware of its own responsibility in this area and is alert to the risk of fraud and corruption. Consequently the EKAP structures its work in such a way as to maximise the probability of detecting any instances of fraud. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or any areas where such risks exist.

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. During the year 2018-19 there have been no fraud investigations conducted by the EKAP on behalf of EK Services.

2.4 Completion of Strategic Audit Plan

The analysis in Annex A shows the individual reviews that were completed during the year. As at 31st March 2019 delivery was slightly behind plan and EKAP had delivered 180.52 days against 207.79 required (86.88%). The 27.27 days carried over will be adjusted in 2018-19 as part of the rolling three-year plan process. Some of these audits were postponed at management's request.

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The EKAP completes a rolling programme of work to cover a defined number of days each year. As at the 31st March each year there is undoubtedly some “work in progress” at each of the partner sites; some naturally being slightly ahead and some being slightly behind in any given year. The progress in ensuring adequate coverage against the agreed audit plan of work since 2011-12 concludes that EKAP is 27.27 days behind schedule as we commence 2019-20, as shown in the table below

Year	Days Required	Plus B/Fwd	Adjusted Requirement from EKAP	Days Delivered	Percentage Completed	Days Against Target
2011-12	169	0	0	143.90	85.15%	-25.10
2012-13	160	25.10	185.10	156.99	84.81%	-3.01
2013-14	160	28.11	188.11	156.96	83.44%	-3.04
2014-15	160	31.15	191.15	200.94	105.12%	+40.94
2015-16	160	-9.79	150.21	142.88	95.12%	-17.12
2016-17	160	7.33	167.33	149.63	89.42%	-10.37
2017-18	160	-17.70	177.70	129.91	73.11%	-30.09
2018-19	160	-47.49	207.79	180.52	86.88%	+20.52
Total	1289			1261.73	97.88%	-27.27

3.0 Significant issues arising in 2018-19

From the work undertaken during 2018-19, there were no instances of unsatisfactory responses to key control issues raised in internal audit reports by the end of the year. There are occasions when audit recommendations are not accepted for operational reasons such as a manager’s opinion that costs outweigh the risk, but none of these are significant and require reporting or escalation at this time.

The EKAP has been commissioned to perform only one follow up, there are no reviews previously assessed as providing a Limited Assurance that are yet to be followed up.

4.0 Overall Conclusion

The work of Internal Audit and this report contribute to the overall internal control environment operating within EK Services, and also assists in providing an audit trail to the statements that must be published annually with the financial accounts for each partner council. It is a requirement of s.151 of the Local Government Act 1974 for the Council to maintain an ‘effective’ internal audit function, when forming my opinion on the Council’s overall system of control, I need to have regard to the amount of work which we have undertaken upon which I am basing my opinion.

Based on the work of the EKAP on behalf of EK Services during 2018-19, the overall opinion is that there are no major areas of concern, which would give rise to a qualified audit statement regarding

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the systems of internal control concerning either the main financial systems or overall systems of corporate governance. The EKAP assesses the overall system of internal control in operation throughout 2018-19 as providing reasonable assurance. No system of control can provide absolute assurance, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks.

Performance against the Agreed 2018-19 East Kent Services Audit Plan

Review	Original Planned Days	Revised Planned Days	Actual days to 31-03-19	Status and Assurance Level
EKS & Civica Reviews:				
Housing Benefits Assessment	15	15	0.18	Work In Progress
Housing Benefit Testing	15	25	25.49	Finalised - N/A
Housing Benefits – DHPs	15	20	17.15	Finalised - Reasonable
Debtor Accounts	20	20	11.25	Finalised - Substantial
ICT – Network Security	15	0	0.32	Deferred to accommodate PSN
ICT – PSN Review	0	15	16.11	Finalised – N/A
ICT – PCI-DSS Compliance	15	15	6.02	Work In Progress
KPIs	5	5	0.63	Work In Progress
EKHR Reviews:				
Payroll	15	15	14.20	Work In Progress
Apprenticeships	15	15	16.00	Finalised - Substantial/Reasonable
Absence Management	15	15	18.27	Finalised - Reasonable
Other:				
Corporate/Committee	8	8	8.19	Completed
Follow up	7	7	8.81	Completed

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Days under delivered in 2017-18	0	47.79		Allocated as below
Finalisation of 2017/18 Audits:				
Housing Benefit Testing			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	180.52	86.88%

EKAP Balanced Scorecard

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INTERNAL PROCESSES PERSPECTIVE:	2018-19 Actual	Target	FINANCIAL PERSPECTIVE:	2018-19 Actual	Original Budget
	Q 4		Reported Annually		
Chargeable as % of available days	87%	80%	Cost per Audit Day	£300.38	£300.38
Chargeable days as % of planned days			Direct Costs	£402,398.02	£385,970
			+ Indirect Costs (Recharges from Host)	£10,530.00	£10,530
CCC	94%	100%	- 'Unplanned Income'	£1,801.25	Zero
DDC	102%	100%	- Credit from 2017-18 rolled forward	£14,626.77	Zero
F&HDC	88%	100%	= Net EKAP cost (all Partners)	£396,500	£396,500
TDC	88%	100%			
EKS	87%	100%			
EKH	87%	100%			
Overall	92%	100%			
Follow up/ Progress Reviews;					
· Issued	60	-			
· Not yet due	13	-			
· Now due for Follow Up	27	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

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<u>CUSTOMER PERSPECTIVE:</u>	<u>2018-19 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2018-19 Actual</u>	<u>Target</u>
Number of Satisfaction Questionnaires Issued;	60		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	23		Percentage of staff holding a relevant higher level qualification	36%	36%
= 38%			Percentage of staff studying for a relevant professional qualification	14%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	2.68	3.5
Interviews were conducted in a professional manner.	100%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	36%	36%
The audit report was 'Good' or better.	100%	90%			
That the audit was worthwhile.	100%	100%			

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ANNUAL GOVERNANCE STATEMENT 2018-2019

Governance and Audit Committee **24 July 2019**

Report Author **Director of Corporate Governance and Monitoring Officer**

Portfolio Holder **Councillor Reece Pugh - Cabinet Member for Corporate Governance and Coastal Development**

Status **For Decision**

Classification: **Unrestricted**

Ward: **All**

Executive Summary:

To provide the Governance and Audit Committee with the draft Annual Governance Statement 2018/19.

Recommendation(s):

Committee agree the draft Annual Governance Statement 2018/19 which will be shared with our external auditors for amendment (if necessary) prior to publication..

