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Date: 26 November 2024
Our Ref: **Governance & Audit Committee/Agenda**
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thanet district council

GOVERNANCE & AUDIT COMMITTEE

4 DECEMBER 2024

A meeting of the Governance & Audit Committee will be held at **7.00 pm on Wednesday, 4 December 2024** in the Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Membership:

Councillor W Scobie (Chair); Councillors: Farooki (Vice-Chair), Barlow, Braidwood, Britcher, Davis, Donaldson, Edwards, Garner, Munns, Nichols, Packman, Pope, Scott and Wright

AGENDA

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 - 14)

   To approve the substantive individual minute items of Minutes of the inquorate Governance and Audit Committee meeting held on 04 November 2024, copy attached.

4. **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 15 - 34)

5. **CORPORATE RISK MANAGEMENT - QUARTERLY UPDATE** (Pages 35 - 54)

6. **MID YEAR REVIEW 2024/25: TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY** (Pages 55 - 76)

7. **INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR 2022/23 - DRAFT AUDIT OPINION**

   Report to follow

8. **LETTER OF REPRESENTATION**

   Report to follow

9. **SHORT FORM AUDIT FINDINGS REPORT FOR 2022-23**

Item No	Subject
	Report to follow
10.	**THE INFORMING THE RISK ASSESSMENT DOCUMENT FOR 2023-24** Report to follow
11.	**INDEPENDENT AUDITORS' THANET DISTRICT COUNCIL AUDIT PLAN** Report to follow

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

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 4 November 2024 at 7.00 pm in Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor Roopa Farooki (Chair); Councillors Britcher, Davis, Donaldson, Edwards, Munns and Pope

In Attendance:

13. APOLOGIES FOR ABSENCE

The Chair declared the meeting inquorate as seven members were in attendance instead of the minimum eight and the meeting proceeded as an informal meeting. Any notes from this meeting will need to be ratified by the next quorate meeting.

Apologies were received from the following members:

Councillor Scobie;
Councillor Scott;
Councillor Nichols;
Councillor Braidwood.

14. DECLARATIONS OF INTEREST

There were no declarations of interest.

15. MINUTES OF PREVIOUS MEETING

Councillor Britcher proposed, Councillor Donaldson seconded and members recommended the minutes to a quorate Governance and Audit Committee meeting for approval as a correct record of the meeting held on 6 March 2024.

16. QUARTER 1 REVIEW 2024/25: TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY

Matt Sanham, Head of Finance and Procurement introduced the report and made the following comments:

- This report summarised the treasury management activity and prudential / treasury indicators for the first quarter of 2024/25;
- Part of the treasury management operation was to ensure this cash flow was 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 was the funding of the Council’s capital plans. These capital plans provided 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;
- The approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 June 2024.

Councillor Donaldson proposed, Councillor Britcher seconded and members agreed that the following recommendation be forwarded to the next quorate meeting of the Governance & Audit Committee for confirmation:

To note the report.

17. QUARTERLY INTERNAL AUDIT UPDATE REPORT

Simon Webb, Deputy Head of East Kent Audit Partnership introduced the report and made the following comments:

- The report summarised the work of Internal Audit at 30 June 2024;
- A table provided in the report provided a summary of assurance results;
- Substantial assurances were given for five service areas and one area was given reasonable assurance;
- Internal audit would be following up on those areas mentioned in the report that require improvement to check on progress made;
- Your Leisure had not yet been audited. Obstacles in getting the land swap formally agreed with KIC were causing the delays;
- There were areas still outstanding and there also two areas with limited assurance.

Members asked questions as follows:

- The land swap took place in 2004. Was there a reason why it had taken 20 years to conclude this matter;
- Was the audit of Your Leisure still going ahead?

Matt Sanham and Simon Webb responded as follows:

- There had been constant issues that were being discussed by the parties concerned. This discussions had led to a convoluted process and the land swap took place in 2014;
- Your Leisure would be audited once the agreements were resolved.

Councillor Davis proposed, Councillor Donaldson seconded and members agreed that the following recommendations be forwarded to the next quorate meeting of the Governance & Audit Committee for confirmation:

1. That the report be received by Members;

2. That any changes to the agreed 2024-25 internal audit plans, resulting from changes in perceived risk, detailed at point 5.0 of Annex 1 of the attached report be approved.

18. CORPORATE RISK REPORT

Aimee Jackson, Risk and Insurance Manager introduced the item and made the following points:

- The Corporate Risk Report and Annex 1 to the report detailed the Amber risks and although these did not sit in the Corporate Report it was important that members were made aware of these as well and these were presented twice a year to the committee;
- The authority monitors and manages its corporate risks through the Corporate Risk Register. The contents of the report highlighted the high-priority corporate risks and show the arrangements that were put in place to ensure these risks were monitored and managed appropriately;
- The Council was dedicated to a proactive approach on risk management and required that all departments cooperate on the risk strategy with the aim of driving a robust risk model and an improved risk landscape. This would help solidify an understanding and encourage engagement around the risk journey;
- To that end, officers had started to look at developing a new online Risk Management System, which centralised the risk registers that were also having a refresh. This approach would help create a better understanding of how the risks were tracking and identify any trends across our portfolio. This would be done in line with the Risk Management Strategy refresh next year and there would be some interesting updates to follow;
- This report represented the position at the beginning of August 2024 and as such was a snapshot of where the risk and the mitigations sat at that point in time. It was worth noting that some of these risks may well have moved on since that point;
- Risks had to be assessed in respect of the combination of the likelihood of something happening, and the impact arising as a result, risk management includes identifying and assessing risks and then responding to them. Risk was unavoidable, and every organisation needed to take action to manage risk in a way which justifies it to a level which was tolerable to their business needs;

