Public Document Pack

Draft for CMT Review – 15/11/22

Date: **21 November 2022**
Our Ref: **Governance & Audit Committee/Agenda**
Ask For: **Steven Matthews**
Direct Dial: **(01843) 577207**
Email: **charles.hungwe@thanet.gov.uk**

thanet district council

GOVERNANCE & AUDIT COMMITTEE

30 NOVEMBER 2022

A meeting of the Governance & Audit Committee will be held at **7.00 pm on Wednesday, 30 November 2022** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillor Boyd (Chair); Councillors: Dexter (Vice-Chair), Braidwood, Duckworth, Garner, Hopkinson, Kup, Leys, Pat Moore, Shrubb, Towning and Whitehead

A G E N D A

Item No	Subject

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 - 8)

   To approve the Minutes of the Governance and Audit Committee meeting held on 28/09/2022, copy attached.

4. **AN UPDATE ON CORPORATE PROPERTY ISSUES**

5. **ICT SECURITY UPDATE**

6. **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 9 - 30)

7. **RISK MANAGEMENT** (Pages 31 - 46)

   Further updates to this item are to follow.

8. **MID YEAR REVIEW 2022-23: TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY** (Pages 47 - 70)

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

Item No | Subject

9. **DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2023-24** (Pages 71 - 112)

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

thanet
district council

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 & AUDIT COMMITTEE

Minutes of the meeting held on 28 September 2022 at 7.00 pm in Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor Kerry Boyd (Chair); Councillors Dexter, Duckworth, Garner, Hopkinson, Shrubb, Towning, Wright and Yates

In Attendance:

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Braidwood, Kup, Leys and Whitehead. Councillor Yates was present as a substitute for Councillor Whitehead.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF PREVIOUS MEETING

Councillor Duckworth proposed, Councillor Towning seconded and members AGREED to approve the minutes of the meeting held on 27 July 2022.

Chris Blundell, Deputy Executive Officer and Section 151 Officer offered an update of the matters arising from those minutes.

There was a request for the Director of Property to update the committee on service issues regarding commercial letting and the portfolio. The approach for it is still currently being developed and for the correct amount of resources made available. He is to be invited to the November meeting in order to give update.

The head of IT has also been invited to the next panel in November in order to discuss the risks of home working and recycling of older IT equipment.

4. QUARTER 1 REVIEW 2022-23: TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY

Chris Blundell, Deputy Executive Officer and Section 151 Officer, introduced the update report making the following key points:

- It comes from a request from the committee to review the investment strategy and is a holding report to give committee members an idea of how TDC performed in the first quarter of the financial year
- The November meeting will have a much more in depth review
- The council is currently in a good position because the investments pursued have been short, dated and liquid
- All borrowing is fixed and interest rates will not vary, the investments themselves are variable in nature
- We’re expecting to see bank rates to get to around 5-6% over the next 6 months
- The Bank of England are predicting interest rates go to 4% by December, but it could be sooner
- We stand to generate more interests from the investments we hold
- We have £50,000,000 in the investment balance with an interest of 5% the council stands to make £2,500,000 across the year for 2023

- Inflation needs to be considered going forward
- Diesel costs are expected to go up with fuel costs peaking around £50,000 per month. They're expected to come down but they will increase again
- We would like to continue internal borrowing using the £50,000,000 to fund investment in the capital program

Discussion raised the following points:

- The external borrowing rate were 2.2%, raising to 2.7% in May and 3.4% in June
- £500,000 is the average return we're looking to get from the investment income
- The biggest inflation hurdle will be staff pay, with staffing costs being around £16,000,000
- We have around a £6,000,000 limit with the amount of money we place in one counter party in order to spread risk
- There's no political involvement in placement of funds as it comes down to staff, however committee involvement does come in when deciding the type of institution used
- Things that are also considered before investment are credit status and they won't be considered if they're longer than one year. Also investing money in state authorities with negative track records (such as human rights) will not be considered or companies with association with firms that are not seen in a favourable light
- Brokers are not used, instead a portal is used called The ICD. Engagement with brokers have been considered, but before that can be done, committee will need to approve of it

Councillor Yates proposed, Councillor Hopkinson seconded and Members AGREED to approve the review of Quarter 1 2022-2023: Treasury Management and Annual Investment Strategy.

5. QUARTERLY INTERNAL UPDATE REPORT

Christine Parker, from East Kent Audit Partnership, introduced the report and made the following points:

- A progress report will be brought back for a future committee meeting
- Equality and Diversity remains limited assurance, a more timely review will be required
- The playground review have four outstanding, high risk recommendations, that haven't been actioned but no revised dates have been suggested
- Street Cleansing remains as previously reported
- A lot of the recommendations hang off the service standards being approved
- Planned completion is to the 30th June, at the end of August, planned completion was at 35% against the target of 42%

During discussion it was noted that:

- Matt Sanham is now involved in street cleansing
- A draft set of service standards are going to CMT for discussion, once these have been agreed by CMT, they will then come back for cabinet
- The zone style of street cleansing has been successful with positive feedback from the public
- In the upcoming process of street cleansing, there are plans for vans to take snapshots of areas as a way to keep track of how clean the district is. These images will be reviewed by 20 different officers in TDC

- In Birchington, two recycling depots were overflowing causing fly tipping. Once the signage was removed, this has died down especially with word that they were being photographed
- Request was made for flowcharts to be posted on the Thanet District Council website in order to make for an easier visual aid for the public
- Thanet Lotto is operational, but it did have to close for a period of time, due to there not being an active license holder in place. Chris Blundell currently is the license holder and he's seeking for other senior officers to also be holders
- The Thanet Lotto has also raised £50,000 in funds that have not been distributed yet
- A £2,000 contribution was matched from the union to go towards Ukrainian refugees
- Currently Sameera Khan is the officer in charge of Equality and Diversity, but before anything permanent is decided, we are currently waiting for a restructure at the Corporate Management Team

Councillor Wright proposed, Councillor Duckworth seconded and Members APPROVED the update report.

6. ANNUAL GOVERNANCE REPORT

Sameera Khan, Interim Head of Legal and Monitoring Officer, introduced the report and made the following key points:

- The report is presented for 2021-22, from April to March
- The Internal Audit Report was presented in July of this year to the committee
- The report also details the corporate rates for the council, which includes the limited resources the council has
- For the year of 2021-22, there was a total of 30 complaints received by the local ombudsman, only one was upheld and a different one with the same status but had a satisfactory response

Discussion raised the following points:

- The council is inundated with complaints, some can be malicious and unreasonable

Councillor Towning proposed, Councillor Hopkinson seconded and Members APPROVED the report.

7. RISK MANAGEMENT

Chris Blundell, Deputy Executive Officer and Section 151 Officer passed over to Aimee Munden-Jackson, Insurance Officer who introduced the update report making the following key points:

- Good progress has been made in the risk registers
- None of the corporate risks have changed in their scoring
- The market has hardened in relation to cyber safety, so getting insurance is going to be difficult. As a result, looking at solutions is the course being taken with brokers and risk management partners
- Prevention of cyber attacks are also being prioritised
- The budget bills is commencing in relation to 2023-24, that's with the background of high inflation being considered
- The birth insulation work commended in June, due for completion at the end of September, the delays have resulted in a financial risk to the council

- Burial space is a risk that is coming up as well as the local crematorium currently having management issues, with the manager passing away
- Jackey Bakers roof had fallen down, however the building itself has been fenced off to prevent access
- HAVS has been monitored before, but it wasn't very effective. This is something we're looking to mitigate
- A Beach and Costal Manager has been employed
- We have had some substantial claims regarding algae slips and trips, all of which have been successfully defended due to stringent inspections
- Posting signage in regards to algae does invite the admission of liability, so decisions on that haven't been made just yet

Discussion raised the following points:

- It's possible that in the future a PSPO or some will be hired in order to not only look at watercrafts such as jet skis, but also anything else happening on the coast
- The project for a conveyor belt system on pontoons is nearing completion and are scheduled to be finished by the end of the month
- A suggestion was made by councillor Towning, to possibly have the beaches be sponsored commercially in order to bring some money in to cover costs for enforcement
- There is a group in the organisation who will be looking at Jackey Bakers in the future for further schemes

Councillor Shrubb proposed, Councillor Garner seconded and Members AGREED to approve the review of corporate risks.

Councillor Shrubb proposed, Councillor Garnerr seconded and Members AGREED to refer to cabinet for the PSPO and homelessness.

Meeting concluded: 8:26pm

Quarterly Internal Audit Update Report

Governance & Audit Committee 30-11-2022

Report Author Head of Internal Audit

Portfolio Holder Cllr David Saunders, Cabinet Member for Finance.

Status For Information

Classification: Unrestricted

Key Decision No

Executive Summary:

This report provides Members with a summary of the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th September 2022.

Recommendation(s):

That the report be received by Members.

That any changes to the agreed 2022-23 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of Annex 1 of the attached report be approved.

Corporate Implications

Financial and Value for Money

There are no financial implications arising directly from this report. The costs of the audit work are being met from the Financial Services 2022-23 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.

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 not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.

Protected characteristics: age, sex, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.

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

Corporate Priorities

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities

1.0 Introduction and Background

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th September 2022.

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 the 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 was submitted to the last meeting of this Committee.

2.0 Summary of Work

2.1 There have been four internal audit assignments completed during the period and six follow -ups.

3.0 Recommendations

3.1 That the report be received by Members.

That any changes to the agreed 2022-23 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of Annex 1 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. 42160
Simon Webb, Deputy Head of Audit, Ext 7189

Reporting to: Chris Blundell; Director of Finance

Annex List

Annex 1: East Kent Audit Partnership Update Report – 30-11-2022

Background Papers

Internal Audit Annual Plan 2022-23 - Previously presented to and approved in March 2022 at Governance and Audit Committee meeting

Internal Audit working papers - Held by the East Kent Audit Partnership

Corporate Consultation

Finance: Chris Blundell; Director of Finance

Legal: Sameera Khan, Interim Head of Legal & Monitoring Officer

This page is intentionally left blank

QUARTERLY INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

1.0 INTRODUCTION AND BACKGROUND

1.1 This report provides Members with an update of the work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th September 2022.

2.0 SUMMARY OF REPORTS

Service / Topic		Assurance level	No. of Recs.	
2.1	HMO & Selective Licensing	Substantial	C H M L	0 0 0 0
2.2	Payroll	Substantial	C H M L	0 0 2 0
2.3	Digital/Cloud Computing	Reasonable	C H M L	0 3 7 3
2.4	Waste Vehicle Fleet Management	Reasonable	C H M L	0 2 4 2

2.1 HMO & Selective Licensing – Substantial Assurance

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council effectively works with landlords and tenants to ensure the legal standards for housing are met.

2.1.2 Summary of findings

Certain houses in multiple occupation are required by legislation to be licensed. These are properties that are:

- as from October 2018 an HMO of any storey will require a licence; and
- have five or more people in more than one household; and
- share amenities such as bathrooms, toilets and cooking facilities, or where the accommodation is not self-contained e.g a WC or room of the common landing.

At the time of the audit there were 64 licenced HMO’s within the Thanet District.

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

- The Council is compliant with the Housing Act 2004.
- The Council maintains a public register of licensed HMOs and properties within the Selective Licensing area. This register is kept up to date and is available to view on request.
- All applications for a HMO Licence and Selective Licence are supported by a completed application.
- Details of the HMO and Selective Licensing scheme are adequately promoted via the Council website and through the Thanet Landlord Focus Group and Landlord Annual Event as necessary.
- The income collection arrangements for fees received from HMO and Selective Licensing are working effectively and correctly accounted for.
- HMO and Selective Licensing fees and charges are correctly and consistently applied.
- Every licence holder is advised of the expiry of their licence at least 10 weeks before their licence expires. Variations are dealt with upon application.
- Processes are in place to ensure that all gas certificates and electrical safety certificates are required when due.
- All HMOs are inspected at the time of application. Selectively licensed premises are not inspected routinely, now that the designation has expired. However, all licensed premises are inspected if a complaint is received.
- Where HMO and Selective Licensing health and safety hazards are identified, suitable corrective enforcement arrangements are in place.
- Arrangements are in place to ensure that unlicensed HMOs and Selective Licence properties are identified and appropriate action takes place to force registration.

2.2 Payroll – Substantial Assurance

2.2.1 Audit Scope

To ensure that the payroll service administered 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 and all the relevant data held is accurate.

2.2.2 Summary of findings

The payroll function is administered by EK Services (Hosted by Dover District Council) on behalf of Thanet, Canterbury & Dover Councils in addition to EK Services, the Marlowe Theatre and Canenco.

Before the actual pay date itself there are key dates and tasks to complete to ensure staff and councillors are paid the right amount at the right time. The payroll function is also responsible for calculating and accounting for other payments to third parties for tax, national insurance, trade union membership, pension and private health care etc.

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

- Established payroll processes are in place to ensure that each payroll is completed on time based on the information that has been approved by managers of employees. (i.e. Overtime, Car mileage)

Scope for improvement was however identified in the following areas:

- When the SLA is revised in 2023 consideration should be given to putting in place performance indicators that are used to monitor the service provision by each of the clients.
- When quarterly meetings with the HR Managers at other authorities are held they should be minuted to ensure that issues and the supported actions are recorded and actioned.

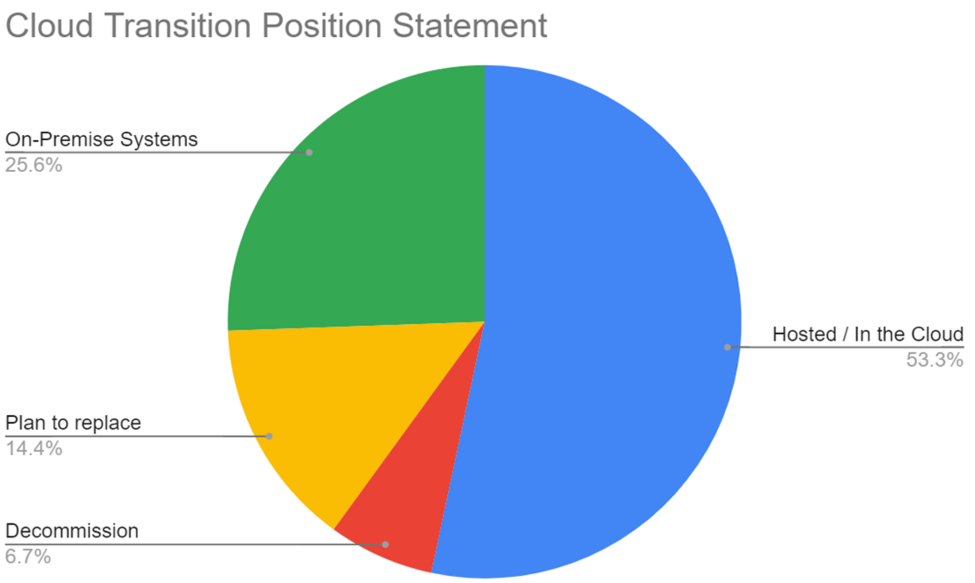
2.3 Digital/Cloud Computing – Reasonable Assurance

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council is managing its risks to an acceptable level for all cloud services used to process and store data.

2.3.2 Summary of Findings

Cloud Computing is the practice of using a network of remote servers hosted on the internet to store, manage, and process data, rather than on a local server. The Council made a commitment to digital and cloud transformation in June 2022 by approving a Cloud Strategy which builds on the Digital Strategy approved in 2020. There are 90 IT systems altogether used by the Council across all directorates to process and store data. The chart below provides a summary of the systems in place: -



There is a capital budget of just over £150k a year to finance the migration of systems to the cloud with individual service areas taking on the revenue costs within their existing revenue budgets.