CORPORATE IMPLICATIONS

Financial and Value for Money	There are no specific cost implications arising from this report which have not already been budgeted for.
Legal	Regulation 6(1)(a) of the Accounts and Audit regulations 2015 require the council to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published statement of accounts. Regulation 6(1)(b) of the Regulations require that the statement is the Annual Governance Statement.
Corporate	The Annual Governance Statement is a corporate document and as such should be owned by all senior officers and members of the authority. Failure to accept the AGS will diminish the council's governance arrangements.
Equality 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

	<p>not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.</p> <p>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.</p>	
	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.	✓
	Engaging local communities including hard to reach groups meets a core principle of the CIPFA/ SOLACE guidance for good governance. The AGS supports the public sector equality duty directly.	

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 The annual governance statement (AGS) is a statutory document which explains the processes and procedures in place to enable the council to carry out its functions effectively.
- 1.2 The statement is produced following a review of the council's governance arrangements and includes an action plan to address any significant governance issues identified.
- 1.3 Governance and Audit Committee will consider this draft AGS and assurance gathering process. The AGS will then be audited and the Monitoring Officer will make any necessary changes before final publication on the 31 July 2019.

2.0 The Draft Annual Governance Statement

- 2.1 The draft AGS, which is attached at Annex 1, should reflect the corporate governance environment of the council as detailed in the adopted Local Code of Corporate Governance. In essence, the AGS is the formal statement that recognises, records and publishes the council's governance arrangements.
- 2.2 The AGS is a key corporate document, and the Leader and Chief Executive have

Agenda Item 6

joint responsibility as signatories for its accuracy and completeness. In order to ensure that the AGS accurately reflects our Governance Framework, a number of sources of assurance are gathered to feed into the preparation of the document. It has been consulted upon with the Leader, Chief Executive / Section 151 Officer and all members of Corporate Management Team.

- 2.3 An action plan will be developed to address the governance issues identified. This will be monitored through the council's monitoring system and an update report will be provided to Governance and Audit Committee on a quarterly basis.

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

Annex List

Annex 1	Revised Code of Corporate Governance 2018/19
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Background Papers

Title	Details of where to access copy
CIPFA/SOLACE Good Governance Framework for Local Government 2016	Copy available from Director of Corporate Governance
The Accounts and Audit Regulations 2015	http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

Corporate Consultation

Finance	Matt Sanham, Financial Services Manager
Legal	Tim Howes Director of Corporate Governance

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Thanet District Council Annual Governance Statement 2018-2019

April 2019

Scope of responsibility

Thanet District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money allocated to it is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executive's (SOLACE) Framework Delivering Good Governance in Local Government Guidance Notes for English Authorities 2016. This statement explains how Thanet District Council has complied with the code and also how we meet the requirements of the Accounts and Audit (England) Regulations 2016, which requires all relevant bodies to prepare an Annual Governance Statement.

The Code of Governance sets out the principles of good governance and describes the arrangements the Council has put in place to meet each of these principles. A copy of the Council's Code is available on our website at www.thanet.gov.uk

The purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values, by which the Council directs and controls its activities, and how it leads, engages with and accounts to the community it serves. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level. It cannot eliminate all risk of failure to achieve the Council's aims and objectives, but it seeks to provide reasonable rather than absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify, prioritise and manage the risks to the achievement of the Council's aims and objectives.

The governance framework has been in place at Thanet District Council for the year ended 31 March 2018 and up to the date of approval of the annual statement of accounts.

The Governance Framework

The Council's Governance Framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The Framework recognises that the Council's business is focussed upon its corporate priorities and seeks to facilitate delivery to our local communities of the goals set out in the Corporate Plan. The structures and processes, risk management and other internal control systems, such as standards of conduct, form part of this Framework, which is about managing the barriers to achieving the Council's objectives.

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The local Code of Corporate Governance is reviewed annually through the Governance and Audit Committee. This last happened on 6 March 2019. Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. This task is managed by the Corporate Management Team (CMT) which comprises the Chief Executive and Directors. The Code of Corporate Governance sets out the controls in full and can be found at:

<https://democracy.thanet.gov.uk/documents/s59241/Revised%20Code%20Report%202018.pdf>



Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by:

- the work of the Director of Corporate Governance and Section 151 Officer, who have responsibility for the development and maintenance of the governance environment;
- the review of the effectiveness of the Council's Internal Audit Arrangements 2017/18, as provided by the East Kent Audit Partnership;
- comments made by the external auditors and other review agencies and inspectorates;

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Annex 1

- the Audit & Governance Committee review that the elements of the governance framework are in place and effective, to ensure compliance with the principles.

A Governance Group comprising officers from legal, democratic support, finance and internal audit have considered the governance framework and areas where work is required.

The members of the Council's Corporate Management Team have considered the draft Annual Governance Statement and for each of their areas of control, acknowledge responsibility for risk management and internal control, and certifying satisfaction with the arrangements in place throughout 2018/19.

In accordance with section 3.7 of the Code of Practice on Local Authority Accounting for 2016/17, the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the CFO in Local Government (2010).

The Council's Monitoring Officer has a legal responsibility to look into matters of potential unlawfulness within the Council. In 2018/19 the Monitoring Officer reviewed the Council's constitution and these were progressed through the Constitutional Review Working Party and Standards Committee before being recommended to Council.

The Annual Reports from the Standards Committee, Overview and Scrutiny Panel and Governance and Audit Committee have also been considered in preparing this statement.

Overview and Scrutiny Panel

In 2018/19, the council created two overview and scrutiny panels which are the Executive, Policy and Community Safety Scrutiny Panel and the Finance, Budget and Performance Scrutiny Panel.

Executive, Policy and Community Safety Scrutiny Panel

During the municipal year, the Panel Chairman presented three reports to Council on the review activities that were carried out by the Panel. These activities were carried out in line with the Panel's terms of reference.

Cabinet Member Presentations

The Panel received a Cabinet Member presentation from the Deputy Leader and Portfolio holder for Operational Services, on the "effective is the delivery of Operational Services to residents that are not regularly reported on." The presentation focused on the following areas of the Service: Crematorium and cemeteries; Commercial Waste; Environmental Education; Playgrounds; Workshops & Fleet Management; CCTV; Coastal Development; Parking.

Forward Plan Reviews

In July 2018, the Panel reviewed the impact of the Public Spaces Protection Order (PSPO) after a six months implementation period. The PSPO which gave discretion and flexibility to officers to exercise enforcement where the specified conduct was causing harassment, alarm and distress

Agenda Item 6

Annex 1

detrimental to the locality, was introduced in four wards in Margate (Margate Central and Cliftonville West) and Ramsgate (Central Harbour and Eastcliff).

The Panel requested for an officer report on proposals for an asset strategy regarding Thanet Museums. Members commented on the options available to Council and officer recommendations that were to be considered by Cabinet at a later meeting to determine the future of the following museums: Dickens House, Broadstairs; Margate Museum, Margate; Tudor House, Margate; Old Town Hall, Margate.