- At staff level, the Corporate Management Team (CMT) regularly considered the corporate risk register and the Governance & Audit Committee considers changes to the corporate risk register, the reasons for the changes and actions being taken to mitigate the likelihood and impact of those risks. A view was also taken regarding the extent to which the risks should be tolerated;
- There had been no movement on the risk scores. Directors and Heads of Services had reviewed the risks and also updated the mitigations for their respective service areas as detailed in the report;

- It was good to note that Berths 4/5 risk had now reduced significantly and would no longer feature on this report
- There had been several new risks added since the last presentation in March. A few of the more prominent risks had been highlighted for members to comment and note;
- Underinsurance on HRA and Estates Properties had a total score of 9, Impact was 3 and Likelihood was 3;
- Council ran the risk of being underinsured due to poor maintenance and valuations not being completed. This led to a view of the Council being seen as being deliberately underinsured. This could mean that claims costs were not covered. The Council would be subject to higher excesses and higher premiums and also could be subject to averages which meant that full claims costs were not met in the future;

Mitigations

- The Risk and Insurance Manager would need to reach out to both teams asking for their assurances, how they were tackling these issues and then to devise a plan. The Risk and Insurance Manager had been working with Estates initially on this matter. Some progress had been made in identifying the more high profile and high-risk properties that had an urgent need for valuations. This work was in progress and it was hoped more updates would be provided to the committee on the next reporting cycle;
- Empty Properties and when tenants hand back the keys had a total risk score of 9 with a recorded Impact of 3 and Likelihood score of 3;
- Properties left with services still "live": Heating/lighting and water services needed to be isolated to prevent energy costs and potential damage from frost/ice etc. This was a potential fire risk with unattended live electrical circuits;
- There was a risk of water damage should pipework freeze and expand joints, leading to burst pipes and flooding;
- This in turn would create a situation where the Council would be unable to re-let these properties to potential tenants, causing loss of revenue and additional repair costs. Insurance claims were possible, however there was inadequate cover from the Council’s insurers as they did not cover certain risks;

Mitigations

- Create protocol whereas all properties that became vacant would have compliance inspections and all but necessary services (excluding fire/alarms) would be isolated;
- Adopt a form for vacant property handover;
- Channel failure: There were total scores of 8, an Impact of 4 and Likelihood of 2;
- Much of the Council's communication was now digitally led;
- The Communications Team was heavily reliant on digital channels including the Council's own website and its social media channels;
- The risk was that if one of the channels had an outage/crashed, particularly during an emergency. The Council’s ability to transmit

important information directly to residents and stakeholders would be severely curtailed.

Mitigations

- The Council's website was cloud hosted and as part of the contract required 99.9% uptime. Risks around this were picked up as part of the Digital Risk Register;
- There was a need to ensure that the Council's business continuity plan was updated to identify potential other more traditional means of communication in the event of any digital points of failure;
- This would include activity such as direct mail to properties, using the media to share any key messages, posters and notices in public places and relying on the support from other community group networks. This would be picked up in the new disaster recovery plan led by ICT and Digital.

Committee members asked questions and made comments as follows:

- One member asked why Berth 4/5 had come off the risk register;
- Another member said that the risk had dropped from £500k to £200k.

Mike Humber, Director of Environment and Aimee Jackson responded as follows:

- It was the financial risk that had Berth 4/5 on the risk register;
- Berth 4/5 was still on the risk register but not high enough to be in this report before the committee.

Councillor Britcher proposed, Councillor Davis seconded and members agreed that the following recommendation be forwarded to the next quorate meeting of the Governance & Audit Committee for confirmation:

To approve the corporate risk report.

19. <u>ANNUAL GOVERNANCE STATEMENT 2023-2024</u>

Ingrid Brown, Head of Legal and Democracy & Monitoring Officer introduced the report and made the following points:

- The report looked at the work of the Overview and Scrutiny Panel, Standards Committee and sub committees, Governance & Audit Committee and Internal Audit;
- Internal Audit concerns for the period April 2023 and March 2024, regarding street cleansing, GDPR, Health & Safety and Ground Maintenance were generally fully resolved and in some cases, there were plans to resolve them and there now was an action plan to address any outstanding issues. The annual internal audit report confirms the effectiveness of the internal processes in place;
- The external auditors observed that the Council's proper arrangement to secure the Council's economy efficiency and effectiveness in its use

of resources and therefore anticipated issuing an unqualified audit report in its value for money conclusion. This was therefore a positive report;