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

- There is a Cloud Strategy and Digital Strategy in place that is fully considered and sets out the objectives of the Council in relation to 'cloud first' as it's preference;
- There are good well considered policies in place although they are now out of date and need to be updated to include cloud service risk assessment processes which form an essential part of the procurement process;
- The Council has processes in place to help ensure new cloud services are risk assessed through the completion of Digital Landscape Documents (DLDS);
- All but one of the annual payments made to cloud based service providers during 2021/22 were in accordance with the contract / agreement in place; and
- The server room in Margate is a good asset.

Scope for improvement was however identified in the following areas:

- The Council should recognise that two senior ICT security officer posts are vacant in EK Services which will weaken the ability to assess new cloud based services during the procurement and risk assessment process;
- Digital Landscape Documents (DLDs) are not consistently completed and quite often fail to mark whether a supplier response to a stipulated infrastructure or security requirement is a pass or a fail;
- There is not a template set of contract clauses for new cloud based service agreements and this has meant that two contracts in place are missing key features; and
- Data protection processes in place need to be strengthened to ensure the Information Governance Manager is informed of new cloud based arrangements so that she can update Privacy Notices, DPIAs and Information Asset Registers.

2.4 Waste Vehicle Fleet Management – Reasonable Assurance

2.4.1 Audit Scope

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

2.4.2 Summary of Findings

The Council operates a fleet of around 45 vehicles under its Operators Licence (O Licence) with those vehicles primarily being used to collect household waste from across the District and to then move that waste to the tipping point in Canterbury.

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

- Accurate records are in place detailing all vehicles being operated under the Operator licence.
- All vehicles were found to be included on the Council's insurance and are suitably insured.

- Defects identified on vehicles either as part of the daily check or during the working day are reported immediately to the Workshop Supervisor who makes a decision as to if the vehicle is safe to use or not.
- All vehicles are being serviced in accordance with a risk based service schedule of each vehicle.
- All maintenance staff undertaking maintenance on vehicles are suitably qualified to do so.
- All fuel, oils and lubricants are being stored securely in bunded containers with access being restricted to approved staff only.
- Suitable procedures were found to be in place for monitoring and ordering of fuel for monitoring and re-ordering fuel for the vehicles.
- Suitable equipment and materials should be readily available to deal with fuel and chemical spillages.

Scope for improvement was however identified in the following areas:

- Quarterly meetings with the Corporate Insurance Officer should re-commence as soon as practical so that regular checks can be undertaken to ensure that all vehicles are suitably insured and sold vehicles are removed from the insurance schedule.
- Collection rounds should be reviewed so that capacity on all vehicles is maximised to prevent some vehicles having to be overloaded in order to complete their daily collections.
- A CSO compliant contract should be put in place for the procurement of oils and lubricants used by the workshop.
- Management should undertake periodic reviews of on board CCTV footage from the vehicles to confirm that all drivers and operatives are working in accordance with all procedures and wearing the correct PPE at all times.
- Management should ensure that another driving assessor is appointed to undertake driving assessments of new drivers.
- Staff should be given training on key corporate policies such as but not limited to Safeguarding.

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. The review completed during the period under review is shown in the following table.

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs. Outstanding after follow-up	
a)	Electoral Registration & Election Management	Reasonable	Reasonable	C H M L	0 1 3 6	C H M L	0 0 1 1
b)	Creditors and CIS	Reasonable	Reasonable	C H	0 5	C H	0 3 2

				M L	3 1	M L	0
c)	Ramsgate Marina	Reasonable	Reasonable	C H M L	0 5 5 3	C H M L	0 0 2 0
d)	Food Safety	Substantial/ No	Substantial	C H M L	1 1 0 0	C H M L	0 0 0 0
e)	Civica - Housing Benefit Payments	Substantial	Substantial	C H M L	0 2 2 0	C H M L	0 0 0 0
f)	Cash Collection, Income & Bank Reconciliation	Limited Substantial Substantial	Limited Substantial Substantial	C H M L	0 6 3 1	C H M L	0 4 2 0

3.2 Details of any individual Critical and High priority recommendations yet 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 recommendations 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.

f) <u>Cash Collection, Income and Bank Reconciliation</u> -
There has been little communication from management on progress of the actions taken to date for some of the actions in respect of Cash Collection.

Whilst information is being extracted directly from the Council's Parking system to aid in the reconciliation of cash being banked, this has proved to be inconsistent with the monies banked resulting in an overbanked amount (as at August 2022) of c.£15K.

The Cash Collector (G4S) has only recently submitted the cash pull tickets in order for a full reconciliation to be undertaken. However, due to staff resources it is not known when this can be undertaken. This means that the current overbanked amounts are being coded to off-street, which attracts VAT and still needs to be addressed. The concerns are that this money could potentially not be Thanet's income, the reconciliation process may not be rectified in time for the 2022-23 financial statements and that the VAT may be in-correct.

Management Response

Management is working with the contractor to resolve these issues, but progress has been challenging. A verbal update will be provided to the committee at the meeting to explain the latest position.'

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: Absence Management, Complaints Monitoring, Safeguarding, Dog Warden, and VAT.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2022-23 internal audit plan was agreed by Members at the meeting of this Committee on 9th March 2022.

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 are made to the plan during the course of the year as some high profile projects or high-risk areas may be 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 1.

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 1.

8.0 INTERNAL AUDIT PERFORMANCE

8.1 For the six months to 30th September 2022, 137.77 chargeable days were delivered against the target for the year of 330 days which equates to 41.75% plan completion.

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

8.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has established a range of performance indicators which it records and measures.

8.4 The EKAP audit maintains an electronic client satisfaction questionnaire which is used across the partnership. The satisfaction questionnaires are sent out at the conclusion of each audit to receive feedback on the quality of the service.

<u>Attachments</u>

Appendix 1 Progress to 30th September 2022 against the agreed 2022-23 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 yet to be followed up.
Appendix 5	Balanced Scorecard of Performance Indicators

PROGRESS TO DATE AGAINST THE AGREED THANET DISTRICT COUNCIL 2022-23 AUDIT PLAN – APPENDIX 1

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2022	Status and Assurance Level
FINANCIAL GOVERNANCE:				
Car Parking & Enforcement	10	10	0.18	Work-in-Progress
VAT	10	10	0.18	Work-in-Progress
HOUSING SYSTEMS:				
Housing Allocations	10	10	0	Quarter 4
HMO Licensing	10	10	7.13	Work-in-Progress
Tenant Health & Safety	10	10	0	Quarter 4
Leasehold Services	12	12	0	Quarter 3
Capital Programme/ Planned Maintenance	12	12	0	Quarter 4
Contract Letting Procurement Process	10	10	0	Quarter 4
GOVERNANCE RELATED:				
Digital/Cloud Computing	10	10	11.08	Work-in-Progress
Officers' Code of Conduct	10	10	0	Quarter 2
Complaints Monitoring	10	10	0.31	Work-in-Progress
Project Management	10	10	0	Quarter 4
Corporate Advice/CMT	2	2	3.84	Work-in-Progress
s.151 Officer Meetings and Support	9	9	7.69	Work-in-Progress
Governance & Audit Committee Meetings and Report Preparation	12	12	8.76	Work-in-Progress
2023-24 Audit Plan and Preparation Meetings	9	9	0.26	Work-in-Progress
HR RELATED:				
Absence Management - Sickness, Annual and Flexi Leave	12	12	1.93	Work-in-Progress
COUNTER FRAUD:				
Counter Fraud & Corruption	10	10	0	Quarter 3
SERVICE LEVEL:				
Safeguarding	10	10	0.72	Work-in-Progress

Community Safety	10	10	0	Quarter 3
CCTV	10	10	10.42	Finalised - No
Dog Warden & Environmental Crime	10	10	2.09	Work-in-Progress
Food Safety	10	10	10.08	Finalised - Substantial/No
Pollution/Contaminated Land	10	10	1.93	Work-in-Progress
Business Continuity/Emergency Planning	10	10	0	Quarter 4
Licensing	10	10	0.35	Quarter 3
Museums	10	10	4.15	Work-in-Progress
Ramsgate Harbour Accounts	5	5	0.07	Quarter 3
East Kent Opportunities	10	10	0.18	Work-in-Progress
Waste Vehicle Fleet Mngmt	13	13	14.64	Finalised - Reasonable
Climate Change	5	5	0	Quarter 3
Employee Health and Safety	10	10	0	Quarter 4
OTHER:				
Liaison With External Auditors	1	1	0.22	Work-in-Progress
Follow-up Reviews	15	15	14.35	Work-in-Progress
FINALISATION OF 2020-21 AUDITS:				
Repairs & Maintenance	5	5	1.02	Finalised - Limited
Income, Bank Rec. & Cash Collection			9.51	Finalised - Substantial/Substantial/ Limited
Maritime			1.29	Finalised - Reasonable
Recruitment			11.04	Finalised - Reasonable
Risk Management			1.9	Finalised - Reasonable
Thanet Community Lotto			11.11	Finalised - Limited
RESPONSIVE ASSURANCE:				
Corporate Leak Investigation	0	0	1.15	Finalised
PIR - Berth 4-5	0	0	0.2	Work-in-Progress
TOTAL	**330**	**330**	**137.77**	**41.75%**

PROGRESS TO DATE AGAINST THE AGREED EKS & CIVICA AUDIT PLAN 2022-23

Review	Original Planned Days	Revised Planned Days	Actual days to 30/09/2022	Status and Assurance Level
EKS REVIEWS:				
Business Rates	15	15	6.67	Work in progress
Housing Benefit DHPs	15	15	0.18	Quarter 3
Housing Benefit Testing	15	15	16.51	Finalised - N/A
Debtors	15	15	0	Quarter 4
ICT – Data Management	15	15	0	Quarter 3
ICT – Network Security	15	15	0.30	Quarter 4
KPIs	5	5	7.04	Finalised - Substantial
Payroll	18	18	14.14	Draft Report
OTHER:				
Corporate/Committee	8	8	2.72	Ongoing
Follow Up	6	6	0.43	Ongoing
FINALISATION OF 2020-21 AUDITS:				
ICT Procurement & Disposal	1	1	1.22	Finalised - Substantial
Total	**128**	**128**	**49.21**	**38.45%**

APPENDIX 2

Definition of Audit Assurance Statements & Recommendation Priorities

Cipfa Recommended Assurance Statement Definitions:

Substantial assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited assurance - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

EKAP 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.

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.**
Creditors & CIS		
Update the procedures to include when and what to do for a change in supplier bank details	A new procedure will be written regarding this. Proposed Completion Date: 31 March 2022 Responsibility: Payments Officer (LF)	Will be done Revised Deadline 31/10/22 **Outstanding**
Add a check and authorisation process for changes to supplier bank details	Although I am happy that we have the relevant checks in place, they are not necessarily documented fully. Will review and update procedures accordingly. Proposed Completion Date: 31 March 2022 Responsibility: Payments Officer (LF)	Will review and update as above **Outstanding**
As per Regulation 113(7) of the Public Contracts Regulations Act 2015 produce and publish those figures relating to payment of invoices	Data to be published on the website in accordance with the Public Contracts Regulations Act 2015 Proposed Completion Date: 31 March 2022 Responsibility: Payments Officer (LF)	Legislation : https://www.legislation.gov.uk/uksi/2015/102/regulation/113/made Currently working on monthly reporting to be summarised for financial year end **Outstanding**

Cash Collection, Income and Bank Reconciliation - November 2022:		
Waybills for parking need to be provided as soon as possible or a suitable reconciliation routine be established between the parking system and cash banked	As at 08/08/22 manager's comments have not been provided towards implementation of the recommendation, despite several Action Plan Deadlines being set - 07/06/22, 24/06/22, 15/07/22 & 05/08/22. This is now escalated to the Governance & Audit Committee. Proposed Completion Date: N/A Responsibility: Director of Neighbourhoods	No Managers Comments received as at 07/11/22. **Outstanding**
To enable and ensure the cash reconciliation sheet is provided by G4S a contract variation is required.	As at 08/08/22 manager's comments have not been provided towards implementation of the recommendation, despite several Action Plan Deadlines being set - 07/06/22, 24/06/22, 15/07/22 & 05/08/22. This is now escalated to the Governance & Audit Committee. Proposed Completion Date: N/A Responsibility: Director of Neighbourhoods	No Managers Comments received as at 07/11/22 **Outstanding**
Consideration should be given to informing the External Auditor on the situation regarding the parking system income reconciliation process.	As at 08/08/22 manager's comments have not been provided towards implementation of the recommendation, despite several Action Plan Deadlines being set - 07/06/22, 24/06/22, 15/07/22 & 05/08/22. This is now escalated to the Governance & Audit Committee.	No Managers Comments received as at 07/11/22 **Outstanding**

	Proposed Completion N/A Responsibility: Director of Finance & S151 Officer / Financial Services Manager	
Provide a note to the accounts on the assumptions made for the treatment of VAT on parking income for February and March	Using reports taken from the parking machines the Feb/Mar parking income has been re-coded in the 21-22 accounts and a VAT correction journal has been completed. Proposed Completion Actioned Responsibility: Financial Services Manager / Finance Manager	See point 7 above. No comments from management as at 07/11/22 on the requirement of notes to account. Auditor Comments: The Financial Statements for 2021-22 have not been published, therefore any notes to accounts can not be verified. https://docs.google.com/document/d/e/2PACX-1vTpW4bnmj7XIJzXTZrakLDuyBVPD8W8ZIsFW_IYWgN6P4TWJ4D04k6pYB5Ictahbq4JfU6eE70fNrNL/pub **Outstanding**

SERVICES GIVEN LIMITED / NO ASSURANCE LEVEL STILL TO BE REVIEWED – APPENDIX 4			
Service	**Reported to Committee**	**Level of Assurance**	**Follow-up Action Due**
CCTV	July 2022	No	Work-in-Progress
Tenancy & Estate Mngmt	July 2022	Reasonable/Limited	Work-in-Progress
Repairs & Maintenance	July 2022	Limited	Work-in-Progress
Thanet Community Lotto	September 2022	Limited	Work-in-Progress

EAST KENT
DOVER • FOLKESTONE & HYTHE • THANET • CANTERBURY
AUDIT PARTNERSHIP

Balanced Scorecard

Appendix 5

INTERNAL PROCESSES PERSPECTIVE :	2022-23 Actual	Target	FINANCIAL PERSPECTIVE:	2022-23 Actual	Original Budget
	Quarter 2		Reported Annually		
eable as % of available days	88%	90%	• Cost per Audit Day	£	£
			• Direct Costs	£	£
Chargeable days as % of planned days					
CCC	50.89%	50%	• + Indirect Costs (Recharges from Host)	£	£
DDC	51.03%	50%			
TDC	41.75%	50%	• - 'Unplanned Income'	£	Zero
FHDC	50.62%	50%			
EKS	38.45%	50%			
Overall	47.36%	50%	• = Net EKAP cost (all Partners)		£
Follow up/ Progress Reviews;					
• Issued	25	-			
• Not yet due	15	-			
• Now due for Follow Up	29	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Partial			
CUSTOMER PERSPECTIVE:			INNOVATION & LEARNING		

	2022-23 Actual Quarter 2	**Target**
Number of Satisfaction Questionnaires Issued;	30	
Number of completed questionnaires received back;	20 = 67 %	
Percentage of Customers who felt that;	100%	
• Interviews were conducted in a professional manner	94%	100%
• The audit report was 'Good' or better	97%	90%
• That the audit was worthwhile.		100%

PERSPECTIVE: Quarter 2	**2022-23 Actual**	**Target**
Percentage of staff qualified to relevant technician level	61%	60%
Percentage of staff holding a relevant higher-level qualification	36%	36%
Percentage of staff studying for a relevant professional qualification	14%	N/A
Number of days technical training per FTE	2.48	3.5
Percentage of staff meeting formal CPD requirements (post qualification)	50%	50%

CORPORATE RISK MANAGEMENT - QUARTERLY UPDATE

Governance and Audit Committee	30th November 2022
Report Author	Chris Blundell, Acting Deputy Chief Executive and Section 151 Officer
Portfolio Holder	Councillor Ashbee, Leader of the Council and Portfolio Holder for Corporate Performance and Risk
Status	For information
Classification:	Unrestricted
Key Decision	No
Ward:	All

Executive Summary:

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

Recommendation(s):

To approve the review of corporate risks and discuss annexed risks

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.