Issues referred to the Executive Scrutiny Panel by Cabinet/Council

The Panel was consulted by Cabinet on the proposed draft Local Plan as is required by the Council constitution and made important interventions that shaped the recommendations that were forwarded to Full Council.

Call-In Procedure

Only one executive decision was called-in. This was an individual cabinet member decision on Digital Parking Pilot Project. The Panel took the view that the information used to make the decision was limited. Once additional information was provided through a question and answer session, no further action was required.

Finance, Budget and Performance Scrutiny Panel.

During this municipal year, the Panel Chairman presented three reports to Council on the review activities that were carried out by the Panel. The Panel conducted all the scrutiny work activities that are within its terms of reference.

Cabinet Member Presentations at Panel Meetings

The Panel engaged the Leader of the Council in discussion to understand the nature of the budgetary challenges affecting the running of Ramsgate Port & Harbour in order to provide suggestions that Cabinet could consider in finding a solution to those challenges.

Forward Plan Reviews

In November 2018, the Panel debated the proposed fees and charges for 2019/20 and forwarded its recommendations to Cabinet. In response, Cabinet agreed to set up an all party cabinet advisory group to look at future fees and charges. Cabinet also agreed to remove the fee for cremation services of children under the age of seventeen years.

In January 2019, the Panel was invited to review the council budget proposals for 2019/20 that were later recommended to Full Council by Cabinet. Members discussed the proposals with the Leader of the Council, Portfolio Holder for Financial Services and Estates and senior officers. One of the key aspects of the budget proposals was tackling the budget gap and in particular, addressing the budget deficit at the Port of Ramsgate. After the debate, Members did not forward any recommendations to Cabinet.

One-off Reports requested by the Panel

The panel received a presentation on temporary accommodation for homeless households. This detailed out the significant amount of work being done by the Homelessness Team to tackle homelessness in the district by providing quick response support to households that found themselves in difficult situations.

Internal Audit

The East Kent Audit Partnership report of the impact of the work of the East Kent Audit Partnership for the year to 31st March 2019. Concluded that:

The overall opinion of the System of Internal Controls in operation throughout 2018/19 based on the work of the East Kent Audit Partnership during 2018/19 will be presented in their annual report to the Governance & Audit Committee in July.

- The internal auditors are independent to the management of the Council and have direct access to the Chair of the Governance Committee if required. They provide a regular update to the Committee at each of the quarterly meetings, and attend any special meetings that may be convened during the year.
- As at 31 March 2019 the Internal Auditors completed 284 days of review equating to 88% of planned completion. The East Kent Audit Partnership (EKAP) undertake a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report that will be presented to the Governance & Audit Committee in June 2019.
- The EKAP have met as a team and considered the Public Sector Internal Audit Standards Checklist for compliance. The results of this self-assessment showed that internal audit is currently working towards full compliance and has agreed an action plan to achieve this. An external assessment, as required by the standards, has not been undertaken.
- As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self-assessment.

From the work undertaken, there are no major areas of concern which would give rise to a qualified audit statement regarding the systems of internal control concerning either the main financial systems or overall systems of corporate governance.

External Audit

In September 2018 the Council's external auditor (Grant Thornton) provided the Council with an unqualified opinion on the Council's accounts within their Annual Audit and Inspection letter, Grant Thornton also provided an unqualified opinion of the Council's arrangements to secure Value For Money.

The Letter confirmed that Grant Thornton gave an unqualified opinion on the Council's financial statements on 31 July 2018, and were satisfied that the Council had proper arrangements in place to ensure economy, efficiency and effectiveness in its use of resources.

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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 were correct, they had been produced in accordance with all relevant legislation and had been confirmed as accurate by the external auditor.

Governance and Audit Committee

Internal Audit assessed corporate governance arrangements by measuring the Council against the requirements of the governance framework outlined in the CIPFA / SOLACE publication "Delivering Good Governance in Local Government", and the results of this have been reported to the Audit and Governance Committee.

The Committee continues to discharge its responsibilities to provide independent assurance on the adequacy of the council's risk management framework and the associated control environment, and in providing robust scrutiny and challenge of the Authority's financial performance.

There has been an audit of the Council's Risk Management arrangements and Anti-Fraud and Corruption (in both cases the audit opinion was 'reasonable assurance').

There was an audit of the Local Code of Corporate Governance and as a result, the Code was updated and agreed by the Governance and Audit Committee on the 6 March 2019.

Standards Committee

A Review of Local Government Ethical Standards in England

A Review of Local Government Ethical Standards in England reported in January 2009. The review report states that the vast majority of councillors elected to local authorities throughout the country maintain the highest standards of conduct. However, a small minority do not.

These are welcome changes and reflect some of the submissions made by the Chair of Standards. Implementing the report recommendations will require some changes requiring primary legislation (i.e parliamentary time) and thus the challenge of gaining this when other more immediate matters of national concern are preoccupying parliament at present, may delay progress.

Complaints under the Code of Conduct

Overall therefore during 2018/19 there was a welcome reduction in the number of complaints both received in absolute terms, managed through the complaints process, and most importantly in being found to be of substance.

From the perspective of managing the complaints process the informal performance management standard of an average acknowledgement from receipt of 3 working days, and an average of 28 days to the meeting of an assessment Sub Committee, has been maintained.

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Annex 1

The Council received 21 complaints, of these 17 did not pass the initial jurisdiction test and therefore were rejected. The remaining 4 progressed for further scrutiny. Of these 2 cases were found to have potentially breached the Code of Conduct, but their nature was such that Informal Resolution was judged the appropriate sanction, typically a letter of admonishment from the Monitoring Officer. One complaint (concerning a Parish/Town councillor) was judged to warrant formal investigation and found proven. In the final case one member complaining about the actions of another it was determined by the relevant sub committee that no further action was the appropriate response.

One investigation raised a concern over the public speaking rules at the Planning Committee, these will be reviewed in the coming year, as part of the regular review of the constitution.

Training

Thanet District Council has been awarded Charter status for Elected Member Development and is only one of three Councils in Kent to be so designated, one of the other two being KCC.

Standards Ethics and Governance

Finally on 27th November a specially convened Full Council was presented with the formality of a Monitoring Officer Report stating the full legal position and consequent risks of not making the vacancy declaration. Only then was the declaration of vacancy passed albeit still with some reluctance in some quarters.

Through its adoption of the local code of Corporate Governance 2016 (as updated regularly since) Members are committed to respect legal provision notwithstanding that on occasions, such as this instance, it can have uncomfortable or 'disappointing' consequences. Respect for the rule of law also has direct resonance with the Members Code of Conduct and with the Seven Principles of Public Life. It should not have taken three meetings, two of which had to be specially convened to get this vacancy declaration moved.

Serious consideration should be given to the constitutional change necessary that future ward vacancies are, as an administrative function, declared by the Council Chief Executive in line with other casual vacancies.