- The Overview and Scrutiny Panel produces an annual report, which was invaluable as it provides evidence of the scrutiny function activities and the role it plays in the Council's governance and making their recommendations to Cabinet through their work. The Panel had made seven recommendations to Cabinet and four of these were implemented;
- The Panel also played a vital role in calling-in executive decisions where it felt that such decisions were not made in accordance with the decision-making principles set out in Article 13 of the Council constitution. There were no valid call-ins in the period under review. This was a good sign of how the Council was managing its decision making process;
- The Governance & Audit Committee met four times in the year under review and considered risk reports as part of their work. Carefully thought out mitigations for each risk were identified. The Committee continued to offer independent and robust challenge and scrutiny to the Council's financial management and risk management processes and performance as per their remit;
- With regards to the Standards Committee work, twenty three complaints were dealt with. Four of those were referred to independent investigators, three were still outstanding but coming close to resolution and one had not been upheld;
- In terms of good governance these were considered to be too many complaints;
- The Constitutional review Committee continued to play its part in ensuring that the constitution remained fit for purpose. One of the key parts of the constitution they reviewed and recommended to council was the councillor officer protocol. This was one of the recommendations of the IMO;
- The councillor/officer had now been implemented;
- Democratic Services provided a comprehensive training programme for councillors. There had been discussions for more online training;
- Ombudsman complaints had declined and there were no complaints against the Council during the period under review;
- The Independent Monitoring Officer's (IMO) recommendations had largely been implemented;
- A new project management framework had been implemented for managing Council projects. A new project app had been adopted by the Council and an officer project board had been asset up as well;;
- Regulatory Investigatory Powers Act: Senior officers had not been using these powers. However training had since been provided to officers;
- Equalities: A cabinet advisory group had been set up and equalities objectives had been drafted, but work was ongoing to finalise these objectives;
- Equalities impact assessments were now being carried out in the council's decision making process;

- A corporate governance board had been set up to ensure a governance framework was in place;
- Legal Literacy: High level of literacy was required among council officers. Training was therefore provided to officers in April 2024 in decision-making and report writing. These training sessions were well attended by officers. Further training would be arranged for the new Procurement Act that was due to be implemented in February 2025. there was a very good working relationship between the Legal and Procurement teams to facilitate this training;
- There was now a corporate action plan for all outstanding issues and an update will be reported to the April 2025 meeting.

Members made comments and asked questions as follows:

- It was clear that some of the frustrations expressed by members had been taken on board;
- This approach would improve the working relationship between councillors and officers in order to work more effectively;
- What was this Procurement Act about?

Matt Sanham said that the new Procurement Act would change how councils and public bodies contract out work and procurement services.

Councillor Donaldson proposed, Councillor Davis seconded and members agreed that the following recommendation be forwarded to the next quorate meeting of the Governance & Audit Committee for confirmation:

1. To note the content of the Annual Governance Statement attached to the committee report at Annex 1;

2. To approve the Annual Governance Statement attached to the committee report at Annex 1;

3. To note the action plan annexed to the committee report at Annex 2.

20. <u>EXTERNAL AUDIT - AUDIT FINDINGS REPORT 2021/22</u>

Matt Sanham introduced the report and made the following comments:

- This report identified number of delays in getting the report signed-off
- There are a number of issues picked up not within the accounts per say but with the delays in producing statements generally across local government;
- These delays had impacted on all opening accounts, which in turn had opened another discussion in the sector on how this situation could best be managed;
- The Council had been discussions with Grant Thornton how to progress the signing-off of accounts in view of the challenges highlighted above.

Matt Dean, Director, Grant Thornton, LLP made additional comments as follows:

- The report before the committee set out where Grant Thornton were with regards to working on TDC accounts;
- There were issues that often arise across the sector and the latest issue was on pensions. KCC Pensions department would need to assess whether positive contributions raised in future meant that there may be a liability currently;
- Grant Thornton were currently liaising with TDC and KCC Pensions Fund on this matter to assess whether that had an impact on the 2021/22 accounts. It was hoped that there was no significant impact.

Councillor Pope proposed, Councillor Edwards seconded and members agreed that the following recommendation be forwarded to the next quorate meeting of the Governance & Audit Committee for confirmation:

1. That the committee considers the Audit Findings for the 2021/22 Statement of Accounts and notes the report;

2. In the unlikely event that a minor change would be required, i.e. immaterial, the Section 151 be delegated the authority to sign-off the Audit Findings Report, in consultation with the committee Chair.

21. DRAFT AUDIT TIMETABLE 22/23 AND 23/24

Matt Dean introduced the item for discussion and made the following points:

- This time table set out in practical terms what was provided for in legislation that had recently gone through Parliament;
- This legislation set up the backstop date for the next five years that Councils should follow for their audit activities;
- All 2022/23 audit activities had to be completed by the 13th of December 2024;
- The 2023/24 audits they had to be completed by 28 February 2025;
- That meant that the 4 December 2024 Governance and Audit Committee meeting would consider an abridged version of the 2022/23 audit. The auditors would bring to the Council's attention any key points that TDC should take note of and this would include sharing a draft opinion;
- Auditors were due to commence work on the 2023/24 accounts. The aim was to complete as much work as they could on the 2023/24 accounts with a focus on the in-year spend and the closing position as at 31 March 2024;
- This was in order to give TDC the assurance of the in-year movement was where it should be and that the closing numbers were where they should be;
- The challenge was there would not be the assurance for the opening figures for 2023 (as at 31 March 2023). In practice that would mean Grant Thornton would therefore give a disclaimed opinion on the

2023/24 accounts in respect of those opening balances. The auditors would be saying that not enough work would have been done to provide an assurance for those accounts. This was inherent with where the situation was with regards to audit work;
- All councils were currently facing the same situation;
- This might also be the same situation for 2024/25;
- There were discussions across the sector which were trying find ways to give all local councils unmodified opinions;
- In the last few weeks, the LACLG were indicating that they were prepared to tolerate disclaimed opinions as a sector up to 2024/25. They wanted the sector to return to normal for 2025/26;
- That position by the LACLG would help key players in the sector that included CiPFA, FRC, CLG and Grant Thornton to develop a solution that would allow councils to get to that place;
- In order to achieve that the starting position would be to use 'deemed balances'. A statutory override would confirm the numbers in the reserve balances as correct. This was the sensible approach to address the challenges faced by all councils and the sector;
- The challenge had been getting other key players (CiPFA and FRC) to accept what this approach actually meant. This was an approach that the government appeared to support as the best way forward.