It is the role and responsibility of the Section 151 Office to have active involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered.

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 revised Risk Management Strategy on 27 July 2022, which includes a requirement to provide regular corporate risk updates to G&A Committee.

Equalities Act 2010 & Public Sector Equality Duty

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

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

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities.

1. Introduction

1.1. The Council monitors and manages its Corporate Risks through the Corporate Risk Register. The contents of the report highlight the high-priority corporate risks and show the arrangements in place to ensure these risks are monitored and managed appropriately. The Council is dedicated to a proactive methodology on Risk Management and interdepartmental cooperation on Risk Strategy to drive an improved and synergetic risk model and landscape.

2. Background and Current Progress

2.1. The strategy defines corporate risks as *'those which could impact across the whole council*. Operational risks are identified from the 'bottom up', through service planning for the year ahead and through continuous review during the year. Operational risks may be escalated and considered Corporate level risks depending on the evaluation of the risk and through engagement with Senior Management.

2.2. The strategy prescribes that these risks should be assessed by the Corporate Management Team (CMT) and the Member Risk Management Champion and then reported to the Governance and Audit Committee (G&A) on a regular basis.

2.3. The Risk Management Strategy 2022 was approved at the G&A committee on the 27th July 2022. Consequently, the council is in the process of transitioning to operating under the new risk management strategy and our associated new way of monitoring, evaluating and reporting risk. Substantial progress has been made during this risk reporting cycle, with nearly 96% of the service areas responding, representing a significant improvement previous reporting cycle.

2.4. As such, it is now possible to report our Corporate Risks to the committee in accordance with our updated Risk Management Strategy, This is most notably demonstrated in

Annex 1, with the presentation of risks through the lens of Current / Emerging / Future risks from all service areas and their scoring which aligns to the risk matrix.

2.5. Future work will be taken in subsequent reporting to the committee to apply this framework to the High Scoring Corporate Risks shown at section 4 and also the addition of graphical illustration and tracking of risk scores.

3. Risk, Risk Management and Responsibilities

3.1. **What is risk -** Risk is defined as the uncertainty of outcome, whether positive opportunity or negative threat, of actions and events.

3.2. **Risk Management -**

Risk can be a threat (downside) or an opportunity (upside)

3.3. **Responsibilities**

A local authority's purpose is generally concerned with the delivery of service or with the delivery of a beneficial outcome in the public interest. The delivery of these objectives is surrounded by uncertainty which both poses threats to success and offers opportunity for increasing success.

3.4. **What risk management -** Risk Management was defined by the Audit Commission as:

*'Risk Management is the process by which risks are **identified, evaluated and controlled**. It is a key element of the framework of governance together with community focus, structures and processes, standards of conduct and service delivery arrangements'*

(Audit Commission)

The Government's Orange Book on risk management also states that:

Risk management shall be an essential part of governance and leadership, and fundamental to how the organisation is directed, managed and controlled at all levels.

Each public sector organisation should establish governance arrangements appropriate to its business, scale and culture

(Source Orange Book - Gov.co.uk)

3.5. **Risk Evaluation**

3.6. Risks have to be assessed in respect of the combination of the likelihood of something happening, and the impact which arises if it does actually happen. Risk management includes identifying and assessing risks and then responding to them. Risk is unavoidable, and every organisation needs to take action to manage risk in a way which it can justify to a level which is tolerable. The amount of risk which is judged to be tolerable and justifiable is the "risk appetite".

3.7. The likelihood of a risk occurring is evaluated against the following criteria:

Rating	Score	Likelihood
Very Likely	4	• More than 85% chance of occurrence • Regular occurrence • Circumstances frequently encountered
Likely	3	• More than 65% chance of occurrence • Likely to occur within next 12 months • Circumstances have been encountered
Unlikely	2	• 31%-65% chance of occurrence • Likely to happen within next 2 years • Circumstances occasionally encountered
Rare	1	• Less than 30% chance of occurrence • Circumstances rarely encountered or never encountered before

3.8. The possible impact on the council should the risk occur is then assessed across a range of categories. The risk score is determined by the highest scoring possible outcome against any of the risk headings.

Headings	Reputation	Strategic	Wellbeing	Service Delivery	Finance	Compliance
4 Severe	Council receives nationally adverse publicity perceived as failing in a significant area of responsibility	Failure to deliver council priorities / services / major corporate project	Significant staff dissatisfaction / long term absence / increased staff turnover including key personnel	Loss of service for a significant period	Financial loss or overspend greater than £500k	Breach of law leading to some sanction Litigation almost certain with some / minimal defence
3 Significant	Significant adverse local publicity	Possible impact on the delivery of council priorities	Declining staff dissatisfaction / loss of staff due to absence or turnover	Reduction in service performance / service disruption for 1 – 2 days	Financial loss or overspend between over £250k	Breach of regulation or responsibility or internal standard Litigation possible
2 Moderate	Minor impact on staff morale/public attitudes	Minor / adverse impact on Council priorities	Possible short-term staff dissatisfaction / likely impact on absence and turnover	Poor service / service disruption up to one day	Financial loss or overspend between £50k - £250k	Breach of internal procedure or policy Complaints likely
1 Minor	Unlikely to cause adverse publicity	No significant impact on the delivery of Council priorities	Loss of staff morale but unlikely to result in absence or turnover of staff	No significant difficulty providing a service or delivery of a project	Financial loss or overspend under £50k	Minor breach of policy or internal procedure Complaints Unlikely

3.9. The overall risk scores are then 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.

Likelihood	**Very Likely (4)**	**Moderate (4)**	**High (8)**	**Extreme (12)**	**Extreme (16)**
	Likely (3)	**Low (3)**	**Moderate (6)**	**High (9)**	**Extreme (12)**
	Unlikely (2)	**Very low (2)**	**Low (4)**	**Moderate (6)**	**High (8)**
	Rare (1)	**Very low (1)**	**Very low (2)**	**Low (3)**	**Moderate (4)**
		Minor (1)	**Moderate (2)**	**Significant (3)**	**Severe (4)**
	Impact				

3.10. **Roles and responsibilities -** The primary member oversight on risk is provided by the Governance and Audit Committee. Cabinet also has a member Risk Champion (the Leader of the Council and Portfolio Holder for Corporate Performance and Risk) who promotes risk management and its benefits throughout the council.

3.11. At staff level, the high-level corporate risk register is regularly considered by the 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.

3.12. The Chartered Institute of Public Finance and Accountancy (CIPFA) Position Statement on Audit Committees (2018) sets out the key principles for audit committees operating in local government.

3.13. The statement sets out the key responsibilities of the committee to include:

> *‘consider the **effectiveness** of the authority’s **risk management arrangements** and the control environment, reviewing the risk profile of the organisation and*

***assurances that action is being taken** on risk-related issues, including partnerships and collaborations with other organisations'*

3.14. The report seeks to aid the committee to discharge these responsibilities.

4. Corporate risk register

4.1. A summary of the highest scoring corporate risks on the register is set out in the table and the following narrative below, together with the comparative scores noted by the Governance & Audit Committee on 28th september 2022

4.2. 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	Sep 22 Score	Nov 22 Score	Change
CR-03	Political Stewardship	16	8	**Reduced**
CR-12	Cyber Attack	16	16	**No**
CR-13	Governance	16	8	**Reduced**
CR-01	Limited Resources	12	12	**No**
CR-17	Inflation / Cost of living	16	16	**No**
CR-09	Economic Environment & Supply Chain	12	12	**No**
CR-05	Homelessness	16	16	**No**
CR-14	Berth 4/5	12	12	**No**
CR-11	Covid-19	12	8	**Reduced**
CR-15	Environmental Act 2021	12	12	**No**
CR-19	EPC requirements	New Risk	12	**New Risk**
CR-21	Manston Road Depot Building and EA/CAR	New Risk	16	**New Risk**
CR- 22	Net Zero Strategy	New Risk	16	**New Risk**

4.3. 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.

4.4. 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.

5. Highest-scoring risks

5.1. **Cyber Attack (Impact 4, Likelihood 4)**

The Council is becoming more and more aware of cyber attacks across the local government sector.

At a time when some staff are working from home and on a hybrid basis due to the pandemic, a much higher reliance on IT systems is needed and therefore the risk of disruption to Council services as a result of a Cyber attack is heightened.

The Council is mitigating the impact of any potential attack by ensuring IT systems are as robust as possible, but as we've seen globally, even the larger international companies are still susceptible to attack.

The Council did consider Cyber insurance as an mitigating action to protect itself against the financial impact that could be caused by such an event. Unfortunately the cyber market is now not conducive to our risk profile.

With that in mind officers have been liaising with our risk management partners through our insurers and are exploring other risk management solutions with them in lieu of Cyber Insurance.

Ransomeware is one of the largest digital risks facing the authority and as such it has become increasingly important to protect our data and have readily available access to offline copies. To facilitate this the Head of ICT led a backup replacement project across the partnership, utilising £350,000 funding from the DLUHC to implement the new back up system, which is now in place and live.

The MHCLG made this funding available following post-incident reviews of cyber attacks against local government organisations. During some attacks backups were deleted to prevent their use, making it harder to avoid paying any ransom. Mitigating this change in tactics, for many councils, required a substantial investment in 'Offline' technology. The designed solution will install an identical set of backup appliances in each of three geographic locations.

The security team within ICT continues to monitor vulnerabilities and these are reported within the report provided to the Corporate Information Governance Group (CIGG).

Corporate Risk Lead Officer: Head of ICT (EKS)

5.2. **Limited Resources (Impact 4, Likelihood 3)**

The high score for Limited Resources reflects the fact that it is one of the few risks that could result in the council losing control of its own destiny.

The draft quarter 1 budget monitoring report is currently forecasting an overspend of just under £1.8m for the General Fund in 2022/23 with the key areas of overspend being on services impacted by use or reduced income due to the cost of living crisis or the on-going recovery from Covid.

The Council is progressing well with the budget build process for 2023-24, which is being set against the background of high inflation and increased prices.

These scenarios create more uncertainty in allowing the Council to set a balanced budget especially with on-going unknowns around government finance settlements.

As in prior years this means that the Council is restricted to setting a meaningful budget for only one year and although scenarios can be put forward through the Medium Term Financial Strategy (MTFS), a budget position can not be guaranteed due to the various factors outside of the Council's control.

To mitigate this risk the Council undertakes a rigorous approach to budget setting, exploring a wide range of opportunities to minimise spending pressures and maximise our income streams. For the 2023/24 budget setting process this has included the addition of a Star Chamber process, where Service Directors have been required to articulate and justify their budgetary requirements to a panel comprising the Leader, the Portfolio Holder for Finance and the Chief Executive and s151 Officer. This process will inform the shape and substance of next year's budget adjustments. In addition, the cross-party Fees and Charges Cabinet Advisory Group has reconvened again this year and will advise Cabinet of the proposed changes to fees and charges for 2023/24.

Due to the changing nature and composition of Local Government funding, authorities are becoming increasingly reliant on locally raised sources of funding such as Council Tax and Fees and Charges. Therefore, to mitigate the risk of 'Limited Financial Resources' and enhance our long-term financial sustainability and resilience, it is the view of the section 151 officer that it is essential to optimise these local raised income streams, whilst also considering the affordability constraints of our residents and service users.

In addition, the council has a range of budgetary controls in place to manage spending pressures in-year, including regular reporting of spending forecasts to the Corporate Management Team and Cabinet.

Corporate Risk Lead Officer: Acting Deputy Chief Executive & s151 Officer

5.3. **Inflation/Cost Of Living (Impact 4, Likelihood 4)**

The UK economy continues to experience inflationary pressures, with the Consumer Price Index rising even further and hitting a 11.1% 40 year high in November 2022.

This has an impact on all items of goods and services that the council has to purchase and consequently presents a risk of overspending against a number of budget headings. Wherever possible this is being managed within the confines of existing approved budgets, but inflationary pressures will be one of the key budgetary constraints to delivering a balanced budget for 2023/24.

This is particularly prevalent in the construction industry and could lead to a rationalisation of some of our capital projects, to ensure they are delivered within budget, or the potential for significant overspends.

The cost of living crisis is a significant issue for both the Council and all Thanet residents. The effect of the cost of living is likely to force more households to be homeless (see Homelessness risk below), force more into fuel poverty and have a direct impact on jobs in leisure/retail with households having less disposable income. The council continues to provide financial support and advice to residents where it can, for example via the administration of government funding (e.g. Household Support Fund, Council Tax Energy Rebate) or the provision of tools and information regarding benefit entitlement on our website and information channels.

Corporate Risk Lead Officer: Acting Deputy Chief Executive & s151 Officer

5.4. **Economic Environment & Supply Chain (Impact 3, Likelihood 4)**

A combination of Brexit and Covid has also had a significant impact on the Council's supply chain.

For example, the combination of these factors has meant a shortage of HGV drivers and combined with the increased costs of products being imported via shipping containers, has created the perfect storm of increased prices and shortage of supplies. To mitigate this risk, the council has offered enhanced pay, via the form of market supplements, to ensure it can recruit and retain a sufficient number HGV drivers required to deliver its waste and recycling collection service.

The cost of living crisis and the impact of rising inflation continues to place pressure on staffing budgets. For 2022/23 the Council needed to reopen pay negotiations in order to consult on a revised offer. This revised offer resulted in an increase of 1% from 2% to 3% for 22/23, adding an additional cost pressure to be accommodated as part of the 23/24 budget setting process. In order to conclude the 22/23 negotiations it was also necessary to amend the starting offer for 23/24 to a minimum of 3%.

Furthermore, given the current economic environment, there is a heightened risk of a reduction in supplier base through mergers, business closure/insolvency, which could impact on our services and also make further procurement more difficult through depleted markets and lack of competition. This risk is addressed through the central management of our supplier base by the Procurement team, who scrutinise the rationale for supplier adoption and undertake a company credit check via Creditsafe.

Corporate Risk Lead Officer: Acting Deputy Chief Executive & s151 Officer

5.5. **Homelessness (Impact 3, Likelihood 4)**

During 2021, the Council experienced an increased requirement to provide temporary accommodation (TA) for homeless households, and this trend has continued during 2022.

- Increasing costs in the private rented sector, leading to more households struggling with their rent costs.
- Landlords leaving the market for sale or short-term letting alternatives.
- Increased demand for private renting in the district, leading to a reduction in the number of private sector lets that are affordable to households on low incomes.