Constitutional Review Working Party (CRWP)

CRWP has met three times this year. On 14th June 2018 it considered proposed changes to Overview and Scrutiny procedures; meeting 14th August it received proposals of East Kent wide application for Standing Orders for Contracting processes; on 22nd January 2019 it recommended mandatory training for Members of Regulatory Committees, this latter being commended to the Council as current best practice.

Correspondingly the Standards Committee met on 26th June 2018 and 11th September to review CRWPs deliberations and also at the latter also to receive the Local Government Ombudsman's Annual Letter. The infrequency of CRWP meetings continues to be a testament to the considerable work to overhaul the Council's Constitution during the period 2015/16. Meetings of the Standards

Committee whilst scheduled in annual meetings cycle are held only whenever there are issues to be discussed and do not meet merely for the sake of fulfilling a schedule.

Corporate Risks

The following corporate risks relate to significant governance issues.

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 budget.

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 adopted, it is still evident that there remain ongoing issues which could have a significant effect on the council. The council continues to pursue opportunities to support cross-party working and member training.

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.

Brexit

The UK is due to leave the European Union in October 2019. UK Government is continuing to work on arriving at an agreed deal on exit. 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.

These risks will be managed by the Corporate Management Team and will be reported separately to the Governance and Audit Committee.

Ombudsman Complaints

The Ombudsman received 49 complaints or inquiries during the year, and 44 decisions were made, of which: advice was given in 1 case, 23 were referred back for local resolution, 10 were closed after initial inquiries, 5 were not upheld and 5 were upheld.

The 'upheld' rate was 50% (compared to 63% in 2017/18). The Ombudsman issued no public reports against the Council.

There were no complaints which resulted in recommended actions with regard to significant governance matters.

Monitoring Officer's Report

On the 27 November 2018 the Monitoring Officer issued a report under the Local Government and Housing Act 1989. This followed a decision on the 15 October 2018, where the Council voted against declaring a vacancy in the office of councillor for Margate Central Ward, contrary to Section 86 of the Local Government Act 1972.

Whilst the vacancy was finally declared on the 27 November 2018, the delay by Council in declaring the vacancy meant that Margate Central Ward remained without an elected councillor until the May 2019 elections.

Further consideration needs to be given about the method of declaring casual vacancies in the future, to ensure that the law is applied and that vacancies are filled as soon as practicable.

Local Plan Process

The failure to maintain the local plan timetable and adopt the Local Plan, led to intervention by the Ministry of Housing, Communities & Local Government in late March 2018. In summary, in January 2018, the District Council resolved to reject the recommendation of officers to publish the draft Local Plan and therefore failed to meet its deadline for publication of a Plan, in accordance with our published Local Development Scheme.

The Council's argument to justify this failure set out two inter-related circumstances – the local debate over the future of Manston Airport and the need to undertake further work to identify alternative sites after the Plan failed to proceed.

The Local Plan was subsequently published and in January 2019, the Minister made the following directions in relation to the preparation of the Thanet Local Plan: (a) the Council to designate a lead Councillor and lead official to be responsible for progressing preparation of the Local Plan and (b) to publish details of those designations. These actions were taken by the Council.

Significant Governance Issues

Working towards good governance includes being open and transparent and supporting accountability to the public. The governance statement is one way of being more open about what is working well and what needs improvement. It is highly unlikely that everything will be 'fit for purpose': new risks emerge, expectations increase and controls change.

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In concluding this overview of the Council's governance arrangements, the following issues have been identified that need to be addressed to ensure continuous improvement in the Governance Framework. The aim is to address these weaknesses during the 2019/20 financial year, by way of an action plan for improving the governance framework and system of internal control. This will be subject to regular monitoring by the Committee.

Issue No.	Issues Identified	Summary of Action Proposed
1.	Corporate Risks: <ul style="list-style-type: none"> • Limited Resources • Political Stewardship • Homelessness • Brexit 	These corporate risks will be monitored by the Corporate Management Team and reported to the Governance and Audit Committee
2.	Process of declaring casual vacancies	This will be reviewed and reported back to Council with recommendations
3.	Financial Regulations are out of date and need to be refreshed	This review will be led by the Head of Financial Services and reported via CRWP and the Standards Committee to Council
4	Annual review of the Constitution	This will include: <ul style="list-style-type: none"> • Planning Committee speaking rules and other committee procedural matters • Council petition scheme • Legal rules • Timetable for questions to Council
5	Audit reports with governance implications	The implementation of governance based recommendations from internal audit reports will be managed through the Governance and Audit Committee
6	Clarity is required to support decision making, on the definition of policies, frameworks and strategies	A report and algorithm will be created to ensure documents are adequately described so that they agreed at the appropriate level of decision-making.
7	Member induction and training	Following the May 2019 elections a new member induction process will be implemented. This will be overseen by the Member Training Group
8	Newly published statutory guidance on overview and scrutiny	The guidance will be implemented as part of the constitutional review, through discussions with political groups and via training.

Approval of the Annual Governance Statement

The governance arrangements continue to be regarded as fit for purpose in accordance with the Governance Framework.

Signed Madeline Homer
Madeline Homer
Chief Executive

Date July 2019.

Signed
Cllr Robert Bayford
Leader of the Council

Date July 2019

Homes England Audit 2017/18

Governance and Audit	24th July 2019
Report Author	Bob Porter, Head of Housing & Planning
Portfolio Holder	Cllr Lesley Game, Cabinet Member for Housing and Safer Neighbourhoods
Status	For Information
Classification:	Unrestricted
Key Decision	No
Ward:	All Wards

Executive Summary:

As part of our Homes England contract it is necessary to undertake a compliance audit to ensure compliance with Homes England's policies, procedures and funding conditions. Standardised checks are made by Independent Auditors on an agreed sample of Homes England schemes under the affordable housing programmes. The Homes England Lead Auditor reviews the findings and records those determined to be 'breaches' in the report. TDC received final grade green which confirms that the Council met all contractual and programme requirements.

Recommendation(s):

The committee is asked to note the final grade award of Green, no breaches identified.

CORPORATE IMPLICATIONS

Financial and Value for Money	<p>The external audit process undertaken by Homes England is an important part of ensuring that the Council has taken the necessary steps in accounting for expenditure in relation to the selected scheme properly and in accordance with grant requirements.</p> <p>Should the audit highlight issues, grant repayment is a likely outcome and so by ensuring processes are in place not only is the chance of repayment derisked, but value for money can be demonstrated efficiently.</p>
Legal	<p>There are no specific legal implications arising from this report, However compliance with this audit regime supports our governance arrangements.</p>
Corporate	<p>Corporate Priority 2 Supporting Neighbourhoods.</p> <p>Partnership working with Homes England is pertinent to Thanet District Council. The HE contract is an important part of our New Build development programme and essential to deliver new homes within the district.</p>

Equality Act 2010 & Public Sector Equality Duty	<p>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.</p> <p>Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.</p>								
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="padding: 2px;">Please indicate which aim is relevant to the report.</td> </tr> <tr> <td style="width: 80%; padding: 2px;">Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,</td> <td style="width: 20%;"></td> </tr> <tr> <td style="padding: 2px;">Advance equality of opportunity between people who share a protected characteristic and people who do not share it</td> <td></td> </tr> <tr> <td style="padding: 2px;">Foster good relations between people who share a protected characteristic and people who do not share it.</td> <td></td> </tr> </table>		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.	
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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.									