Committee members asked questions and made comments as follows:

- The Committee understood the reasons behind this approach that was being discussed in the sector as a possible way forward that would enable councils to get to the normal way of public accounting;
- To what extent were these delays actually more apparent than real and how much effect would these delays have on the council's accounting?

Matt Dean responded as follows:

- This was hypothetical. A lot of the reserves were unusable reserves; they were for accounting judgements. The se would not have an impact on the net worth of the council;
- The real risk would be; could a council run out of money without realising that this was about to happen? This was the risk;
- However there would be a need to work out how such a perfect storm could happen;
- There were a number of checks and balances in place to prevent that perfect storm happening;
- By coming up with the statutory override, the sector was trying to mitigate against such an eventuality.

Councillor Britcher proposed, Councillor Donaldson seconded and members agreed that the following recommendation be forwarded to the next quorate meeting of the Governance & Audit Committee for confirmation:

To note the update regarding the draft audit timetable for 2022/23 and 2023/24.

Meeting concluded: 7.57 pm

Quarterly Internal Audit Update Report

Governance & Audit Committee	4th December 2024
Report Author	Head of Internal Audit
Portfolio Holder	Cllr Rob Yates, Cabinet Member Corporate Services.
Status	For Decision
Classification:	Unrestricted
Key Decision	No
Ward	Not Applicable

Purpose of the Report:

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 2024.

Recommendation(s):

1. That the report be received by Members.

2. That any changes to the agreed 2024-25 internal audit plans, resulting from changes in perceived risk, detailed at point 5.0 of Annex 1 of the attached report be approved.

1. Summary of Reasons

1.1 To update Members of the Governance and Audit Committee 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

2. Background

2.1 The East Kent Audit Partnership provides the internal audit service to Canterbury City, Dover, Folkestone and Hythe, and Thanet district councils.

2.2 An internal audit function is a requirement of s.151 of the Local Government Act 1972.

3. Relevant Issues

3.1 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 2024.

3.2 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.

3.3 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.

3.4 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.

3.5 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.

3.6 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.

3.7 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.

3.8 There have been two internal audit assignments completed during the period, which are summarised in the table in section 2 of the quarterly update report.

3.9 In addition one follow-up review has been completed during the period, which are detailed in section 3 of the quarterly update report.

3.10 For the six month period to 30th September 2024, 189.61 chargeable days were delivered against the target for the year of 348 days which equates to 54.49% plan completion.

4. Alternative Options

4.1 The report is for noting

5. Consultation

5.1 The report is for noting.

6. Corporate Implications

6.1 Financial and Resources

6.1.1 There are no financial implications arising directly from this report. The costs of the audit work are being met from the Financial Services 2024-25 budgets.

6.2 Legal and Constitutional

6.2.1 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.

6.3 Council Policies and Priorities

6.3.1 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.

This report relates to the following corporate priorities: -

- To keep our district safe and clean
- To deliver the housing we need
- To protect our environment
- To create a thriving place
- To work efficiently for you

6.4 Risk Management

6.4.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Non completion of the audit plan	Medium	Low	Review of the audit plan on a regular basis.
Non implementation of agreed audit recommendations	Medium	Low	Review of recommendations by Audit & Governance Committee and Audit escalation policy.

Non completion of the key financial system reviews	Medium	Medium	Review of the audit plan on a regular basis. A change in the External Audit requirements reduces the impact of non-completion on the Authority

6.5 Climate Change and Biodiversity

6.5.1 There are no implications arising from this report.

7.0 Equality Act 2010 & Public Sector Equality Duty

7.1 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.

8. Crime and Disorder Implications and Community impact

8.1 There are no crime or disorder implications arising from this report.

9.0 Subject History

9.1 Previous Quarterly Internal Audit Update Reports have all been noted by this Committee.

Contact Officer: Christine Parker, Head of the Audit Partnership, 01304 872160
Simon Webb, Deputy Head of Audit

Reporting to: Chris Blundell; Director of Corporate Services

Annex List

Annex 1: East Kent Audit Partnership Quarterly Update Report – 04-12-2024

Background Papers

Internal Audit Annual Plan 2023-24 - Previously presented to and approved in March 2023 at Governance and Audit Committee meeting.
Internal Audit Annual Plan 2024-25 - Previously presented to and approved on 6th March 2024 at Governance and Audit Committee meeting.

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

Corporate Consultation

Finance: Chris Blundell; Director of Corporate Services

Legal: Ingrid Brown, Head of Legal Democracy & Monitoring Officer

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

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

1.0 INTRODUCTION AND BACKGROUND

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 2024.

2.0 SUMMARY OF REPORTS

Service / Topic		Assurance level*	No. of Recommendations*	
2.1	Member Code of Conduct & Standards Arrangements	Substantial	Critical High Medium Low	0 0 0 0
2.2	Events Management	Limited	Critical High Medium Low	1 11 5 5

*For Assurance and Recommendation priority definitions see Appendix 2

2.1 Member Code of Conduct & Standards Arrangements - 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 highest standards of Member conduct and probity are maintained.