Changing working patterns nationally, the lifting of the 2020/2021 evictions ban on 1 June 2021 and the current cost of living crisis are all compounding these pressures. Local housing allowances have fallen significantly behind average private sector rents as a result of rent inflation. Cases that were delayed as a result of the eviction ban are now progressing through the courts, resulting in additional service and financial pressures.

These pressures have made it much more difficult for the council to prevent homelessness and find suitable, affordable solutions for people facing homelessness in the private rented sector. This has resulted in an increased number of households living in temporary accommodation.

The financial pressure is currently estimated at up to £1m for 2022/23 based on current homelessness levels.

Corporate Risk Lead Officer: Corporate Director of Place

5.6. **Berth 4/5 (Impact 4, Likelihood 3):** The project was delayed whilst an environmental impact assessment was developed to inform planning and marine licensing consents. The original berth was taken out of service in November 2020 due to its deteriorated condition.

A Cabinet decision was made in July 2021 to increase budget provision for the project. The EIA was completed in January 2022. The Planning Prior Approval and Marine Licence were both granted in May 2022.

The berth installation works commenced in June 2022 and reached substantial completion at the end of September 2022. An aggregate conveyor will be fitted to the berth by Brett Aggregates and following this the berth will be ready for service.
The delays have resulted in a financial risk to the council due to extended berth outage and associated contractual costs.

Corporate Risk Lead Officer: Project Director Levelling Up

5.7. **Environmental Act (Impact 4, Likelihood 4)**

The Environment Act became law on 9 November 2021. This includes fundamental changes in responsibility for waste and recycling, which will have implications for the way we deliver statutory household waste collections.

As a member of the Kent Resource Partnership, TDC responded to Government consultations this year on consistency of household collections, the Extended Producer Responsibility and a Deposit Return Scheme. Changes affecting household waste as a result of the new act are likely to be implemented in 2023. Whilst the act includes provision for funding and support to local authorities for the proposed changes, the implications for our vehicle fleet and resourcing, income associated with green waste and income from recycling and waste diverted from landfill are not yet clear.

Corporate Risk Lead Officer: Acting Director of Finance and Operations

5.8. **Change to EPC Requirements in 2023 (Impact 3 Likelihood 4)**

On 1 April 2023, the next round of EPC Regulations will come into force as part of the government’s push to achieve net zero emissions by 2050 (under the Energy Performance of Buildings (England and Wales) Regulations 2012)

All rented commercial property will need to have an energy performance certificate (EPC) rating of band ‘E’ or better and failure to achieve this will see landlords face potential fines, and/or the inability to continue with current leases and/or enter into new lease agreements with potential tenants. This translates to the risk of additional costs or lost revenue to the authority.

There are a number of council tenanted properties that are at risk of not meeting these impending changes, either because their current EPC rating is below the E rating (i.e F or G) or there are no coherent records to evidence an EPC assessment has been undertaken. There is also a high probability that these properties will require some form of improvement works in order to achieve the required E rating (which is a landlord cost). To establish a clear cost analysis, EPC assessments need to be undertaken as a priority. The council has recently increased its assessors available from 2 to 3.

The project plan/timetable to address this risk is as follows:

- Instruction is to be given at the end November to independent assessors,
- Establish current situation of EPC ratings by end December and provide cost and Planned Maintenance Programme January 2023 for the properties to be brought up to standard by April 2023

Corporate Risk Owner: Interim Director of Property

5.9. **Manston Road Depot Buildings (Impact 4 Likelihood 3)**

Manston Road Depot is pivotal to the delivery of Recycling, Waste Collection and Street Cleansing as well as various ancillary services. The site is dated and in need of investment in order to future proof for an ongoing and improved service delivery model. This will mean investment is required in the short to medium term in order to safeguard this operation and allow for review. Without this necessary investment in the site, there is a significant risk of disruptions to the statutory provision of waste and recycling services.

This became more evident when the new Environment Agency regulatory officer appointed to Manston Road Depot visited on 21 October and raised concerns regarding the site. Failure to adequately address these concerns could result in fines, penalties and service disruption. Work is underway to implement the required improvements and mitigate these risks moving forward.

Corporate Risk Lead Officer: Acting Director of Finance and Operations

5.10. **Net Zero Strategy (Impact 4 Likelihood 4)**

The global attention on climate change and its impacts has never been more focused. The risk that climate change presents to the council and the wellbeing of its residents is stark and will potentially impact the council right across the risk spectrum; including financially, reputationally, in terms of service provision and the wellbeing of our staff and residents. For example, climate change presents an increased risk of extreme weather, such as the heat waves seen during the summer of 2022, which had consequent implications for service provision and also the wellbeing and welfare of our staff and residents.

The organisation has responded to these risks and challenges by declaring a climate emergency in 2019 and subsequently developing a Net Zero strategy, which was approved by the Cabinet on Thursday 22 September.

The Net Zero Strategy shows how the council will meet its net zero pledge and is split into:

- addressing emissions in Thanet District Council's core carbon footprint to achieve net zero by 2030;
- addressing the wider council emissions that we have partial control over by 2050 at the very latest;
- supporting Kent County Council, government, business, industry and the community to reduce emissions generated across the district by 2050 at the latest.

Corporate Risk Lead Officer: Acting Deputy Chief Executive & s151 Officer

6. Reducing Risks

6.1. **Political Stewardship (Impact 4, Likelihood 2)**

The Council has now been under Conservative control since 3 June 2021.This followed a period of leadership change that resulted in political stewardship being identified as a high scoring corporate risk to the council. Due to a period of continuity in leadership, the success of cross-party working and the proximity to the May 2023 Local Elections this risk has been revised downwards.

Corporate Risk Lead Officer: Interim Chief Executive

6.2. **Governance (Impact 4, Likelihood 2)**

Statutory Recommendations were received from the external auditors, Grant Thornton, in relation to governance matters and an extraordinary Council meeting agreed the recommendations.

Following the appointment of an Independent Monitoring Officer in December 2021 to address Grant Thornton's concerns, his recommendations were approved at the May 2022 Council meeting.

A new interim Chief Executive was subsequently appointed on 14 July 2022, whose remit it is to review and implement the recommendations of the Independent Monitoring Officer.

A timetable for delivery of those actions has been drawn up and progress has been made against a number of those actions. Therefore, the risk to Governance has been reduced accordingly.

Corporate Risk Lead Officer: Interim Chief Executive

6.3. **Coronavirus (Impact 4, Likelihood 2)**

In 'normal' emergencies, local authorities and local resilience forums deal first with an emergency and then the Recovery – getting back to 'business as usual' (for example, when the flood waters recede, work takes place to repair any damage and to get people back into their homes). The Recovery from the Covid-19 Pandemic will be unlike any other in our lifetimes. The crisis has gone on for longer, been more extreme and will have more profound consequences than anything we have prepared for before.

However due to the unpredictable nature of Covid the reintroduction of some form of restrictions in the future remains a risk.

Corporate Risk Lead Officer: Director of Neighbourhoods

7. Lower Scoring New Corporate Risks

7.1. **Power outage (Impact 2 Likelihood 2)**

This corporate risk is difficult to score and measure because it consists of two distinct possible eventualities:

1. **National Power Outage** (Impact 4 Likelihood 1) This is a very unlikely event with a very high impact where power is lost to a large part of the UK for 7 days.

The impact of scenario 1 will be severe with some risks unmitigatable, with severe disruption to service provision and a significant impact on residents and the community.

2. **Rolling Power Outage** (Impact 1 Likelihood 2) A Likely event with a low impact: A rolling power outage affecting smaller areas of the uk for 3 hours at a time, in order to reduce demand on the network.

The impact of scenario 2 will be minimal with mitigations that can resolve most residual risks. This can be managed through our Business Continuity Plans.

A National plan to address and mitigate this risk will inform a Kent Resilience Forum plan, which will in turn inform local authority level plans. We can expect a KRF plan to deal with a potential National Power Outage to be developed by March 2023. The council will continue to develop its own risk assessment to inform subsequent decision making on investment in risk mitigating equipment and infrastructure.

Corporate Risk Officer Lead: Corporate Director of Place

7.2. **Manston Processing Centre (Impact 4 Likelihood 2)**

Whilst Thanet District Council has no direct control over the location and operation of Manston Processing Centre, its presence does have the potential to impact the council both directly and indirectly.

The location of the site reduces the likelihood of significant widespread impact on the wider community. However there is a high risk of significant impact on the immediate community, noise from the site and increased movement to and from the site. There will also be the potential for increased community tension due to fear and miscommunication in the public domain.

The higher number of people claiming asylum has the potential to put increased pressure on homelessness services of the council in the longer term. Temporary accommodation is hard to secure particularly within the district.

TDC would also have a role in response to a major emergency on site, we are working with Kent Resilience Forum to ensure that the site operators have suitable emergency plans in place to minimise TDC risks.

Corporate Risk Officer Lead: Director of Neighbourhoods

8. Other risks

8.1. G&A meeting members requested to have oversight of all risks as part of the regular reports. This would however substantially increase the size of the report and so all risks scoring 8 or more after mitigation have been included within **Annex 1**.

Contact Officer: Chris Blundell (Director of Finance)
Reporting to: Colin Carmichael (Interim Chief Executive)

This page is intentionally left blank

Mid Year Review 2022-23: Treasury Management and Annual Investment Strategy

Governance & Audit Committee	30 November 2022
Report Author	Chris Blundell, Acting Deputy Chief Executive and Section 151 Officer
Portfolio Holder	Councillor David Saunders, Cabinet Member for Finance
Status	For Decision
Classification	Unrestricted
Ward	Thanet Wide
Previously Considered by	Cabinet - 17 November 2022

Executive Summary:

This report summarises treasury management activity and prudential/ treasury indicators for the first half of 2022-23.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

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 2022-23 mid-year position for treasury activities.

Key reporting items to consider include:

- 2022-23 mid-year capital expenditure on long term assets was £6.3m (2022-22 mid-year: £5.1m), against a full-year budget of £51.4m.
- The council's gross debt, also called the borrowing position, at 30 September 2022 was £20.0m (30 September 2021: £20.4m).
- The council's underlying need to borrow to finance its capital expenditure, also called the Capital Financing Requirement (CFR), is estimated to be £54.8m at 31 March 2023 (31 March 2022: £51.7m).
- The council has held less gross debt than its CFR and accordingly has complied with the requirement not to exceed its authorised borrowing limit of £81m.
- As at 30 September 2022 the council's investment balance was £56.8m (30 September 2022: £54.2m).

- It is proposed that the 2022-23 Treasury Management Strategy Statement be amended as described in section 3 of this report.

Recommendation(s):

That the Governance & Audit Committee:

1. Notes, and makes comments on as appropriate, this report and annexes;
2. Recommends this report and annexes, including the prudential and treasury indicators that are shown and the proposed changes to the 2022-23 Treasury Management Strategy Statement, to council for approval.

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 Acting Deputy Chief Executive, and this report is helping to carry out that function.

Risk Management

Risk management is as per the provisions of the annual Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

Corporate

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

Equalities Act 2010 & Public Sector Equality Duty

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

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

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities.

1 Background

1.1 Treasury management

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

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

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

1.2 Capital Strategy

The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy which is to provide the following: -

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

2 Introduction

2.1 This report has been written in accordance with the requirements of the CIPFA Code of Practice on Treasury Management.

2.2 The primary requirements of the Code are as follows:

a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

c) Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and

Minimum Revenue Provision Policy (for the year ahead), a Mid-year Review Report (this report) and an Annual Report (stewardship report), covering activities during the previous year.

d) Delegation by the council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

e) Delegation by the council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this council the delegated body is the Governance and Audit Committee.

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

- An economic update for the first half of the 2022-23 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The council's capital expenditure (see also the Capital Strategy) and prudential indicators;
- A review of the council's investment portfolio for 2022-23;
- A review of the council's borrowing strategy for 2022-23;
- A review of any debt rescheduling undertaken during 2022-23;
- A review of compliance with Treasury and Prudential Limits for 2022-23.

3 Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2022-23, which includes the Annual Investment Strategy, Capital Strategy and Non-Treasury Investment Report, was approved by the council on 10 February 2022.

3.2 The 2022-23 TMSS referred to in section 3.1 above requires revision as follows:

3.2.1 The implementation date of International Financial Reporting Standard 16 (IFRS16) on lease accounting has been deferred once again, this time to April 2024. It is proposed to amend the 2022-23 TMSS so that the 2022-23 Operational Boundary for other long term liabilities is reduced from £35m to £10m and the 2022-23 Authorised Limit for other long term liabilities is reduced from £45m to £15m.

3.2.2 As per section 4.2 and annex 2 of the 2022-23 TMSS, the council is authorised to invest in the UK Government (including gilts, treasury bills and the Debt Management Account Deposit Facility). Accordingly, for the purposes of clarification, it is proposed to amend the 2022-23 TMSS so that the relevant description in the 'time and monetary limits applying to investments' table in section 4.2 of the 2022-23 TMSS is changed from 'Debt Management Account Deposit Facility' to 'UK Government (including gilts, treasury bills and the Debt Management Account Deposit Facility)'. It is also proposed that the time limit applying to these investments is increased from 6 months to 2 years to give the council more investment options.

3.3 Overview of Treasury Activity

The council has continued to use its internal balances to help fund its borrowing requirement (section 6). This approach seeks to maximise net interest income (interest income on investments less the interest cost of debt) as there is a margin between investment and debt interest rates (section 5).

Given that the above approach requires liquid treasury balances to be available to meet borrowing requirements as and when needed, this means that most of the council's investments have been in readily accessible money market funds. For example, the increased base rate (annex 1) means it is more likely that the council will have the option of repaying the £4.5m Dexia loan (section 6.3). In addition, the interest received on money market funds adjusts relatively quickly to base rate increases.

Despite using internal balances to fund borrowing, the council still has a significant treasury balance (£56.827m as at 30 September 2022 as per section 5.6) with the main reason being grants received in advance. Although it is anticipated that some of these grants will be spent in the near future (another reason for maintaining liquid funds) there could still be scope for further diversifying the council's investments and the council is actively engaged with treasury brokers in this regard. It is proposed that the treasury management strategy be amended to facilitate any such investments (section 3.2.2).

4 The Council's Capital Position (Prudential Indicators)

4.1 This part of the report is structured to update:

- The council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.2 Prudential Indicator for Capital Expenditure

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

The revised GF budget includes net reprofiling of £24.441m (£42.478m unspent budgets from 2021-22 that have been rolled into 2022-23 less £18.037m subsequently transferred out). The revised HRA budget reflects the reprofiling of £15.279m budget from 2022-23 to 2023-24.

Capital Expenditure	2022-23 Original Budget £m	Current Position – Actual spend at 30-09-22 £m	2022-23 Revised Budget £m
General Fund	18.710	4.483	42.988
HRA	21.998	1.850	8.454

Total	40.708	6.333	51.442

Monitoring information on the capital programme at scheme level, including forecasts to the end of the financial year, is included in the regular Cabinet Budget Monitoring Reports.

4.3 Changes to the Financing of the Capital Programme

The table below takes the capital expenditure plans (as detailed in the previous table), and shows the expected financing arrangements of this capital expenditure.