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 The compliance audit programme provides assurance that organisations receiving grant have met with all Homes England's requirements and funding conditions, and that providers have properly exercised their responsibilities as set out in the capital funding guide.

This audit is part of the 2016-2021 Shared Ownership and Affordable Homes Programme.

2.0 The Current Situation

2.1 Thanet District Council are registered as a provider under the Homes England Shared Ownership and Affordable Homes 2016- 2021 programme.

2.2 The Homes England Annual Compliance Audit programme provides assurance that organisations receiving grant have met all the Homes England's requirements and funding conditions, and that providers have properly exercised their responsibilities as set out in the capital funding guide.

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- 2.3 Standardised checks are made by provider appointed Independent Auditors on an agreed sample of schemes which have received Homes England funding under current affordable housing programmes.
- 2.4 During the audit, the Independent Auditor checks the scheme for compliance using questions from Homes England published checklists. The Independent Auditor reviews the information contained on file and reports any findings against Homes England policy and procedures.
- 2.5 The Homes England Lead Auditor reviews the Independent Auditor findings and records any breaches. Breaches are used as the basis for awarding grades to providers. The Compliance Audit Report awards providers a red, amber or green grade based on the number and severity of breaches recorded.
- 2.6 Green Grade - the provider meets requirements through identifying no high or medium breaches. Amber Grade - one or more high or medium breaches but not misapplied public money. Red Grade - one or more high level breaches and there has been a risk of misapplication of public funds.
- 2.7 Thanet District Council's compliance audit has recorded no breaches of contract conditions. A green grading has been issued that confirms that the provider has met all contractual and programme requirements.

3.0 Options

- 3.1 The contents of the report should be acknowledged by the Chair of the Governance and Audit committee.

Contact Officer:	Ashley Jackson
Reporting to:	Amena Matin, Housing Projects and Strategy Manager

Annex List

Annex 1	Compliance Audit Report 2018/9
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Corporate Consultation

Finance	<i>(Insert name and job title)</i>
Legal	Tim Howes, Director of Corporate Governance

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Compliance Audit Report – 2018/19

29UN – Thanet District Council

Provider Code	29UN
Provider Name	Thanet District Council
Final Grade	Green - Meets requirements
Independent Auditor	Grant Thornton
Homes England Lead Auditor	Becky Ashley
Homes England Head of Home Ownership and Supply	Carol Cairns

Report Objectives and Purpose

Compliance Audits check Provider compliance with Homes England’s policies, procedures and funding conditions. Standardised checks are made by Independent Auditors on an agreed sample of Homes England schemes funded under affordable housing programmes. Any findings, which may be a result of checks not being applicable to the scheme or an indication of procedural deficiency, are reported by the Independent Auditor to both the Provider and Homes England concurrently. The Homes England Lead Auditor reviews the findings and records those determined to be ‘breaches’ in this report. Breaches are used as the basis for recommendations and final grades for Providers. Grades of green, amber or red are awarded; definitions are provided at the end of this document.

Further information is available at: <https://www.gov.uk/guidance/compliance-audit>.

Confidentiality

The information contained within this report has been compiled purely to assist Homes England in its statutory duty relating to the payment of grant to the Provider. Homes England accepts no liability for the accuracy or completeness of any information contained within this report. This report is confidential between Homes England and the Provider and no third party can place any reliance upon it.

Compliance Audit Grade and Judgement

Final Grade	Green - Meets requirements
Judgement Summary	The compliance audit has recorded no breaches of contract conditions. A green grading has been issued that confirms that the Provider has met all contractual and programme requirements.

Audit Results

Number of Schemes Audited	1
Number of Breaches Assigned	0
Number of High Severity Breaches	0
Number of Medium Severity Breaches	0
Number of Low Severity Breaches	0

Scheme details

Scheme no	Address	Scheme type
816514	Perkins Avenue, Margate, CT9 4AX	Housing for Rent

Provider's Acknowledgement of Report

The contents of this report should be acknowledged by your Board's Chair or equivalent. Confirmation of this acknowledgement should be record in the IMS Compliance Audit Module by your CA Provider Lead on behalf of your Board's Chair. Online acknowledgement should be completed within one calendar month of the report email notification being sent.

Report acknowledged by:

Date:

Compliance Grade Definitions

Green Grade	The Provider meets requirements: Through identifying no high or medium breaches, the Compliance Audit Report will show that the Provider has a satisfactory overall performance, but may identify areas where minor improvements are required.
Grade Amber	There is some failure of the Provider to meet requirements: Through identifying one or more high or medium breaches, the Compliance Audit Report will show that the Provider fails to meet some requirements, but has not misapplied public money. The Provider will be expected to correct identified problem(s) in future schemes and current developments.
Grade Red	There is serious failure of the Provider to meet requirements: Through identifying one or more high level breaches, the Compliance Audit Report will show that the Provider fails to meet some requirements and there is a risk of misuse of public funds. The Provider will be expected to correct identified problem(s) in future schemes and current developments.

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CORPORATE RISK MANAGEMENT - QUARTERLY UPDATE

24 July 2019	Governance and Audit Committee
Report Author	Tim Willis, Deputy Chief Executive and s151 Officer
Portfolio Holder	Councillor Pugh, 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

	<p>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.</p> <p>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.</p>	
	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.	
	<p>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.</p>	

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 reasonably 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). 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 6 March 2019. 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	Mar 19 Score	Jun 19 Score	Change
CR-05	Political Stewardship	16	16	No change
CR-01	Limited Resources	16	12	Reduced
CR-10	EKH Health & Safety	-	16	New
CR-09	Brexit	12	12	No change

- 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, as following the local elections the Council remains in no overall control. It is still evident that there remain ongoing issues which could have a significant effect on the council. The council continues to pursue opportunities to support cross-party working and has implemented induction training for new members post election.

- 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.

Due to national political uncertainty and an unresolved Brexit, the chances of a three-year Spending Review this year look unlikely and councils may instead face a 'one-year roll-over settlement'. This has severe implications for accurate financial planning in the MTFP and any longer term planning.

Due to the government's focus on Brexit, the Fair Funding Review, planned to be implemented in 2020-21 is also at risk of slipping to 2021-22.