2.1.2 Summary of findings

In accordance with the Localism Act 2011 the authority must promote and maintain high standards of conduct by Members and co-opted Members of the authority. In discharging this duty, the authority must adopt a code dealing with the conduct that is expected of Members and co-opted Members of the authority when they are acting in that capacity. Thanet District Council has adopted the Kent model Code of Conduct which can be viewed and downloaded from the Council's website.

As a councillor there is a requirement to adhere to the Council's agreed code of conduct for elected members. A failure to comply with the Council's code can be dealt with via the arrangements in place for investigating allegations. These can be found on the Council's webpages.

Following the abolition of Standards for England on 31 March 2012, the Council assumed responsibility for dealing with and investigating all complaints relating to breaches of the Code, including those made against Parish Councillors within the district. Specific responsibility for assessing alleged breaches of the Code rests with the Monitoring Officer, in consultation with the Independent Person, who is appointed by Council. If the Monitoring Officer, in consultation with the Independent Person, considers that the complaint meets certain prescribed tests so as to merit investigation, they will appoint an investigation officer to undertake the investigation. Once the investigation has concluded, the Monitoring Officer may consider that informal resolution is appropriate. Alternatively, they may convene a meeting of the Hearing Panel.

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

- There are procedures established to promote and communicate the Members Code of Conduct, Member / Officer relations protocol and Gifts and Hospitality policies and procedures for the Council for both new and existing Members.
- The Code of Conduct holds sufficient information to ensure there is relevant guidance to promote the ongoing probity and propriety of Members.
- Members are made aware of the rules covering the registration and declaration of interests. Comprehensive information is declared by Members to conform to the guidance given and the 28 day rule is applied in each case of variations in information.
- Suitable arrangements are in place to ensure that Members disclose all relevant Disclosable Pecuniary Interest (DPI) and Other Significant Interest (OSI) at Council and Committee meetings.
- Members receive clear guidance and sufficient training to ensure that they make the necessary disclosures when considering planning decisions.
- The Standards arrangements and rules comply with the Localism Act.
- The procedure for handling complaints is well documented and information on making complaints is easily available to the public.
- All investigations comply with the rules established by the Council's own stated procedures.
- The initial assessment process for complaints against Members is adequate and well documented.
- Members and the Monitoring Officer responsible for carrying out any assessment of complaints receive suitable training to carry out their role. Guidance and advice is available to Parish and Town Councils if requested.

2.2 Events Management - Limited Assurance

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that events within the district are managed and administered in a safe, efficient and effective manner.

2.2.2 Summary of findings

There is an Event Policy in place accompanied by a Suitable Event Guide which can be viewed and downloaded via the Council's Event webpage: https://www.thanet.gov.uk/services/event-organisation/ The Event policy acts as the terms and conditions and a signed copy should be sent into the events team for filing.

The Event Management process is administered via a resource of 0.5 FTE, plus other officers for advice as required. An on-line application process is in place, accessible via the Council's dedicated Event's webpage and managed via a system called Apply4 app.

The decision process is undertaken via an event safety advisory group (SAG) set up to review and provide advice (where necessary), this group operates under a terms of reference and are a mix of staff and stakeholders. Each member receives notifications for all applications via email and has access to the Apply4 app to review all supporting evidence and provide any comments / guidance / conditions to terms as necessary and within a set timeframe.

According to the Apply4 app, income relating to the events process (Application Fee; Deposit and Land Hire) totalling £49,933.96 for 2023/24 period was received.

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

- Whilst officer's are aware of project planning requirements and risk management, i.e. financial, legal, reputational and health and safety issues etc. improvements are required as testing identified areas of weakness for health & safety (errors in insurance certificates; lack of signed terms and conditions on file and not all supporting information was provided or requested) and financial control (invoice miscalculations).
- Post event reviews are not being undertaken and therefore lessons to be learnt are being missed.
- Site visits (pre, during and post event) are currently not being undertaken due to staff resource issues; reliance on the return of the deposit is currently based upon any information received from the Parks Department, who during the course of their own work, could visit at least two weeks after the event and clearance of the site.
- Whilst there is a documented process in place and to be followed for the hire of Council premises, the management and monitoring requires improvement. Testing identified lack of control in the submission and checking of the supporting documentation required for the event size and not all were supported with signed terms and conditions.
- Whilst Health and Safety arrangements are considered as part of the Event Management Plan, for which all the test sample provided evidence, additional considerations are required as the size of the event increases i.e. traffic management control, crowd management control, noise control, evacuation plan, lost child policy and medical plan were required to be submitted. Testing identified that 54.5% of the sample had incomplete data submission for the event size.
- Up to date public liability insurance should be provided for every event to the value of £5 million. 45.5% of applications tested and checked identified issues regarding the public liability insurance details provided, i.e. no insurance; out of date insurance and only evidence of renewal letter (no certificate) provided. All of these were provided with a permit and permission to hold the event.
- For the sample tested, the event size (small, medium, large or major) had been miscategorised leading to incorrect fees being applied. It was determined that these were

being charged based upon the number of persons on site at any one time (usually resulting in a small event being categorised) rather than the expected total of attendees.

- As per the policy, a SAG meeting is required for new medium, all large and all major events and a de-brief is required for new Medium and all Major events. This has not been occurring, however, the SAG are emailed for all event applications and any further information requests, comments and conditions are managed via the Apply4 app. Any member of the SAG can request a meeting; this updated process will need to be included within the new policy.
- The Terms of Reference (TOR) for the Safety Advisory Group (SAG) requires a review and update - last reviewed and agreed by Cabinet in October 2016.
- The Lead Service within the TOR is recognised as TDC and details the Events Team, however, the Council no longer has this Team in place and the current arrangements need to be documented.