The borrowing element of the table increases the underlying indebtedness of the council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2022-23 Original Budget £m Total	Current Position – Actual at 30-09-22 £m	2022-23 Revised Budget £m GF	2022-23 Revised Budget £m HRA	2022-23 Revised Budget £m Total
Total spend	**40.708**		**42.988**	**8.454**	**51.442**
Financed by:					
Capital receipts	1.905		2.844	1.091	3.935
Capital grants	16.934		33.624	0.343	33.967
Reserves	18.480		2.584	6.139	8.723
Revenue	0.300		0.000	0.300	0.300
Total financing	**37.619**		**39.052**	**7.873**	**46.925**
Borrowing need	**3.089**		**3.936**	**0.581**	**4.517**

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

The council's underlying need to borrow to fund its capital expenditure is termed the Capital Financing Requirement (CFR). The CFR can be thought of as the outstanding debt that still needs to be repaid in relation to the capital assets (buildings, vehicles etc) that the council has purchased or invested in. It can also be helpful to compare it to the outstanding balance that is still payable on a loan or a mortgage, in this case we are considering how much of the council's debt still needs to be paid for.

The table below shows the CFR, and also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

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

Prudential Indicator – the Operational Boundary for external debt

	2022-23 Original Estimate £m	Current Position – Actual at 30-09-22 £m	2022-23 Revised Estimate £m
Prudential Indicator – Capital Financing Requirement			
CFR –General Fund	37.743		25.991
CFR – HRA	30.220		28.809
Total CFR	67.963		54.800
Net movement in CFR	**16.284**		**3.121**
	2022-23 Original Indicator £m	**Current Position – Actual at 30-09-22 £m**	**2022-23 Revised Indicato r £m**
Prudential Indicator - the Operational Boundary for External Debt			
Borrowing	76.000	20.047	76.000
Other long term liabilities*	35.000	0.966	10.000
Total debt	**111.000**	**21.013**	**86.000**

** Any 'on balance sheet' PFI schemes and finance leases etc (including the leisure centre deferred credit).*

The original CFR estimate and original Operational Boundary indicator both include an allowance for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16). This allowance has been removed from both the revised CFR estimate and revised Operational Boundary indicator, as the IFRS 16 implementation date has been deferred once again, this time to April 2024.

4.5 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, borrowing will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022-23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2022-23 Original Estimate £m	Current Position – Actual at 30-09-22 £m	2022-23 Revised Estimate £m
Gross borrowing	48.944	20.047	48.157
Plus other long term liabilities*	12.829	0.966	0.796
Total gross borrowing	**61.773**	**21.013**	**48.953**

CFR (year end position)	67.963		54.800

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

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for external debt	2022-23 Original Indicator £m	Current Position – Actual at 30-09-22 £m	2022-23 Revised Indicator £m
Borrowing	81.000	20.047	81.000
Other long term liabilities*	45.000	0.966	15.000
Total	**126.000**	**21.013**	**96.000**

** Any 'on balance sheet' PFI schemes and finance leases etc (including the leisure centre deferred credit).*

The original CFR and Other Long Term Liabilities estimates and original Authorised Limit indicator all include an allowance for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16). This allowance has been removed from the revised CFR and Other Long Term Liabilities estimates and revised Authorised Limit indicator, as the IFRS 16 implementation date has been deferred once again, this time to April 2024.

5 Annual Investment Strategy 2022-23

5.1 The Treasury Management Strategy Statement (TMSS) for 2022-23, which includes the Annual Investment Strategy, was approved by council on 10 February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

5.2 The council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

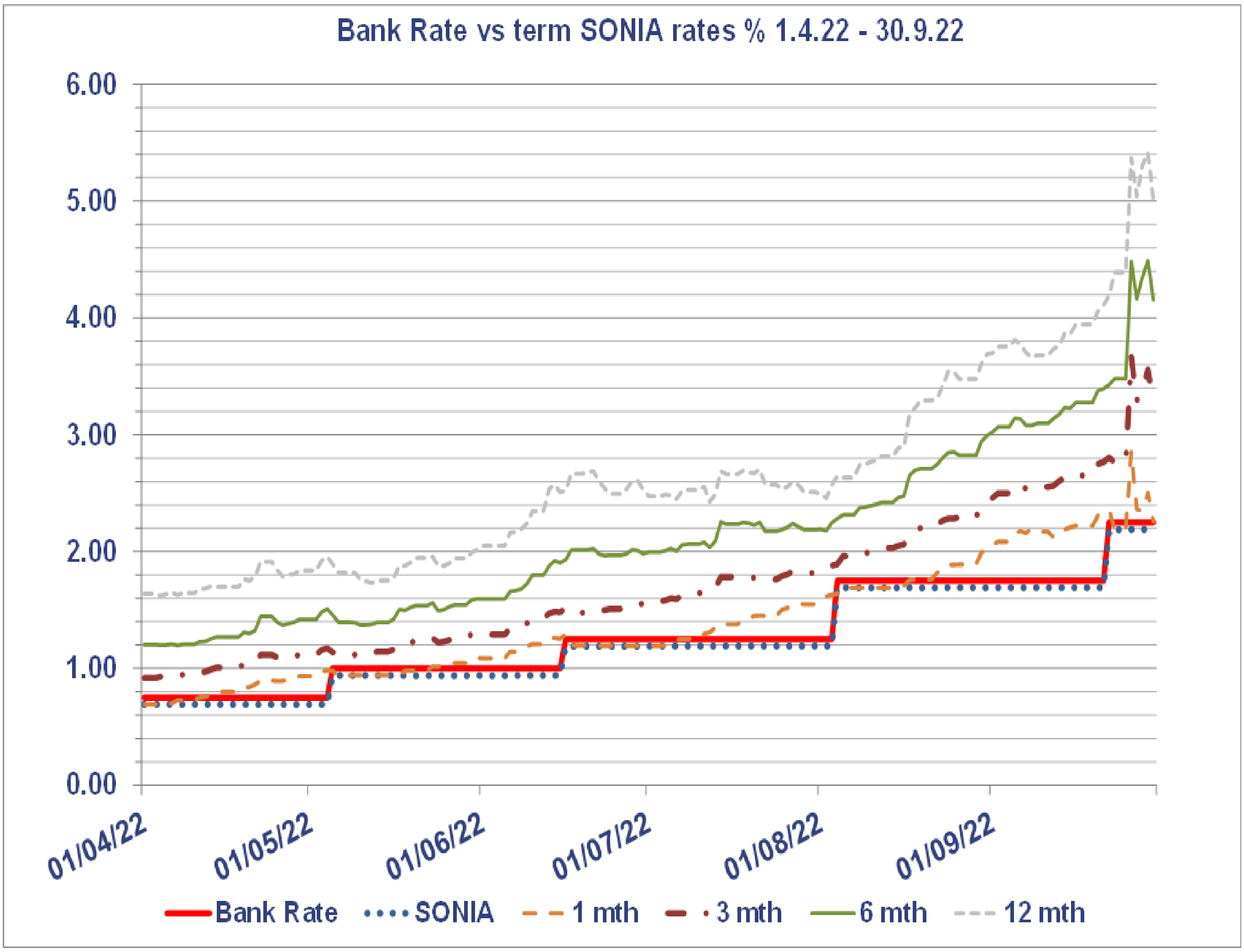
5.3 **Creditworthiness**

Following the Government's fiscal event on 23rd September, both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

5.4 **Credit Default Swap (CDS) prices**

It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

5.5 Investment rates during half year ended 30th September 2022



QUARTER ENDED 30/9/2022						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	2.25	2.19	2.86	3.67	4.49	5.41
High Date	22/09/2022	30/09/2022	26/09/2022	26/09/2022	29/09/2022	29/09/2022
Low	0.75	0.69	0.69	0.92	1.20	1.62
Low Date	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
Average	1.28	1.22	1.39	1.70	2.12	2.62
Spread	1.50	1.50	2.17	2.75	3.29	3.79

5.6 The council held £56.8m of investments as at 30 September 2022, with maturities all under one year (£51.308m at 31 March 2022). The investment portfolio yield for the first six months of the year is 1.17% against a benchmark (average 7 day SONIA compounded rate) of 1.19%. The constituent investments are:

Sector	Country	Total £m
Banks	UK	4.544
Money Market Funds	UK	51.283
Bond Funds	UK	1.000
Total		**56.827**

5.7 The Section 151 Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2022-23 except as described below.

5.8 Due to an error by one of the Council's financial providers, interest on a deposit in a money market fund was added to the deposit rather than being sent to the Council's bank account. This caused the Council's £6m limit for the fund to be exceeded by £4,385 for the period from 1 June to 8 June 2022.

5.9 Despite assurances to the contrary, the same error reoccured the following month, this time causing the limit to be exceeded by £5,335 from 1 July to 4 July 2022.

5.10 The council's budgeted investment return for 2022-23 is £0.167m (£0.084m half-year) and performance for the first half of the financial year is above budget at £0.322m. The revised estimate for 2022-23 is £1.050m.

5.11 Investment Risk Benchmarking

Investment risk benchmarks were set in the 2022-23 Treasury Management Strategy Statement (TMSS) for security, liquidity and yield. The mid-year position against these benchmarks is given below.

5.11.1 Security

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

- 0.05% historic risk of default when compared to the whole portfolio (excluding unrated investments).

The security benchmark for each individual year is (excluding unrated investments):

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

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

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

5.11.2 Liquidity

In respect of this area the council seeks to maintain:

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

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

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

5.11.3 Yield

Local measures of yield benchmarks are:

- Investments – Internal returns above the average 7 day SONIA compounded rate.

The Section 151 Officer can report that the yield on deposits for the first half of the financial year is 1.17% against a benchmark (average 7 day SONIA compounded rate) of 1.19%. The main reason for the differential is the time taken for the council's investments to adjust to base rate increases over the period.

5.12 Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function except as described in section 3 above.

6 Borrowing

6.1 The council's capital financing requirement (CFR) revised estimate for 2022-23 is £54.800m. The CFR denotes the council's underlying need to borrow for capital purposes. If the CFR is positive the council may borrow from the

PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The council has borrowings of £21.013m (table 4.5) and has utilised an estimated £33.787m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

6.2 No new external borrowing was undertaken during the first half of this financial year.

6.3 The council repaid £0.169m of maturing debt during the first half of this financial year using investment balances, as below:

Lender	Principal £'000	Interest Rate	Repayment Date
Salix	4	0.00%	01-04-22
PWLB	43	3.08%	25-04-22
PWLB	50	2.48%	27-05-22
PWLB	72	1.28%	20-06-22
Total	**169**		

As below, a further £0.165m of existing maturing debt is due to be repaid during the second half of this financial year. In addition, the council has a long term loan of £4.5m from Dexia which has a lender's option/borrower's option (LOBO) feature. The option allows Dexia to alter the interest rate every six months although, if Dexia exercises this option, the council may repay the loan. If Dexia decides not to exercise this option, the loan will continue at the fixed rate until maturity in 2065.

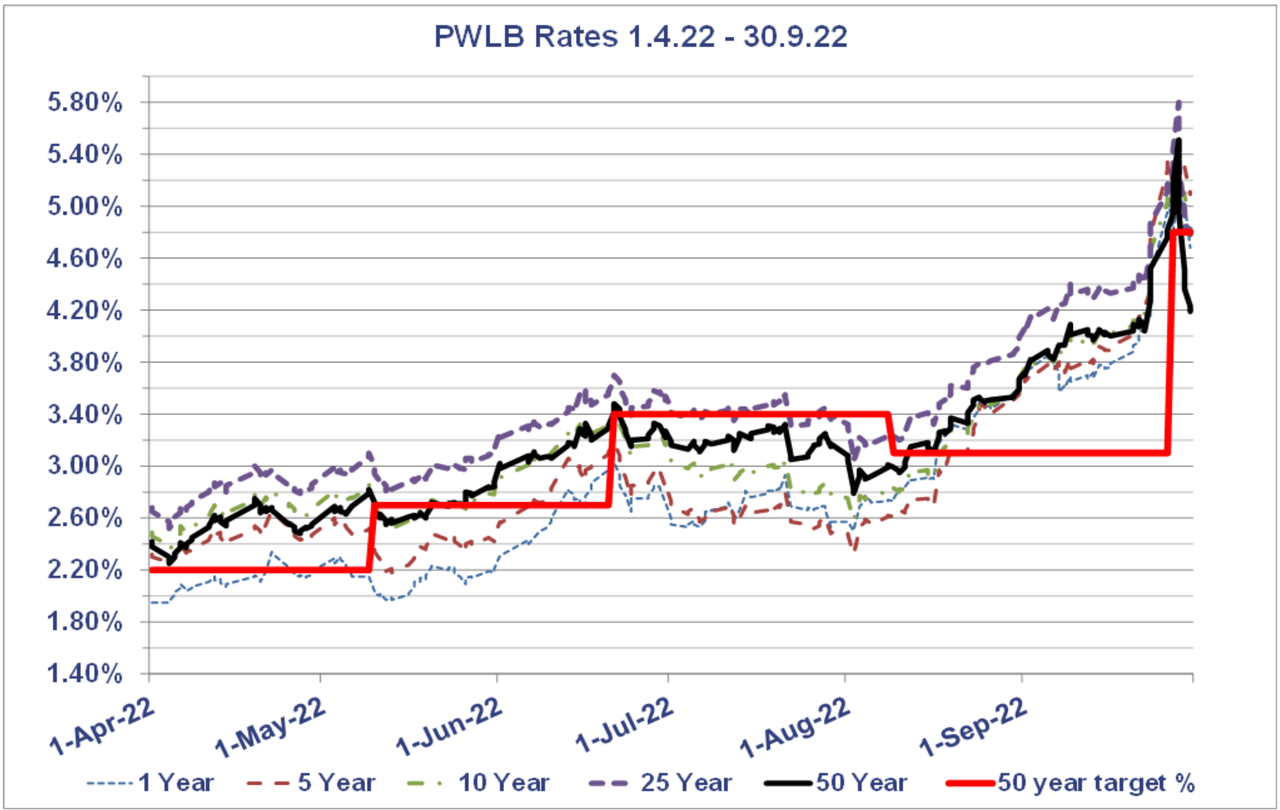
Lender	Principal £'000	Interest Rate	Repayment Date
PWLB	43	3.08%	24-10-22
PWLB	50	2.48%	28-11-22
PWLB	72	1.28%	20-12-22
Total	**165**		

6.4 Borrowing may be undertaken during the second half of this financial year and options will be reviewed in due course in line with market conditions. The capital programme is being kept under regular review due to the effects of inflation and shortage of capital receipts. The council's borrowing strategy will therefore also be regularly reviewed and then revised, if necessary, in order to achieve optimum value and risk exposure in the long-term.

6.5 Your Leisure Kent Limited, the company engaged to run the Council's leisure facilities, borrowed money from a financial institution to spend on the Council's leisure centres at Hartsdown and Ramsgate (with the Council acting as guarantor to these loans). As part of the Council's treasury management activities, it is planned for these loans to be novated from Your Leisure Kent Limited to the Council.

6.6 The graph and table below show the movement in PWLB borrowing rates for the first six months of the year to 30 September 2022.

6.7 PWLB borrowing rates during half year ended 30th September 2022



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

6.8 Gilt yields and PWLB rates were on a generally rising trend throughout H1 2022, the exception being a short rally in gilts in July/August. However, they rose exceptionally sharply towards the end of September.

6.9 Link's 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% and finished the half year at 4.80%, albeit that as at 7 October 2022 Link forecasts rates to fall back to 3.10% by the end of September 2025.

6.10 The current PWLB rates are set as margins over gilt yields as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

6.11 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. However, now that the whole of the yield curve has shifted higher there may be better opportunities in the future, although only prudent and affordable debt rescheduling will be considered. The council is currently under-borrowed to address investment counterparty risk and the differential between borrowing and investment interest rates. This position is carefully monitored.