Therefore, the likelihood and 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) remains high, not only now but for the immediate future.

- 3.3 **Brexit** - The UK is now due to leave the European Union on 31 October 2019. UK Government is continuing to work on arriving at an agreed deal on exit. 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.

4.0 **New Risks**

- 4.1 **East Kent Housing Performance:** Deteriorating performance of EKH results in unacceptable risks to TDC tenants and residents. On 15 January 2019 an EKH improvement plan was approved by Cabinet that came into effect on 1 April 2019 and runs through to 30 September 2020.

As a result of the plan, EKH are being closely measured on their key performance indicators. Recently a lack of gas safety certificates for a high number of properties across Dover, Canterbury, Folkestone and Hythe and Thanet has raised the risk profile of EKHs ability to meet all aspects of the improvement plan.

TDC alongside the other council's are now reviewing the current arrangements with EKH.

5.0 **Risk management strategy and processes**

- 5.1 A report went to G&A on 6 March 2019 detailing proposed changes to the Risk Management Strategy and these are to be implemented over the coming months.

6.0 **Recommendation**

- 6.1 To note the report.

Contact Officer:	Chris Blundell, Head of Financial and Procurement Services
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Agenda Item 8

Reporting to:	Tim Willis, Deputy Chief Executive and S151 Officer
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Annex List

N/A	
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Corporate Consultation

Finance	Chris Blundell, Head of Financial and Procurement Services
Legal	Tim Howes, Director of Corporate Governance

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ANNUAL TREASURY MANAGEMENT REVIEW 2018-19

Meeting	Governance & Audit Committee – 24 July 2019
Report Author	Tim Willis, Deputy Chief Executive and Section 151 Officer
Portfolio Holder	Cllr David Saunders, Cabinet Member for Financial Services and Estates
Status	For Decision
Classification:	Unrestricted
Key Decision	No
Reasons for Key (if appropriate)	N/A
Previously Considered by	N/A
Ward:	N/A

Executive Summary:

This report summarises treasury management activity and prudential/ treasury indicators for 2018-19.

Recommendation(s):

That the Governance & Audit Committee:

- Notes the actual 2018-19 prudential and treasury indicators in this report.
- Approves the Annual Treasury Management report for 2018-19.
- Recommends this report to council.

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

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

1.0 Introduction and Background

- 1.1 This council is required by regulations issued under the Local Government Finance Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018-19. This report meets the requirements of both the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2 During 2018-19 the minimum reporting requirements were that the full council should receive the following reports:
- an annual treasury strategy in advance of the year (council 08-02-2018)
 - a mid-year treasury update report (council 07-02-2019)
 - an annual review following the end of the year describing the activity compared to the strategy (this report)
- 1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the council's policies previously approved by members.
- 1.4 This council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee before they were reported to the full council. Member training on treasury management issues was last undertaken on 21-09-2015 in order to support members' scrutiny role, and further training will be arranged following the local elections in May 2019. The council's external treasury management advisor is Link Asset Services (Link).

1.5 The council's 2018-19 accounts have not yet been audited and hence the figures in this report are subject to change.

2.0 The Council's Capital Expenditure and Financing

2.1 The council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£000	2017-18 Actual	2018-19 Budget	2018-19 Actual
Capital expenditure - GF	6,234	13,512	9,945
Capital expenditure - HRA	4,492	7,408	5,435
Capital expenditure - Total	10,726	20,920	15,380
Financed by:			
Capital receipts	2,250	4,816	3,182
Capital grants	3,582	6,368	3,517
Revenue and reserves	3,484	5,104	4,639
Borrowing	1,410	4,632	4,042
Total	10,726	20,920	15,380

2.2 Full details of capital expenditure and explanations of variances from budget will be reported within the Financial and Performance Monitoring Outturn Report to Cabinet in September.

3.0 The council's Overall Borrowing Need

3.1 The council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge for the council's debt position and represents the 2018-19 and historic net capital expenditure which has not yet been charged to revenue. The process for charging the capital expenditure to revenue is a statutory requirement and is called the Minimum Revenue Provision (MRP)*. The council has the option to charge more than the statutory MRP each year through Voluntary Revenue Provision (VRP). The council's CFR for the year is shown below, and represents a key prudential indicator. The total CFR can also be reduced by the application of additional capital resources (such as unapplied capital receipts).

*In effect this is the amount required to be set aside for the eventual loan repayment

3.2 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017-18) plus the estimates of any additional capital financing requirement for the current (2018-19) and next two financial years. This essentially means that the council is not borrowing to support revenue expenditure. This indicator allowed the council some flexibility to borrow in advance of its immediate capital needs in 2018-19. The table below highlights the Council's gross borrowing position against the CFR. The council has complied with this prudential indicator.

£000	31 March 2018 Actual	31 March 2019 Budget	31 March 2019 Actual
CFR GF	23,812	27,086	26,497
CFR HRA	20,787	20,786	20,786
Total CFR	44,599	47,872	47,283
Gross borrowing position	31,086	35,133	30,456
Underfunding of CFR	13,513	12,739	16,827

3.3 **The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2018-19 the Council has maintained gross borrowing within its authorised limit.

3.4 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

3.5 **Actual financing costs as a proportion of 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.

£000	2018-19
Authorised limit	£87,000
Maximum gross borrowing position during the year	£31,086
Operational boundary	£77,000
Average gross borrowing position	£30,711
Financing costs as a proportion of net revenue stream - GF	6.1%
Financing costs as a proportion of net revenue stream -HRA	5.2%

4.0 Treasury Position as at 31 March 2019

4.1 At the beginning and the end of 2018-19 the council's treasury (excluding borrowing by private finance initiatives (PFI) and finance leases) position was as follows:

Table 1 - Overall Treasury Position as at 31 March 2019

	31 March 2018 Principal £'000	Rate/ Return	Average Life Years	31 March 2019 Principal £'000	Rate/ Return	Average Life Years
GF debt	11,046	3.15%	13.9	10,416	3.22%	13.8
HRA debt	20,040	4.03%	8.1	20,040	4.03%	7.3
Total debt (all fixed rate)	31,086	3.71%	10.2	30,456	3.75%	9.5
GF CFR	23,812			26,497		
HRA CFR	20,787			20,786		
Total CFR	44,599			47,283		
Under-borrowing	(13,513)			(16,827)		
Total investments	40,882	0.36%		41,673	0.69%	
Net debt / (investment)	(9,796)			(11,217)		

4.2 All of the debt is from PWLB apart from the following GF loans (as at 31 March 2019):

Market: £4,500k principal at 4.19% with an average life of 0.5 years.

Salix: £30k principal at 0.00% with an average life of 1.5 years.