Effective control was however evidenced in the following areas:

- An in date policy (2021-2024) is in place, this is due to be reviewed and updated by April 2025.
- There are operational policies and procedures in place for Event Management which supports the Event Management Policy. Namely the Suitability of Events guidance for use by all (event organiser and staff) and procedures for staff on use of the system. Objectives have been identified within the Policy itself.
- Key officers in the events management process are identified within the Policy. Roles and responsibilities have been communicated via the Terms of Reference in place for the Safety Advisory Group.
- There is a wealth of information available to the applicant via the Event Webpages to support the application and event organisation process.
- From the samples tested, all event organisers provided a sufficient written Risk Assessment of their own event as part of the application process.
- The granting and administering of Temporary Events Notices (TENS) is working well, however there is a pending change of systems where data migration needs to be considered.
- Council hire venues have been recognised and detailed within the Event Organsiation webpage. This would benefit from a refresh as some sights are no longer available. One hire venue is under the management of Housing Services and as such follow a separate hire process.
- There is no policy or arrangement in place for Event advertising, although event organisers are made aware in the Policy / terms and conditions that posters should be displayed in accordance with any planning obligations i.e. no fly posting.
- Council information platforms (i.e. Website) promotes and provides all relevant information for event planning and application process

Management Response - The outcome of this audit is disappointing particularly considering the number of actions that have been resolved immediately. The team continues to work on the recommendations with the updated Policy currently being worked on by a cross council group.

Head of Neighbourhoods 12-11-2024

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

3.1 As part of the period's work, one follow up review has 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)	Coastal Management	Substantial	Substantial	Critical High Medium Low	0 0 0 1	0 0 0 0

*For Assurance and Recommendation priority definitions see Appendix 2

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

- "closed" as they have been successfully implemented, or
- "closed" as the recommendation is yet to be fully implemented but is on target with a revised implementation date, or
- (for medium or low risks only) "closed" as management has decided to tolerate the risk, or the circumstances have since changed, or
- (for critical or high risks only) "closed" on the EKAP System with a revised implementation date and escalated to management for further tracking and reporting to the audit committee.

3.3 Details of each of any individual critical or high priority recommendations outstanding after follow-up are included at Annex 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 Officer and Members of the Governance Committee.

3.4 The purpose of escalating outstanding high-risk matters is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level. There are none this period.

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: Rechargeable Works, Members' Allowances, Cemeteries and Crematoria, GDPR, FOI and Information Mngmt, Your Leisure (review leases), ICT Network Security, and Allotments.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

5.1 The 2024-25 internal audit plan was agreed by Members at the meeting of this Committee on 6th March 2024.

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 the 2024-25 Audit Plan is shown in 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 month period to 30th September 2024, 189.61 chargeable days were delivered against the target for the year of 348 days which equates to 54.49% 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 2024 against the agreed 2024-25 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 to 30th September 2024

APPENDIX 1

PROGRESS AGAINST THE AGREED 2024-25 AUDIT PLAN
THANET DISTRICT COUNCIL

Area	Original Planned Days	Revised Budgeted Days	Actual days to 30-09-2024	Status and Assurance Level
FINANCIAL GOVERNANCE:				
Main Accounting System	10	10	0.18	Work-in-progress
HOUSING SYSTEMS:				
Decent Homes	5	5	0	Quarter 4
Garage Management	7	7	11.14	Finalised - Reasonable
Tenant Health & Safety	10	10	2.47	Work-in-progress
Rechargeable Works	10	10	0.18	Work-in-progress
Tenancy Fraud	10	10	0	Quarter 4
New Build Capital Programme	5	5	0	Quarter 4
Energy Efficiency & Carbon Reduction	10	10	0	Quarter 4
GOVERNANCE RELATED:				
GDPR	10	10	0.24	Work-in-progress
Project Management	10	10	0	Quarter 4
Member Code of Conduct & Standards Arrangements	10	10	10.35	Finalised - Substantial
Corporate Advice/ CMT	2	2	4.39	Work-in-progress
s.151 Officer Meetings & Support	9	9	10.32	Work-in-progress
Governance & Audit Committee Meetings and Report Preparation	12	12	9.97	Work-in-progress
Audit Plan & Preparation Meetings	9	9	0.26	Work-in-progress
HR RELATED:				
Payroll	3	3	4.38	Work-in-progress
Employee Benefits-in-Kind	3	3		
Apprenticeships	10	10	0	Quarter 4