6.12 The council's budgeted debt interest payable for 2022-23 is £1.571m (£0.786m half-year) and performance for the first half of the financial year is below budget at £0.405m, reflecting the use of internal borrowing (see section 6.1). The revised estimate for 2022-23 is £1.509m.

7 Treasury Management Indicators

7.1 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2022-23 Original Indicator	2022-23 Revised Indicator
GF	11.6%	6.6%
HRA	6.7%	3.0%

7.2 Maturity Structures of Borrowing

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

	2022-23 Original Upper Limit	Current Position – Actual at 30-09-22	2022-23 Revised Upper Limit
Maturity structure of fixed rate borrowing			
Under 12 months	50%	24%	50%
1 year to under 2 years	50%	13%	50%
2 years to under 5 years	50%	1%	50%
5 years to under 10 years	50%	12%	50%

10 years to under 20 years	50%	35%	50%
20 years to under 30 years	50%	10%	50%
30 years to under 40 years	50%	0%	50%
40 years to under 50 years	50%	5%	50%
50 years and above	50%	0%	50%

The current position shows the actual percentage of fixed rate debt the authority has within each maturity span. None of the upper limits have been breached.

8 Options

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

- Notes, and makes comments on as appropriate, this report and annexes.
- Recommends this report and annexes (including the prudential and treasury indicators that are shown and the proposed changes to the 2022-23 Treasury Management Strategy Statement) to council for approval.

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

9 Next Steps

9.1 This report is to go to the 8 December 2022 council meeting for approval.

10 Disclaimer

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

Contact Officer: Chris Blundell, Acting Deputy Chief Executive & Section 151 Officer
Reporting to: Colin Carmichael, Interim Chief Executive

Annex List

Annex 1: Economic Update, Interest Rate Forecast and Debt Maturity

Annex 2: Guidance on the Treasury Management Strategy Statement and Annual Investment Strategy – Mid Year Review Report 2022-23

Corporate Consultation Undertaken

Finance: N/A
Legal: Sameera Khan, Interim Head of Legal & Monitoring Officer

ANNEX 1 – ECONOMIC UPDATE, INTEREST RATE FORECAST AND DEBT MATURITY

1 Link's Economic Update (issued by Link on 7 October 2022)

1.1 The second quarter of 2022/23 saw:

- Gross Domestic Product (GDP) revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- Consumer Price Index (CPI) inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises expected to come;
- Gilt yields surge and sterling fall following the "fiscal event" of the new Prime Minister and Chancellor on 23rd September.

1.2 The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

1.3 There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

1.4 The fall in the composite Purchasing Managers' Index (PMI) from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

1.5 The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

1.6 CPI inflation eased from 10.1% in July to 9.9% in August, though inflation may not have peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below $90pb, Link would expect to see fuel prices fall further in the coming months.

1.7 However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

1.8 Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

1.9 During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of GDP) over 2 years, will reduce peak estimated inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

1.10 Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of $1.035 on the Monday following the government's "fiscal event", it has since recovered to around $1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

1.11 The Monetary Policy Committee (MPC) has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Federal Reserve (Fed) and European Central Bank (ECB) raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

1.12 Since the fiscal event on 23rd September, Link now expects the MPC to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February

2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means Link expects the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in Link's forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

1.13 Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharp at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

1.14 Since the Bank's announcement on 28th September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

1.15 There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31st October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

1.16 After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is 7.2% below its level at the start of the quarter, whilst the FTSE 100 is 5.2% below it as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.

2 Link's Interest Rate Forecast (issued by Link on 7 October 2022)

2.1 The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

2.2 The latest forecast by Link on 27th September sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

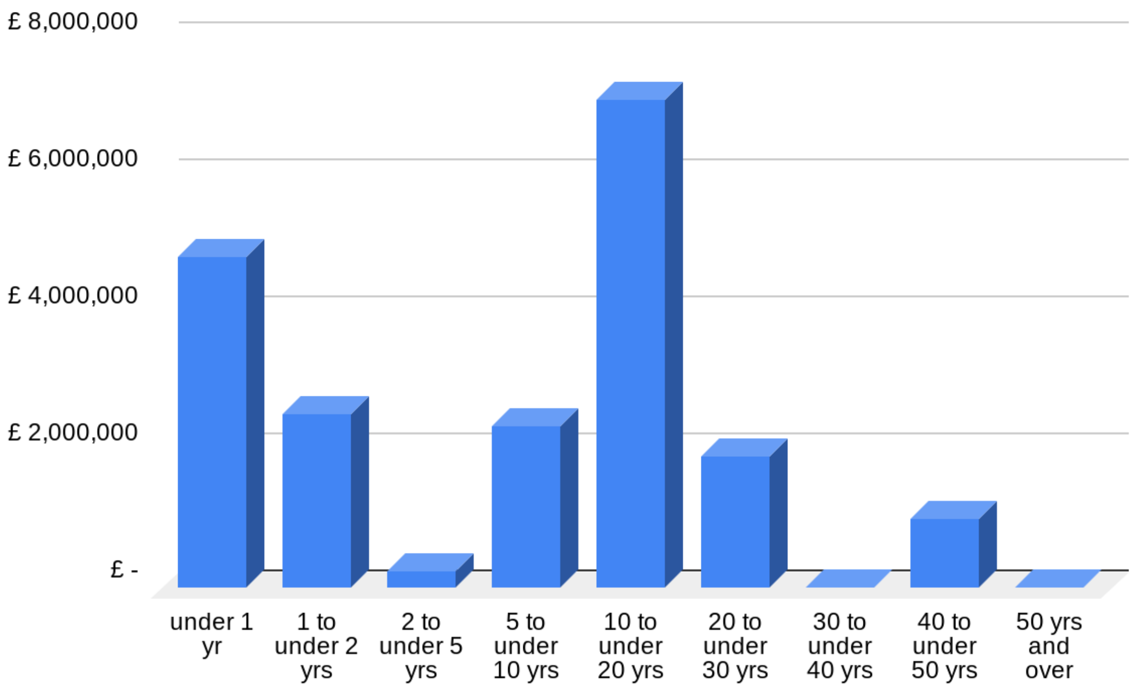
2.3 The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but its job is that much harder now.

2.4 Link's PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View 27.09.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

3 Debt Maturity

3.1 The maturity structure of the Council's borrowing as at 30 September 2022 (as per section 7 of the main report) is shown below in graph format.



3.2 As per section 6.3 of the main report, £0.169m of council debt with the PWLB matured, and was repaid, during the first half of this financial year.

This page is intentionally left blank

ANNEX 2 – GUIDANCE ON THE TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW REPORT 2022-23

Prudential Code

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

Capital Expenditure

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

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

Borrowing Limits

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

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

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

Investments

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

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.

Borrowing Sources/ Types

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

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

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

Financing Costs as a Proportion of Net Revenue Stream

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

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

Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2023-24

Governance & Audit Committee	30 November 2022
Report Author	Chris Blundell, Acting Deputy Chief Executive and Section 151 Officer
Portfolio Holder	Councillor David Saunders, Cabinet Member for Finance
Status	For Decision
Classification	Unrestricted
Previously Considered by	n/a
Ward	Thanet Wide

Executive Summary:

This report and annexes includes the proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement, Annual Investment Strategy, Capital Strategy and Non-Treasury Investments Report (TMSS) for 2023-24.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

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:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

Key reporting items to consider include:

- capital expenditure of £92.212m forecast over the next three years (2023-24 to 2025-26 inclusive), requiring borrowing of £24.946m.

- No change to the Minimum Revenue Provision policy (policy for paying off the accumulated borrowing requirement).

- This report is in-line with the amendments as per the Treasury Management and Annual Investment Strategy Mid Year 2022-23 Review to reflect the further deferral of International Financial Reporting Standard 16 (IFRS16) on lease accounting to April 2024 and changes to the UK Government row in the table in section 4.2 of this report.

Recommendation(s):

That the Governance & Audit Committee:

1. Notes, and makes comments on as appropriate, this report and annexes, including each of the key elements listed below.

    a. The Capital Plans, Prudential Indicators and Limits for 2023-24 to 2025-26, including the Authorised Limit Prudential Indicator;
    b. The Minimum Revenue Provision (MRP) Policy;
    c. The Treasury Management Strategy for 2023-24 to 2025-26 and the Treasury Indicators;
    d. The Investment Strategy for 2023-24 contained in the Treasury Management Strategy, including the detailed criteria;
    e. The Capital Strategy for 2023-24;
    f. The Non-Treasury Investments Report for 2023-24.

2. Recommends this report and annexes, including each of the key elements listed above, to council for approval.

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 Acting Deputy Chief Executive, and this report is helping to carry out that function.

Risk Management

Risk management is as per the provisions of this annual Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

Corporate

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

Equalities Act 2010 & Public Sector Equality Duty

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

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

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities.

1 INTRODUCTION

1.1 Background

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

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

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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

CIPFA defines treasury management as:

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

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare reports which will provide the following:

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

The aim of this is to ensure:

- that all elected members of the council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- the separation of treasury management and policy investments. The CIPFA definition of treasury management is given in section 1.1 and the key priorities are firstly security, secondly portfolio liquidity, and thirdly yield/return (in that order). Policy investments are typically projects relating to expenditure on fixed assets (such as land and buildings) for service purposes, and would be included on the capital programme.

For this council, these additional reports are the Capital Strategy (see Annex 4) and the Non-Treasury Investments Report (see Annex 5).

1.2.2 Treasury Management reporting

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

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

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

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

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

1.2.3 The council's 2020-21 and 2021-22 accounts have not yet been audited and hence the figures in this report are subject to change.

1.3 Treasury Management Strategy for 2023-24

The strategy for 2023-24 covers two main areas:

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

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

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

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was last undertaken by members on 24 March 2022 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 External service providers

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

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

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

The council uses the Institutional Cash Distributors (ICD) Portal to invest or redeem trades in its Money Market and Bond Funds (MMBFs). The portal provides advanced reporting tools so that the authority can assess its exposure to certain banks or countries.

Most investments via the ICD portal are made via JP Morgan, who act as a clearing house for eleven of the fourteen MMBFs the council currently uses. The clearing house allows the authority to make several investments in different MMBFs but only requires one payment to the clearing house, therefore saving the authority costs in CHAPS fees.

2 THE CAPITAL PRUDENTIAL INDICATORS 2023-24 – 2025-26

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

2.1 Capital expenditure and financing

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

Capital expenditure £m	2021-22 Provisional Actual	2022-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget
General Fund	7.425	42.988	30.119	10.497	8.521
HRA	5.301	8.454	20.544	11.504	11.027
Total	**12.726**	**51.442**	**50.663**	**22.001**	**19.548**

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

Financing of capital expenditure £m	2021-22 Provisional Actual	2022-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget
Capital receipts - GF	0.760	2.844	2.655	0.250	0.250
Capital receipts - HRA	0.173	1.091	0.935	0.030	0.030
Grants and other contributions- GF	5.638	33.624	24.456	5.510	3.600
Grants and other contributions - HRA	0.022	0.343	0.050	2.940	2.940

Reserves - GF	0.400	2.584	0.000	0.000	0.000
Reserves - HRA	4.290	6.139	16.449	3.374	2.897
Revenue - GF	0.000	0	0.000	0.000	0.000
Revenue - HRA	0.288	0.300	0.300	0.300	0.300
Net financing need for the year	**1.155**	**4.517**	**5.818**	**9.597**	**9.531**

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

2.2 The council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure (on buildings, vehicles etc) which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's indebtedness and so its underlying borrowing need. It can also be helpful to compare it to the outstanding balance that is still payable on a loan or a mortgage, in this case we are considering how much of the council's debt still needs to be paid for. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of scheme include a borrowing facility from the provider and so the council is not required to separately borrow for these schemes. The council had £1.136m of long term liabilities (excluding pensions) as at 31 March 2022.

The council is asked to approve the CFR projections below:

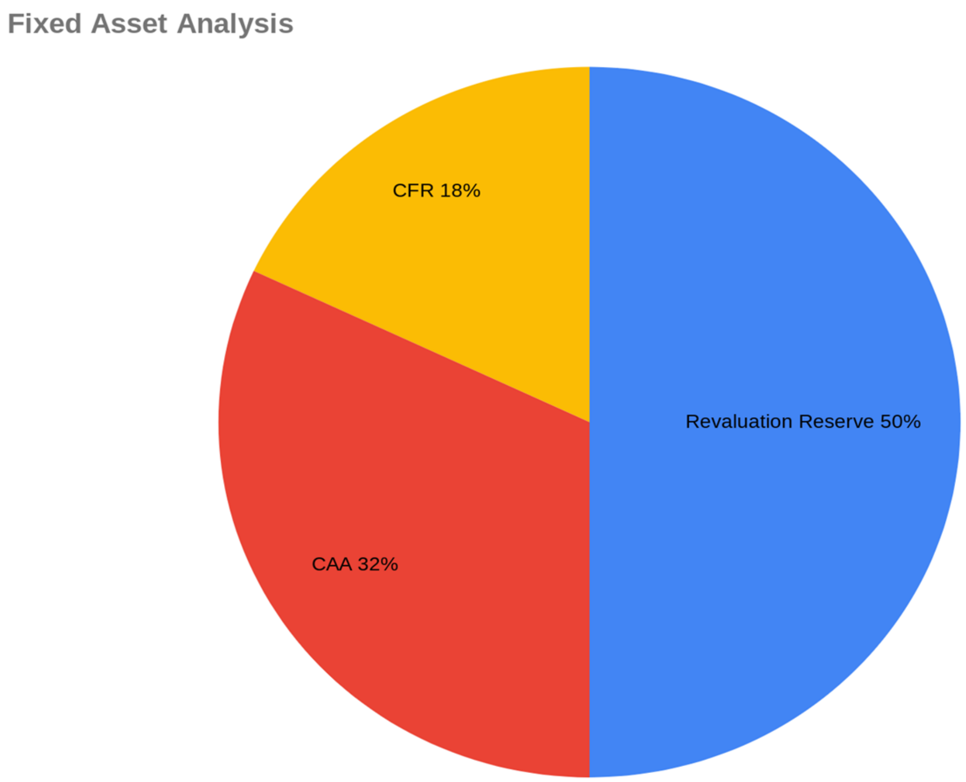
£m	2021-22 Provisional Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Capital Financing Requirement					
CFR – General Fund	23.165	25.991	27.627	42.717	45.365
CFR – HRA	28.514	28.809	31.331	35.878	40.379
Total CFR	**51.679**	**54.800**	**58.958**	**78.595**	**85.744**
Movement in CFR	**(5.006)**	**3.121**	**4.158**	**19.637**	**7.149**

Net financing need for the year (above)	1.155	4.517	5.818	9.597	9.531
Less loan / liability repayments	(4.721)	0.000	0.000	0.000	0.000
Less MRP/VRP and other financing movements*	(1.440)	(1.396)	(1.660)	10.040	(2.382)
Movement in CFR	**(5.006)**	**3.121**	**4.158**	**19.637**	**7.149**

**2024-25 includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16).*

The Fixed Asset Analysis chart below shows that, using the council's draft accounts as at 31 March 2022, 18% of the council's capital / long-term assets had yet to be funded (CFR) and 32% had effectively been paid off or funded (Capital Adjustment Account). The remaining 50% represented the aggregate increase in value of these assets since acquisition by the council.