4.3 The maturity structure of the debt portfolio was as follows:

£000	31 March 2018 actual	2018-19 upper limits	31 March 2019 actual
Under 1 year	5,131	15,228	9,932
1 year to under 2 years	5,432	15,228	631
2 years to under 5 years	5,144	15,228	4,772
5 years to under 10 years	3,006	16,751	2,835
10 years to under 20 years	6,453	15,228	8,366
20 years to under 30 years	3,000	15,228	1,000
30 years to under 40 years	1,920	15,228	1,920
40 years to under 50 years	1,000	15,228	1,000
50 years and above	0	15,228	0
Total debt	31,086		30,456

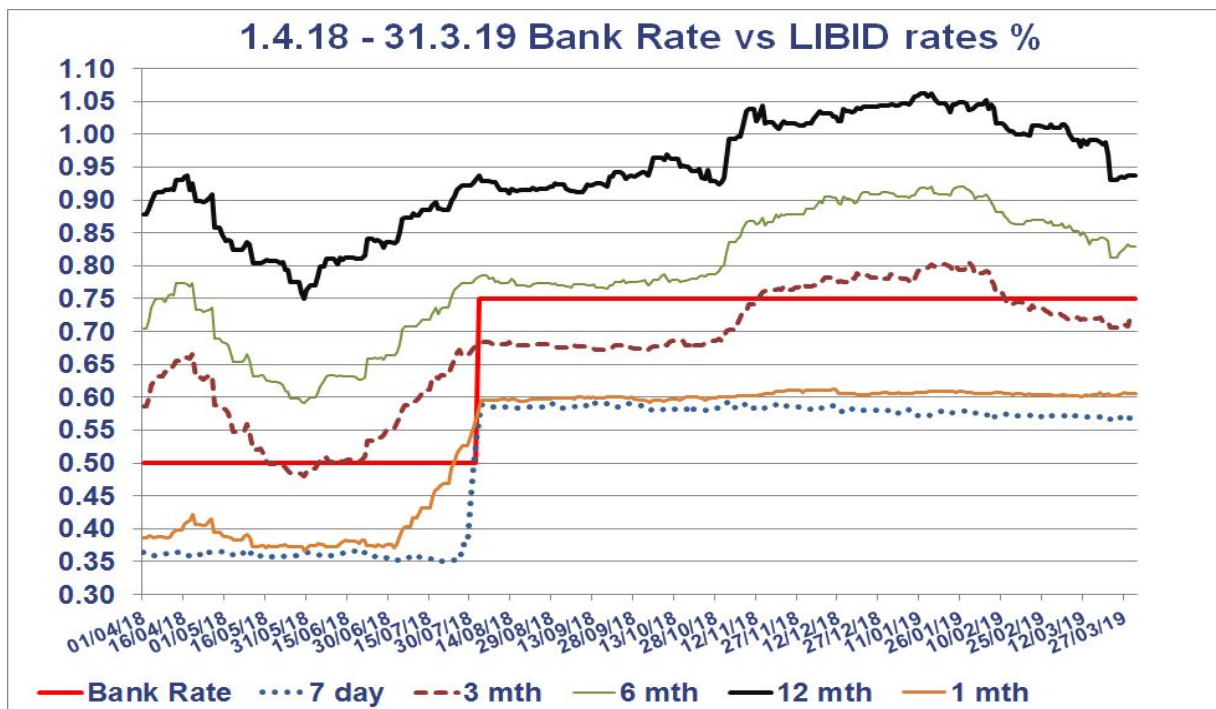
4.4 The composition of the investment portfolio was as follows:

	31 March 2018 actual £000	31 March 2018 actual %	31 March 2019 actual £000	31 March 2019 actual %
Banks - Instant Access	3	0.01	3	0.01
Banks - Notice Accounts	0	0.00	4,453	10.68
Banks - Fixed Term Deposits	17,811	43.56	13,414	32.19
Money Market Funds	23,068	56.43	23,803	57.12
Total Treasury Investments	40,882	100.00	41,673	100.00

4.5 All investments at both the 2017-18 and 2018-19 year-ends were for under one year.

5.0 The Strategy for 2018-19

5.1 Investment strategy and control of interest rate risk



5.1.1 Investment returns remained low during 2018-19. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of the increase in Bank Rate from 0.50% to 0.75% was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018.

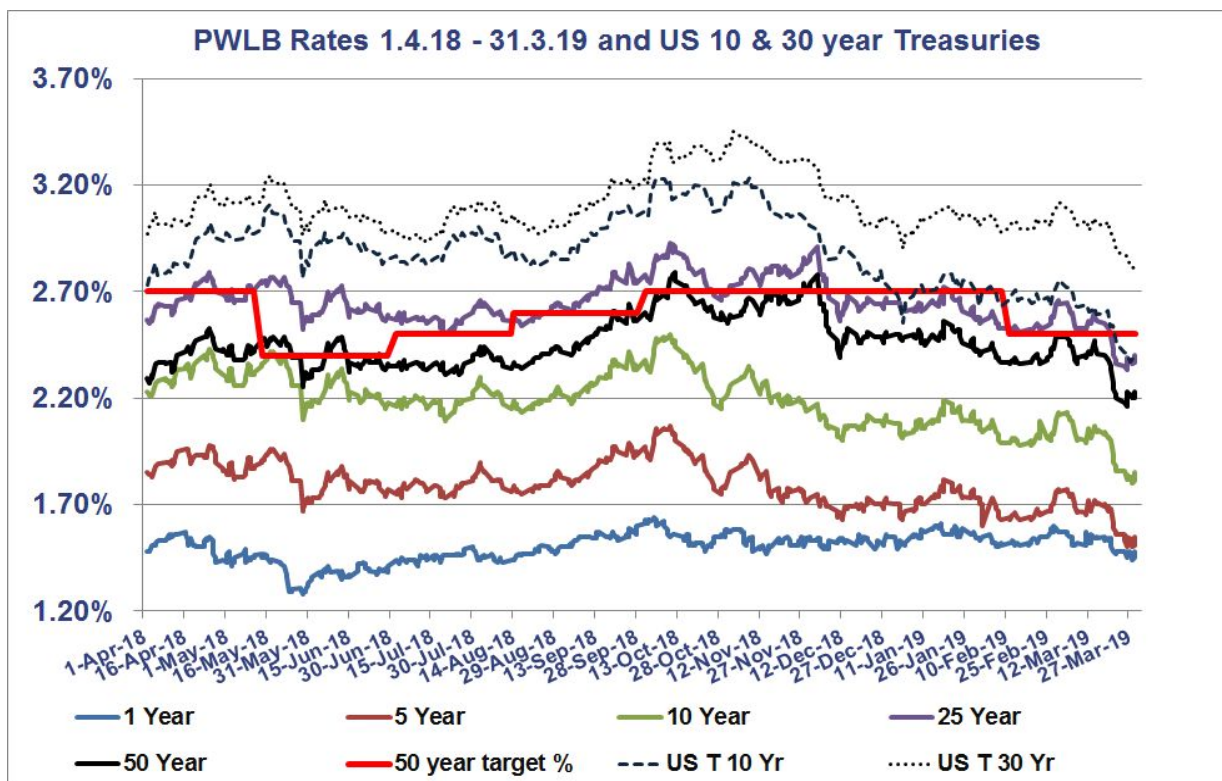
- 5.1.2 It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019.
- 5.1.3 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.
- 5.1.4 Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5.2 Borrowing strategy and control of interest rate risk