COUNTER FRAUD:				
Data Analytics	8	8	0	Quarter 4
Duplicate Creditor Testing	2	2	0	Work-in-progress
CONTRACT RELATED:				
Service Contract Management	10	10	0	Quarter 4
Receipt & Opening of Tenders	5	5	0	Quarter 4
Procurement	8	8	5.58	Work-in-progress
ICT RELATED:				
Network Security & Data Management	14	14	6.94	Work-in-progress
Procurement & Disposal	14	14	0	Quarter 4
SERVICE LEVEL:				
Cemeteries & Crematoria	10	10	0.18	Work-in-progress
Coastal Management	10	10	34.18	Finalised - Substantial
Public Health Burials	10	10	13.94	Finalised - Substantial
Environmental Health & Safety at Work	10	10	0	Quarter 4
Business Continuity & Emergency Planning	5	5	0.18	Quarter 4
Disabled Facilities Grants	10	10	9.22	Finalised - Substantial
Allotments	10	0	1.63	Work-in-progress
Ramsgate Harbour Accounts	5	5	0	Work-in-progress
Members' Allowances	10	10	2.86	Work-in-progress
Phones, Mobiles and Utilities	10	10	0	Quarter 4
Events Management	10	10	16.14	Finalised - Limited
Climate Change	5	5	0	Quarter 4
OTHER:				
Liaison With External Auditors	1	1	0.14	Work-in-progress
Follow Up Reviews	15	15	21.28	Work-in-progress
FINALISATION OF 2023-24 AUDITS:				
Grounds Maintenance	5	5	6.37	Finalised - No
Resident Engagement			6.64	Finalised - Substantial
VICs			0.26	Finalised - Substantial
Your Leisure			7.76	Work-in-progress
RESPONSIVE ASSURANCE:				
LUF Grant - Project Assurance	0	0	0.27	Work-in-progress

Housing Decarbonization Grant	0	0	2.16	Work-in-progress
TOTAL	**348**	**348**	**189.61**	**54.49%**

PROGRESS AGAINST THE AGREED 2024-25 AUDIT PLAN
EAST KENT SERVICES

Review	Original Planned Days	Revised Planned Days	Actual days to 30/09/2024	Status and Assurance Level
EKS REVIEWS:				
Housing Benefits Overpayments	16	16	0.26	Quarter 3
Housing Benefits Appeals	16	16	8.93	Finalised - Substantial
Business Rates / Reliefs & Credits	16	16	0.34	Work in progress
Customer Services	16	16	13.30	Finalised - Substantial
OTHER:				
Corporate/Committee	5	5	1.43	Ongoing
Follow Up	3	3	0.99	Ongoing
FINALISATION of 2023-24 AUDITS:				
Council Tax Reduction Scheme	1	1	0.07	Finalised - Substantial
Transition Project Governance	1	1	0.14	Finalised - N/A
Total	**74**	**74**	**25.46**	**34.41%**

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.**
None to report this Quarter		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVEL YET TO BE REVIEWED – APPENDIX 4			
Service	**Reported to Committee**	**Level of Assurance**	**Follow-up Action Due**
EKS ICT Desegregation Project	September 2023	Limited	Work-in-progress
External Funding Protocol	March 2024	Limited	Work-in-progress
Events Management	December 2024	Limited	Spring 2025

BALANCED SCORECARD

INTERNAL PROCESSES PERSPECTIVE :	2024-25 Actual	Target	FINANCIAL PERSPECTIVE:	2024-25 Actual	Original Budget
	Quarter 2		Reported Annually		
Chargeable as % of available days	86%	90%	• Cost per Audit Day	£-	£428.41
			• Direct Costs	£-	£554,972
Chargeable days as % of planned days	42.04%	50%	• + Indirect Costs (Recharges from Host)	£-	£10,530
CCC	60.90%	50%			
DDC	54.49%	50%	• - 'Unplanned Income'	-£-	Zero
TDC	39.22%	50%			
FHDC	24.39%	50%	• = Net EKAP cost (as billed all Partners)	£-	£565,502
EKS					
Overall	48.69%	50%		Reported Annually	
Follow up/ Progress Reviews;					
• Issued	29	-			
• Not yet due	20	-			
• Now due for Follow Up	34				
Compliance with the Public Sector Internal Audit Standards (PSIAS)	Generally Conforms	- (the top rated score possible)			

CUSTOMER PERSPECTIVE:	2024-25 Actual	Target	INNOVATION & LEARNING PERSPECTIVE:	2024-25 Actual	Target
	Quarter 2		Quarter 2		
Number of Satisfaction Questionnaires Issued;	31		Percentage of staff qualified to relevant technician level	75%	50%
Number of completed questionnaires received back;	17 = 55%		Percentage of staff holding a relevant higher-level qualification	36%	36%
			Percentage of staff studying for a relevant professional qualification	0%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	1	3.5
• Interviews were conducted in a professional manner	100%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	36%	36%
• The audit report was ‘Good’ or better	100%	90%			
• That the audit was worthwhile.	100%	100%			

CORPORATE RISK MANAGEMENT - QUARTERLY UPDATE

Governance and Audit Committee	4th December 2024
By	Chris Blundell, Director of Corporate Services and Section 151 Officer
Cabinet Portfolio	Councillor Rob Yates, Portfolio Holder for Corporate Services
Key Decision	No
Decision classification	Unrestricted
Ward:	All

Purpose of the Report

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

Recommendation(s):

The Governance and Audit Committee is being asked to approve the corporate risk management quarterly report and note the progress update.

1. Summary of Reasons

1.1 This report is being presented to the Governance & Audit committee as part of their role in monitoring Risk Management activities for TDC

2. Background

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 and the Corporate Management Team.

2.2 The strategy prescribes that these risks should be assessed by the Corporate Management Team (CMT), by Cllr Rob Yates, Portfolio Holder for Corporate Services 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 27 July 2022. Consequently, the council has now transitioned to operating under the new risk management strategy and our associated new way of monitoring, evaluating and reporting risk. Some progress has been made during this risk reporting cycle, with a good proportion of the service areas responding.Ongoing training is also offered and delivered to all service areas, sometimes on an individual basis or on a team meeting basis - this is so that we can keep the Risk Management Strategy relevant and current for all the service areas. As we have such a diverse portfolio this is incredibly important in order to give this committee a full oversight of the risks that we face.