Fixed Asset Analysis	**£m**	**%**
Capital Financing Requirement (CFR)	52	18
Capital Adjustment Account (CAA)	94	32
Revaluation Reserve	149	50
Fixed Assets (total of above)	**295**	**100**



2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £m	2021-22 Provisional Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Fund balances / reserves	23.432	21.665	9.026	9.762	11.275
Capital receipts	7.396	5.423	5.238	1.505	0.000
Earmarked reserves	22.551	10.151	9.201	8.621	8.031
Total core funds	**53.379**	**37.239**	**23.465**	**19.888**	**19.306**
Balances incl working capital*	28.256	3.608	16.463	18.453	17.398
(Under)/over borrowing	(30.327)	(5.847)	(4.928)	(3.341)	(1.704)
Expected investments	**51.308**	**35.000**	**35.000**	**35.000**	**35.000**

Factors in the reduction of core funds after 2021-22 include the utilisation of Covid reserves and the HRA Major Repairs Reserve.

**Working capital balances shown are estimated year end; these may be different mid-year and can vary significantly depending on operational timing factors.*

2.4 Minimum revenue provision (MRP) policy statement

The council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

DLUHC regulations have been issued which require the full council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former DLUHC regulations (option 1).

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

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

MRP Overpayments - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum MRP, VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose any cumulative overpayment made each year.

3 BORROWING

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

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2022, and the position as at 30 September 2022, are shown below for both borrowing and investments.

TREASURY PORTFOLIO (provisional)				
	Actual 31 March 2022	**Actual 31 March 2022**	**Actual 30 Sept 2022**	**Actual 30 Sept 2022**
Treasury Investments	**£m**	**%**	**£m**	**%**
Banks	4.185	8.15	4.544	8.00
Money Market Funds	46.124	89.90	51.283	90.24
Bond Funds	0.999	1.95	1.000	1.76
Total (all managed in-house)	**51.308**	**100.00**	**56.827**	**100.00**
Treasury External Borrowing				
PWLB	15.712	77.72	15.547	77.55
LOBOs	4.500	22.26	4.500	22.45
Salix	0.004	0.02	0.000	0.00
Total	**20.216**	**100.00**	**20.047**	**100.00**
Net treasury investments / (borrowing)	**31.092**		**36.780**	

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

£m	**2021-22 Provisional Actual**	**2022-23 Estimate**	**2023-24 Estimate**	**2024-25 Estimate**	**2025-26 Estimate**
External Debt					
Debt at 1 April	24.394	20.216	48.157	53.433	62.657
Expected change in Debt	(4.178)	27.941	5.276	9.224	9.132
Other long-term liabilities (OLTL) at 1 April	1.509	1.136	0.796	0.597	12.596

Expected change in OLTL*	(0.373)	(0.340)	(0.199)	12.000	(0.345)
Gross debt at 31 March	**21.352**	**48.953**	**54.030**	**75.254**	**84.040**
The Capital Financing Requirement*	51.679	54.800	58.958	78.595	85.744
Under / (over) borrowing	**30.327**	**5.847**	**4.928**	**3.341**	**1.704**

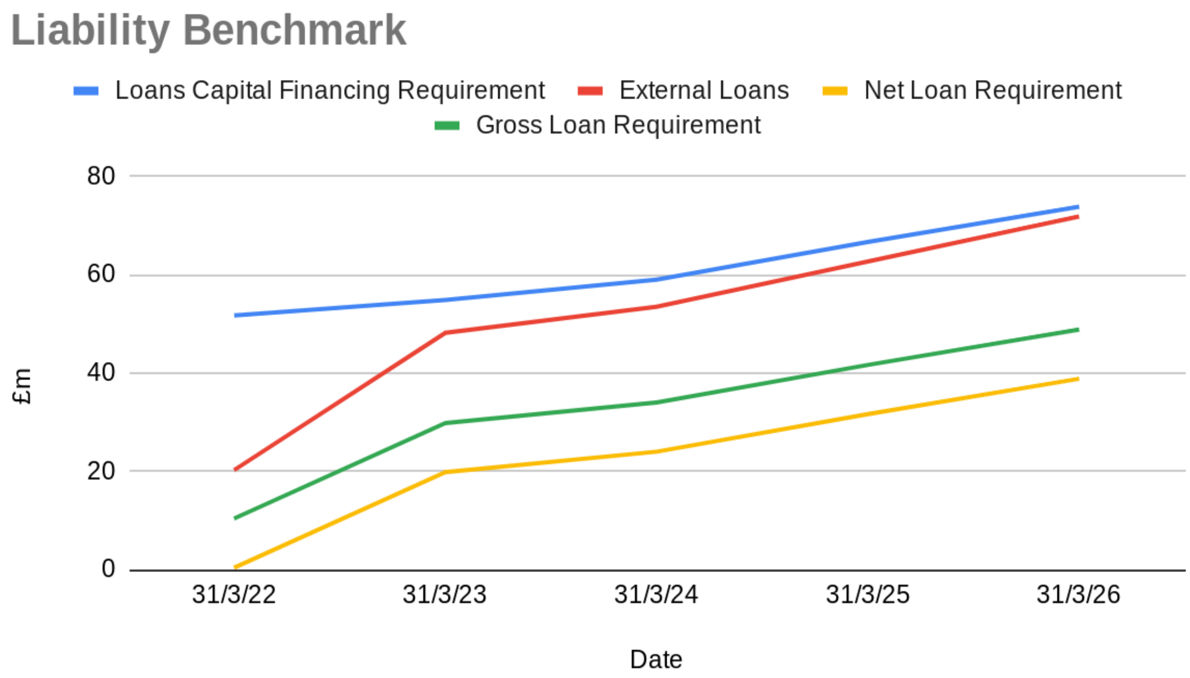
**2024-25 includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16).*

Within the range of prudential indicators there are a number of key indicators to ensure that the council operates its activities within well defined limits. One of these is that the council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023-24 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

3.1.1 Liability Benchmark

The chart below shows the council’s maximum loan position (Loans Capital Financing Requirement), the council’s budgeted loan position (External Loans), the council’s projected loan position if all treasury balances were used in place of external borrowing (Net Loan Requirement) and the Net Loan Requirement with the addition of a £10m treasury balance buffer to reflect that the council seeks to maintain liquid short term deposits of at least £10m available with a week’s notice as per this report (Gross Loan Requirement).



As can be seen, External Loans are projected to approach the Loans CFR in future years, ensuring that external loan balances and interest are factored into budgets. However, the council will continue to explore and utilise internal borrowing opportunities as appropriate to reduce its net interest cost.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Debt	76.000	76.000	81.000	88.000
Other long term liabilities (incl leases)	10.000	10.000	35.000	35.000
Total	86.000	86.000	116.000	123.000

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The council is asked to approve the following authorised limit:

Authorised limit £m	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
Debt	81.000	81.000	86.000	93.000
Other long term liabilities (incl leases)	15.000	15.000	45.000	45.000
Total	96.000	96.000	131.000	138.000

Composition of Operational Boundary and Authorised Limit

Debt (in both the Operational Boundary and Authorised Limit above) for 2022-23 onwards includes:

a) A £4m uplift for capital expenditure being incurred in advance of generating capital receipts to fund this expenditure although, for clarity, any such expenditure is not limited to £4m. As this is anticipated to be a relatively short-term timing difference it has not been reflected elsewhere in this report. Potential examples of such projects include Office Accommodation and Public Toilet Refurbishment.

b) a £5m uplift to provide additional capacity for any non-treasury investments that the council may pursue. For clarity, any such investments are not limited to £5m and are in addition to any such amounts already included within the capital and treasury estimates. This has not been reflected elsewhere in this report, pending the formulation and approval of any such items.

Other long term liabilities (in both the Operational Boundary and Authorised Limit above) includes an estimate for the recognition of leases under International Financial Reporting Standard 16 (IFRS 16) from April 2024. Once full details are known, the Operational Boundary and/or Authorised Limit may need to be revised for approval.

3.3 Link's economic and interest rate forecast (issued by Link on [date])

The council has appointed Link Group as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates. Link provided the following forecasts on [date].

[Link forecast to be inserted]

Further details are provided in annex 6.

3.4 Borrowing strategy

The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are lower than debt interest costs and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2023-24 treasury operations. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates*, then borrowing will be postponed.

- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than those currently forecast* then the portfolio position will be re-appraised. For example, fixed rate funding could be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

3.5 Policy on borrowing in advance of need

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

Borrowing in advance will be made within the constraints that:

- The authority would not look to borrow more than 18 months in advance of need.

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

3.6 Debt rescheduling

[Link view of rescheduling to be inserted]

If rescheduling were done, it will be reported to Cabinet at the earliest meeting following its action.

3.7 New financial institutions as a source of borrowing and / or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still be given to sourcing funding from the following sources:

- Local authorities
- Financial institutions (primarily insurance companies and pension funds but also some banks, including forward dates)
- Municipal Bonds Agency
- Other sources of government funding (such as the UK Infrastructure Bank and Salix Finance for example).

3.8 Approved Sources of Long and Short term Borrowing

The council may make use of borrowing from internal sources, PWLB, local authorities, financial institutions, the Municipal Bonds Agency, and/or other sources of government funding as and when appropriate.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy - management of risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments (as managed by the treasury management team). Non-financial investments are covered in the Capital Strategy and Non-Treasury Investments Report (separate annexed reports).

The Council's investment policy has regard to the following: -
- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the Code")
- CIPFA Treasury Management Guidance Notes

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

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

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

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

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

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

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year (or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year).

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

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments at £5m (see paragraphs 4.2, 4.3 and 4.4).

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

7. This authority will set a limit for the amount of its investments which are invested for maturities **longer than 365 days** (see paragraphs 4.2 and 4.4).
8. This authority will set a limit for the amount of its investments which are invested in **longer-term instruments with no fixed maturity date** (see paragraphs 4.2 and 4.4).

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

10. This authority has engaged **external consultants**, (see paragraph 1.5) to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

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

12. As a result of the change in accounting standards under **IFRS 9,** this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, The Ministry of Housing, Communities and Local Government (MHCLG) concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.

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

Changes in risk management policy from last year.
The above criteria are unchanged from last year, apart from the addition of criterion 8 above (which is now a requirement of the Prudential and Treasury Management Codes).

4.2 Creditworthiness policy

The primary principle governing the council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the council's prudential indicators covering the maximum principal sums invested.

The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by the Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum council criteria may be suspended from use, with all others being reviewed in light of market conditions.

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

- Banks 1 - good credit quality – the council will only use banks which:
  i. are UK banks; and/or
  ii. are non-UK and domiciled in a country which has a minimum sovereign long term rating of AA-

  and have, as a minimum, the following credit rating from at least one of Fitch, Moody's and Standard and Poors (where rated):

  i. Short term – F1 (or equivalent)
  ii. Long term – A- (or equivalent)
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland Group ring-fenced operations. This bank can be included provided it continues to be part nationalised or it meets the above criteria.
- Banks 3 – The council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operations: If separately rated, the council will use those that meet the ratings/criteria for banks outlined above. If not separately rated, the council will use these where the parent bank has the necessary ratings/criteria outlined above.

- Building societies: The council will use all societies which meet the ratings/criteria for banks outlined above.
- Money market funds, enhanced money market funds, bond funds – AAA
- UK Government (including gilts, treasury bills and the DMADF)
- Local authorities, parish councils, community councils, companies controlled by the council (either alone or with other public sector organisations) etc
- Housing associations
- Supranational institutions
- Multi-asset funds

A limit of £5m will be applied to the use of non-specified investments.

Use of additional information other than credit ratings. Additional requirements under the Code require the council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long Term Rating (or equivalent)*	Money Limit	Time Limit (settlement period)
Level 1	**AA-**	**£6m per institution**	**370 days**
Level 2	**A**	**£5m per institution**	**370 days**
Level 3	**A-**	**£4m per institution**	**185 days**
Part nationalised	**N/A**	**£7m per institution**	**370 days**
UK Government (including gilts, treasury bills and the Debt Management Account Deposit Facility)	**UK sovereign rating**	**unlimited**	**2 years**
Money market funds, enhanced money market funds, bond funds	**AAA**	**£6m per fund**	**370 days**
Local authorities, parish councils, community councils, companies controlled by the council (either alone or with other public sector organisations), housing associations, supranational institutions etc	**N/A**	**£4m per institution**	**5 years**

Multi-asset funds	**N/A**	**£5m per fund**	**370 days**

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

The proposed criteria for specified and non-specified investments are shown in Annex 2 for approval.

Creditworthiness
[Link update to be inserted]

CDS prices
[Link update to be inserted]

Link monitors CDS prices as part of its creditworthiness service to local authorities and the council has access to this information via its Link-provided Passport portal.

4.3 Other limits

Due care will be taken to consider the exposure of the council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified investment limit.** The council has determined that it will limit the maximum total exposure to non-specified investments at £5m.

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

c) **Other limits.** In addition:

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

The above restrictions do not apply to pooled investment vehicles (including multi-asset funds (apart from the non-specified investment limit), money market funds, enhanced money market funds and bond funds). The council only invests in sterling denominated pooled investment vehicles.

4.4 Investment strategy

In-house funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

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

Link's investment returns expectations (issued by Link on [date]):

[Link forecast to be inserted]

Investment treasury indicator and limit - total principal funds invested for maturities greater than 365 days. These limits are set with regard to the council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The council is asked to approve the following treasury indicator and limit: -

Upper limit for principal sums invested for maturities longer than 365 days			
£m	**2022-23**	**2023-24**	**2024-25**
Principal sums invested for maturities longer than 365 days	£5m	£5m	£5m

Investments as at 31 September 2022 invested for maturities longer than 365 days were £nil.

For its cash flow generated balances, the council will seek to utilise its instant access and notice accounts, pooled investment vehicles and term deposits in order to benefit from the compounding of interest.

Investment treasury indicator and limit - longer term treasury management investments. Longer term instruments with no fixed maturity date include pooled bond, equity and property funds (but not money market funds), as well as directly held equities.

The council has determined that it will limit the maximum total exposure to longer term treasury management investments at £5m.

Investments made in longer term treasury management investments as at 31 September 2022 were £1m (in a bond fund). Despite this categorization for TMSS purposes, this bond fund is still held for cash flow purposes given that it seeks to maintain liquidity with a low level of capital volatility and has a settlement period of two days.

4.5 Investment performance / risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmarks is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the Mid-Year or Annual Report.

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

- 0.05% historic risk of default when compared to the whole portfolio (excluding unrated investments).

Liquidity – in respect of this area the council seeks to maintain:

- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be in the range of 0 to 1 years, with a maximum of 5 years.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day SONIA compounded rate.

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

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

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

4.6 End of year investment report

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

4.7 Use of external fund managers

Except for pooled funds, it is the council's policy not to use external fund managers for any part of its investment portfolio.

The council may use pooled investment vehicles and fully appreciates the importance of monitoring the activity and resultant performance of such investments. In order to aid this assessment, the council is provided with a suite of regular reporting from its providers.

4.8 Ethical investing

Although investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt the principles of security, liquidity and yield (in that order) the council is committed to ethical high standards and declared a climate emergency on 1 July 2019; doing what is within its power to become carbon neutral by 2030 within its estates and activities. This includes establishing a Climate Emergency Cabinet Advisory Group to drive the production of an Energy and Low Emissions Strategy and action plan (linked with the Kent Energy and Low Emission Strategy) and a Council Tree and Biodiversity Strategy (to address both climate change and the ecological emergency).

Environmental, Social and Governance (ESG) metrics are incorporated into the credit rating agency assessments which the council uses in its investment strategy.

Typical ESG considerations are shown below.

Environmental: Emissions and air quality, energy and waste management, waste and hazardous material, exposure to environmental impact.

Social: Human rights, community relations, customer welfare, labour relations, employee wellbeing, exposure to social impacts.