- 5.2.1 During 2018-19, the council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.
- 5.2.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- 5.2.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 5.2.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:
- if it had been 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 would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
 - if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

5.2.5 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018-19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View 12.2.18													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%



5.2.6 Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December and (apart from the 1 year rate) reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields - which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018 that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed came round to the view that there are probably going to be no more increases in this cycle and the issue became how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looked to be the outlook for China and the EU which meant that world growth as a whole would be weak.

Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

5.3 **Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2018-19 approved by the council on 08-02-18 was not revised during 2018-19.

6.0 Borrowing Outturn for 2018-19

6.1 **Borrowing** – Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

6.2 **Borrowing in advance of need** - The council has not borrowed more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.

6.3 **Rescheduling** – No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

6.4 **Repayments** – The council repaid £630k of maturing debt using investment balances, as below:

Lender	Principal £'000	Interest Rate	Repayment Date
Salix	4	0.00%	01-04-18
PWLB	43	3.08%	23-04-18
PWLB	50	2.48%	27-05-18
PWLB	146	1.97%	27-05-18
PWLB	72	1.28%	20-06-18
Salix	4	0.00%	01-10-18
PWLB	43	3.08%	23-10-18
PWLB	50	2.48%	27-11-18
PWLB	146	1.97%	27-11-18
PWLB	72	1.28%	20-12-18
Total	630		

6.5 **Summary of debt transactions** – The average interest rate on the debt portfolio increased from 3.71% to 3.75% during the year. This was due to the repayment of maturing debt as shown above.

7.0 Investment Outturn for 2018-19

7.1 **Investment Policy** – the council’s investment policy is governed by the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the council on 8 February 2018. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

7.2 The investment activity during the year conformed to the approved strategy, and the council had no liquidity difficulties.

7.3 **Resources** - the council's cash balances comprise revenue and capital resources and cash flow monies. The council’s core cash resources comprised as follows:

Balance Sheet Resources £000	31 March 2018	31 March 2019
GF Balance	2,011	2,011
Earmarked Reserves	13,021	13,998
HRA Balance	7,753	9,307
Capital Receipts Reserve	9,221	9,437
Major Repairs Reserve	10,019	12,765
Capital Grants Unapplied	43	43
Total Usable Reserves	42,068	47,561

7.4 Investments held by the council

- The council maintained an average balance of £47.289m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.69%.
- The comparable performance indicator is the average 7-day London Interbank Bid Rate (LIBID) rate, which was 0.51%.
- This compares with an original budget assumption of £25m investment balances earning an average rate of 0.25%.
- Total investment income was £328k compared to a budget of £63k.

7.5 **Investments held by fund managers** – the council does not use external fund managers.

8.0 Investment risk benchmarking

8.1 The following investment benchmarks were set in the council’s 2018-19 annual treasury strategy:

8.2 **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.

8.3 **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.

8.4 **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

8.5 The council kept to the above benchmarks during 2018-19.

9.0 Options

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

- Notes the actual 2018-19 prudential and treasury indicators in this report.
- Approves the Annual Treasury Management report for 2018-19.
- Recommends this report to council.

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

10.0 Next Steps

10.1 This report is to go to Cabinet and council for approval. Cabinet and council meetings are on 19 September 2019 and 10 October 2019 respectively.

11.0 Disclaimer

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

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Annex List

Annex 1	Report Guidance
Annex 2	Abbreviations and Definitions

Corporate Consultation Undertaken

Finance	Chris Blundell, Head of Financial Services
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Annex 1: Report Guidance

Capital Expenditure and Financing

This section includes the council's debt and Capital Financing Requirement (CFR) split between its General Fund (GF) and Housing Revenue Account (HRA). The HRA is a 'ring-fenced' account for local authority housing.

The CFR represents the council's aggregate borrowing need (the element of the capital programme that has not been funded). The council's debt should not normally be higher than its CFR as explained in the report.

Borrowing Need

PWLB 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 (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.

Borrowing and Investments

Borrowing limits – there are various general controls on the council's borrowing activity (operational boundary, authorised limit and maturity profiles).

General controls on the council's investment activity, to safeguard the security and liquidity of its investments, include:

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.
- Minimum size of the Council's bank overdraft facility.

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Annex 2: Abbreviations and Definitions

- ALMO** an Arm's Length Management Organisation is a not-for-profit company that provides housing services on behalf of a local authority. Usually an ALMO is set up by the authority to manage and improve all or part of its housing stock.
- LAS** Link Asset Services, Treasury solutions – the council's treasury management advisers.
- CE** Capital Economics - is the economics consultancy that provides Link Asset Services, Treasury solutions, with independent economic forecasts, briefings and research.
- CFR** Capital Financing Requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.
- CIPFA** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.
- CPI** Consumer Price Inflation – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.
- ECB** European Central Bank - the central bank for the Eurozone.
- EU** European Union.
- EZ** Eurozone -those countries in the EU which use the euro as their currency.
- Fed** The Federal Reserve, often referred to simply as "the Fed," is the central bank of the United States. It was created by Congress to provide the nation with a stable monetary and financial system.
- FOMC** The Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.
- GDP** Gross Domestic Product – a measure of the growth and total size of the economy.
- G7** The group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.
- Gilts** Gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt (unless a gilt is index linked to inflation). While the coupon rate is fixed, the yields will change inversely to the price of gilts, i.e. a rise in the price of a gilt will mean that its yield will fall.
- HRA** Housing Revenue Account.

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Annex 2

- IMF** International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.
- LIBID** The London Interbank Bid Rate is the rate bid by banks on deposits, i.e. the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).
- MHCLG** The Ministry of Housing, Communities and Local Government - the Government department that directs local authorities in England.
- MPC** The Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.
- MRP** Minimum Revenue Provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR (the total indebtedness of a local authority).
- PFI** Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.
- PWLB** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.
- QE** Quantitative Easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, like government bonds (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to ‘cool’ the economy.
- RPI** The Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.
- TMSS** The annual Treasury Management Strategy Statement report that all local authorities are required to submit for approval by the full council before the start of each financial year.
- VRP** A Voluntary Revenue Provision to repay debt, in the annual budget, which is additional to the annual MRP charge (see above definition).