Governance: Management structure, governance structure, group structure, financial transparency.

5 COMMERCIAL INVESTMENTS

The council's Non-Treasury Investments Report 2023-24 (Annex 5) stipulates that, for a new non-treasury investment in a new asset, the council may only purchase property, make investments and/or make loans for service purposes (i.e. not for purely/primarily commercial purposes, though it may still generate revenue).

If a local authority is planning to acquire investment assets bought primarily for yield then it is now unable to borrow from the PWLB to finance any expenditure in its capital plan.

6 OPTIONS

6.1 That the Governance & Audit Committee:

a) Notes, and makes comments on as appropriate, this report and annexes, including each of the key elements listed below.

- The Capital Plans, Prudential Indicators and Limits for 2023-24 to 2025-26, including the Authorised Limit Prudential Indicator.
- The Minimum Revenue Provision (MRP) Policy.
- The Treasury Management Strategy for 2023-24 to 2025-26 and the Treasury Indicators.
- The Investment Strategy for 2023-24 contained in the Treasury Management Strategy, including the detailed criteria.
- The Capital Strategy for 2023-24.
- The Non-Treasury Investments Report for 2023-24.

b) Recommends this report and annexes, including each of the key elements listed above, to council for approval.

6.2 Does not approve this report and annexes (advising the reason(s) why); thereby not complying with the Treasury Management Code of Practice.

9 Next Steps

9.1 This report is to go to the 12 January 2023 Cabinet meeting, and then to the 9 February 2023 council meeting for approval.

10 DISCLAIMER

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

Contact Officer: Chris Blundell, Acting Deputy Chief Executive & Section 151 Officer
Reporting to: Colin Carmichael, Interim Chief Executive

Annex List

Annex 1: The Capital Prudential and Treasury Indicators 2021-22 – 2025-26
Annex 2: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management
Annex 3: Guidance on Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy (TMSS)
Annex 4: Capital Strategy 2023-24
Annex 5: Non-Treasury Investments Report 2023-24
Annex 6: Link's Economic and Interest Rate Forecast (issued by Link on [date])

Corporate Consultation Undertaken

Finance: N/A
Legal: Sameera Khan, Interim Head of Legal & Monitoring Officer

This page is intentionally left blank

ANNEX 1 - THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2021-22 – 2025-26

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

1. Capital expenditure

Capital expenditure £m	2021-22 Actual	2022-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget
General Fund	7.425	42.988	30.119	10.497	8.521
HRA	5.301	8.454	20.544	11.504	11.027
Total	**12.726**	**51.442**	**50.663**	**22.001**	**19.548**

2. Affordability prudential indicators

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

a. **Ratio of financing costs to net revenue stream** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2021-2022 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
General Fund	7.8	6.6	9.5	13.8	17.5
HRA	4.6	3.0	4.6	6.9	8.1

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

b. **HRA ratios**

	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
HRA debt £m	12.587	28.809	31.331	35.878	40.379
HRA rents £m	13.670	14.198	14.866	15.859	16.221
Ratio of debt to rents %	92.1	202.9	210.8	226.2	248.9

£	2021-22 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
HRA debt £m	12.587	28.809	31.331	35.878	40.379

Number of HRA dwellings	3,062	3,046	3,026	3,037	3,017
Debt per dwelling £	4,111	9,458	10,354	11,814	13,384

3. Maturity structure of borrowing

These gross limits are set to reduce the council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

Maturity structure of fixed interest rate borrowing 2022-23		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to under 2 years	0%	50%
2 years to under 5 years	0%	50%
5 years to under 10 years	0%	50%
10 years to under 20 years	0%	50%
20 years to under 30 years	0%	50%
30 years to under 40 years	0%	50%
40 years to under 50 years	0%	50%
50 years and above	0%	50%

Maturity structure of variable interest rate borrowing 2022-23		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to under 2 years	0%	50%
2 years to under 5 years	0%	50%
5 years to under 10 years	0%	50%
10 years to under 20 years	0%	50%
20 years to under 30 years	0%	50%
30 years to under 40 years	0%	50%
40 years to under 50 years	0%	50%
50 years and above	0%	50%

4. Control of interest rate exposure

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

5. Ratio of investment property net income to net revenue stream

Ratio of investment property net income to net revenue stream This indicator identifies the trend in the relative significance of investment property income.

%	2021-2022 Actual	2022-23 Estimate	2023-24 Estimate	2024-25 Estimate	2025-26 Estimate
General Fund	2.7	2.9	3.1	3.1	3.1

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

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This council adopts the Code and will apply its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy

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

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the council will use. These are high security (i.e. high credit rating, although this is defined by the council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments - These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months, once the remaining period to maturity falls to under 12 months.These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. Local authorities, housing associations, parish councils, community councils, companies controlled by the council (either alone or with other public sector organisations) etc.
4. Money market funds, enhanced money market funds and bond funds that have been awarded a high credit rating by a credit rating agency. This covers pooled

investment vehicles rated AAA by Standard and Poor's, Moody's and/or Fitch rating agencies (where rated).

5. A body that is considered of a high credit quality (such as a bank or building society). This covers bodies with a minimum short term rating of F1 (or the equivalent) and minimum long term rating of A- (or the equivalent) as rated by at least one of Standard and Poor's, Moody's and/or Fitch rating agencies (where rated).
6. Any part nationalised UK bank or building society.
7. Any subsidiary and treasury operations that meet the above criteria or, if not separately rated, where the parent bank or building society has the necessary ratings outlined above.
8. The council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

Within these bodies, and in accordance with the Code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies, as set out in the council's annual investment strategy.

Non-specified investments

Non-specified investments are any other type of investment (i.e. not defined as specified above). The council may only use the following non-specified investments:

1. Those with a maturity of no more than 5 years and which otherwise meet the above criteria for specified investments.

2. Multi-asset funds.

The council has applied a limit of £5m for non-specified investments.

The monitoring of investment counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

Use of external fund managers: Except for pooled funds, it is the council's policy not to use external fund managers for any part of its investment portfolio. The council may use pooled investment vehicles and fully appreciates the importance of monitoring the activity and resultant performance of such investments. In order to aid this assessment, the council is provided with a suite of regular reporting from its providers.

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

Prudential Code

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

Capital Expenditure

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

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

Borrowing Need (Capital Financing Requirement)

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

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

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

Core Funds and Expected Investment Balances

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

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

MRP Policy Statement

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

Borrowing

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

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

PWLB is the Public Works Loan Board, which is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

Basis Points

The report may refer to basis points, which is a unit of measure for interest rates. 1 basis point is equal to 0.01%, so 100 basis points is 1%.

Annual Investment Strategy

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

- Creditworthiness of investment counterparties.
- Counterparty money limits.
- Counterparty time limits.
- Counterparty country limits.

Ratio of Financing Costs to Net Revenue Stream

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

Ratio of Investment Property Net Income to Net Revenue Stream

This table (annex 1 of report) shows the relative size of the Council's income from investment property.

ANNEX 4: THANET DISTRICT COUNCIL - CAPITAL STRATEGY 2023-24

1. Background

It is a requirement of the CIPFA Prudential Code for Capital Finance in Local Authorities that local authorities produce a Capital Strategy for consideration and approval by Members.

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

2. Priorities and Objectives

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

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

a) Corporate Plan/council priorities, including any environmental impact, are considered when prioritising limited resources (see section 3 below).

b) All financial implications arising from the project are identified (e.g. match funding requirements and ongoing unsupported revenue costs etc.).

c) The correct authorisation is obtained to enter into an agreement for capital expenditure.

d) The project progresses as approved and within budget. Any further budget approvals will be sought at the earliest opportunity if it becomes apparent that further funding is needed.

e) Monitoring takes place in a timely manner, with frequency and detail determined by the risks associated with the capital scheme.

f) All expenditure is properly procured, incurred and recorded.

g) The achievement of all project outcomes, outputs and results are assessed as part of post project completion evaluation.

h) There is a documented audit trail for all expenditure and income relating to the project.

i) Issues that may affect project delivery are identified and considered appropriately (e.g. legal, VAT and capacity issues).

j) Any significant changes to the project are considered in the overall prioritisation of the capital programme and the correct authorisation is obtained.

3. Corporate Priorities and Values

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

Growth: We will continue to ensure we work to consider new ways to generate income and invest our current resources. Delivering a Council that is financially strong to discharge its services and invest in the growth of the District.

Environment: Having a clean and well-maintained environment remains important to us. We will be clear with our residents on what we will do and what our asks of residents are - cultivating a shared responsibility approach. Delivering a clean and accessible living environment, maintaining an emphasis on prevention but where necessary we will use an enforcement approach.

Communities: Through effective partnership working with both the public sector agencies and the community, we will provide leadership and direction across the district and the region to ensure everyone is working to the same goal. Delivering high-quality housing, safer communities and enhancing the health and wellbeing of our residents.

4. Revenue Implications

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

a) The cost of borrowing (the revenue provisions for the repayment of debt and interest charges).

b) Loss of investment income from capital receipts and/or reserve balances.

c) Running costs associated with the project.

d) The positive impact of investment and economic growth on the council's tax base and business rates income.

e) The generation of additional revenue streams for the council.

f) The utilisation and attribution of staff time and resources to capital projects including, but not limited to, the need to back-fill officer time attributed to capital schemes.

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

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

In particular:

Slippage

Slippage will not be an acceptable norm. Capital schemes will be at risk of having their council funding re-directed should there be delays that cannot be substantiated (schemes that are externally funded may require more flexibility however). As such, schemes will be profiled accurately so that annual capital budgets reflect the reality of capital scheme delivery. Accordingly, the funding allocated to schemes that are significantly underspent at year-end will be considered for redistribution or returned for savings.

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

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

The Corporate Management Team (CMT) will be taking the lead on achieving the focus the capital programme requires and may, at its discretion, delegate some or all of this work to a sub-team whose membership includes at least one CMT member (the Capital Team).

6. Assessing and Monitoring Schemes

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

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

b) To review annually the capital assessment and prioritisation methodology (see section 3 above).

c) To evaluate and prioritise all projects submitted according to the council's prioritisation methodology.

d) To produce a capital programme based upon the prioritised scoring methodology .

e) To monitor capital schemes and to summarise all variation reports received by client officers.

f) To consider requests for capital bids during the year and, where the request is considered urgent, to score and prioritise within the whole programme, together with making funding arrangements.

g) To review the scheme evaluation reviews and ensure lessons learnt and where necessary to amend the Capital Protocol.

h) To review all capital slippage and underspends at financial year end and re-evaluate with regards to the council's priorities and resources.

As per section 5, CMT may, at its discretion, delegate some or all of this work to a sub-team whose membership includes at least one CMT member (the Capital Team).

The criteria for capital bids include:

a) Meeting Corporate Priorities or requiring Health and Safety action.

b) Not having a revenue impact that cannot be funded.

c) Being clear as to the benefits the project provides.

d) Identifying how the project will be managed.

e) Having robust estimates for future costs and revenues.

f) The sensitivity of costs and revenues to both external and internal risks.

On the basis of recommendations drawn up by CMT and/or the Capital Team, Cabinet considers and approves the proposed draft capital programme for inclusion within the budget. This budget is then recommended to full council for approval of the final capital budgets for the year ahead. Cabinet is to receive regular capital budget monitoring reports and a final outturn report at year end showing scheme performance; specifically underspends, overspends and slippage supported by explanations.

7. Additional Resources and Links with External Bodies

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

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

8. Asset Management

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

9. The council's capital spending

Details of the Council's capital programme, capitalisation policies, capital financing, borrowing/funding restrictions, knowledge and skills, long-term liabilities and treasury management are shown in the following documents (which are all available on the Council's website www.thanet.gov.uk):

a) Medium Term Financial Strategy

b) Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy

c) Statement of Accounts

d) Non-Treasury Investments Report

e) Budget monitoring reports

The council's Section 151 Officer is satisfied with the affordability and risk associated with this Capital Strategy, that the knowledge and skills available to the authority are commensurate with its risk appetite and activities and, where appropriate, it has access to specialised advice to enable him to reach this conclusion.

This page is intentionally left blank

ANNEX 5: THANET DISTRICT COUNCIL - NON-TREASURY INVESTMENTS REPORT 2023-24

1. Background

This Non-Treasury Investments Report is produced in connection with the CIPFA Treasury Management in the Public Services Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities.

'Treasury management investments' activity covers those investments which arise from the council's cash flows and debt management activity, and ultimately represents balances which need to be invested until the cash is required for use in the course of business. The council's permitted treasury investments are set out in the Annual Investment Strategy.

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

2. Permissible non-treasury investments

As per Non-Treasury Investments Reports to 30 March 2022, this council could:

a) purchase property for service and/or commercial purposes.

b) make investments for service and/or commercial purposes.

c) make loans for service and/or commercial purposes.

This was amended from 1 April 2022 so that, for a new non-treasury investment in a new asset, the council may only purchase property, make investments and/or make loans for service purposes (i.e. not for purely/primarily commercial purposes, though it may still generate revenue).

Service investments are held in relation to council services (including service delivery, housing, regeneration and preventative action) whereas commercial investments are held for mainly financial reasons.

If a local authority is planning to acquire investment assets bought primarily for yield then it is now unable to borrow from the Public Works Loan Board (PWLB) to finance any expenditure in its capital plan. PWLB guidance is that investment assets bought primarily for yield would usually have one or more of the following characteristics:

i) buying land or existing buildings to let out at market rate.

ii) buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification.

iii) buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly.

iv) buying a speculative investment asset (including both financial and non-financial assets) that generates yield without a direct policy purpose.

3. Existing non-treasury investments

This council's existing non-treasury investments include:

a) Investment Property

The council's 2021-22 draft Statement of Accounts shows a 31 March 2022 balance sheet value of £24,765,000 for investment property. These accounts disclose a net yield of £506,000 from investment property (rental income less direct operating expenses), which represents an annual percentage yield of 2.0%. It is considered that any plausible losses from the council's investment property could be absorbed in budgets or reserves without unmanageable detriment to local services.

As at 31 March 2022 the council had nearly 200 investment properties of various types with an average balance sheet value of £126,000 per unit; including retail premises, leisure and sporting facilities, maritime related assets, land and industrial units.

The council undertakes periodic reviews of its property, including evaluation of whether to meet expected borrowing needs by taking new borrowing or by property disposal.

b) Investments and Loans

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

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

The council acts as guarantor for YL in respect of certain loans taken out by YL. These arrangements are described in the 'Critical Judgements in applying Accounting Policies' note to the council's Statement of Accounts.

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

4. Investment Management Practices

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

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

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

The key principle of control of risk, and optimising returns consistent with the council's risk appetite, is applied across all investment activities.

5. Risk Management

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

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

6. Performance Measurement and Management

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

a) Regular fair value assessments (at least annually), including the limitations and assumptions inherent in such assessments.
b) Procedures to highlight key ongoing risks and changes in market conditions that may adversely impact the security, liquidity and/or yield of any investment.

c) Ongoing repairs and other costs to maintain the income and value of any property investment.
d) Any mitigating action required and undertaken to protect the income and value of any investment.

7. Decision Making, Governance and Due Diligence

Decision making will be as open and transparent as possible. Key considerations include:

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

8. Reporting, Knowledge and Skills

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

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

ANNEX 6 - LINK'S ECONOMIC AND INTEREST RATE FORECAST (ISSUED BY LINK ON [DATE])

1. The council has appointed Link Group as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates. Link provided the following forecasts on [date].

[Link forecast to be inserted]

This page is intentionally left blank