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.Please note Annex 1 is presented to the committee in Mar and Sept (Nov 24) - also we have now discussed Insurance Training for members of the committee which I believe will be booked in for the P4 meeting

2.5 Work has been undertaken 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 tracking of risk scores which we are currently reviewing and also looking to drill down on this report for the committee the risk journey from the start of the process to the end. We have also been discussing the need for a Risk Management system dedicated to centralising the collation of Risk Reports and providing analysis which will further help the committee understand and engage with the Risk Management and our Corporate Risks - further to follow on this exciting development

3. Relevant Issues

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 is 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

3.5.1 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”.

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

3.5.3 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 please see below

Risk Matrix Scoring Mechanism

Likelihood

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

Impact

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 satisfaction / 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 procedur e 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

5.5.4 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				

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

3.5.6 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.

3.5.7 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.

3.5.8 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'*

3.5.9 The report seeks to aid the committee to discharge these responsibilities

3.6 Corporate risk register

3.6.1 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 4th Dec 2024

3.6.2 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.

Description	Nov 2024 Score	Dec 2024 Score	Change
Cyber Attack	16	12	Yes
Limited Resources	12	12	No
Economic Environment	16	16	No
Homelessness	16	16	No
Environmental Act 2021	16	16	No
Net Zero Strategy	16	16	No
Groundwater Assessments	16	16	No
Manston Airport	12	12	No

3.6.3 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.

3.6.4 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.

Highest-scoring risks

3.7 Cyber Attack (Impact 4, Likelihood 3) Future risk

Reputation, Service Delivery, Strategic and Financial risk score 4

Work has continued to improve our security position across the organisation. This is ensuring that we are in a cybersecurity readiness state by improving the way we monitor, identify and are able to respond to and recover from security threats. Given the significant focus and activity which has taken place to increase our controls and mitigations since the last quarterly update, consideration is now being given to reduce the likelihood risk score from 4 (very likely) to 3 (likely). This would in no way diminish the focus and work on cyber security, which would have to be sustained in order to continue to protect the organisation, but reflects the improved position the council is in as a result of the significant amount of work that has been completed in recent months.

A contributing factor to this was the approval of the new suite of ICT & Digital policies which were agreed at Cabinet on Thursday 26 September. These have now been published on the staff intranet and launched in a Councillor briefing, with the view to roll this out using our new platform Knowbe4. This will allow the policies to be pushed out across the council and capture a record of acceptance.

A number of platforms have now been implemented; Ninja One and Insight. This helps to protect our network, servers and devices used across the council. These platforms are ensuring security patches are applied and that all our devices are monitored continuously looking for threats and vulnerabilities. These platforms are able to provide reports where we can now provide a vulnerability score for our systems and a compliance score in regards to patching. The team can now use this data to ensure that this can be continually worked on and our patching compliance is worked on to reduce the security risk.

A new bespoke cyber security risk register has now been created. This month there are currently 13 risks on the cyber security risk register, 8 of these being classified with an extreme risk score. However after mitigations being resolved and controls in place there is 1 risk which remains in this category. This is an unsupported system and currently runs on an operating system which is also in extended support. There is currently no live project in place to replace this system, however this has been included in the October monthly CMT security report to highlight this risk and discuss next steps.

A monthly security report is now presented to CMT with the report including;

- Vulnerability status of key systems

Systems are given risk scores depending on vulnerabilities using a platform called Rapid 7. Any Systems scoring more than a 1000 are classified as high (Red)

- Number of alerts from our Management, Detection and Response (MDR) platform

These alerts notify us of any suspicious activity within our network or on our devices by our vendor Sophos. They monitor 24/7

- MDR Health score

This score is generated by our MDR platform, scanning all devices ensuring they comply with our security policy, have not been tampered with and have protection installed

- Organisation risk Score - Human Element (KnowBe4)

This score is generated by our KnowBe4 platform, the score is training completed by staff, the emails which have been reported as suspicious and the acceptance of policies

- Phishing Emails Reported

This is the number of emails reported to us as suspicious using the phish hook icon in gmail which are collated within KnowBe4

- Patching Compliance (Ninja One)

This score is generated by our patching compliance platform Ninja One, the score is calculated with the number of patches being successfully installed and that all devices have been reachable and scanned

- Cyber Risk Register

This risk register identifies potential cyber threats for our organisation

- Security incidents Reported

The number of security incidents reported from staff either using the form on the support portal or over the telephone

- IT Health Check (ITHC) Update

Following out ITHC in August this provides an update on where we are with the remediation plan

- Data Breaches Reported

The number of data breaches reported from staff either using the form on the support portal or over the telephone

The IT Health Check (ITHC) which was completed in August scanned our network, devices, servers and systems. The ITHC checks for vulnerabilities and provides a report to us with actions breaking them into the following categories; Critical, High, Medium and Informational.

The ITHC health check was a significant improvement compared to previous years. This year there were no critical vulnerabilities, 7 high, 23 medium, 12 low and 4 informational Last year there were 12 critical, 43 high, 67 medium, 16 low and 1 informational.

Since we have received the report the team has been working on the high rating actions, six of these have now been completed with one outstanding.

Corporate Risk Lead Officer: Transformation Programme Manager - Technology Lead & SISO

3.8 Limited Resources (Impact 4, Likelihood 3) Current/Emerging/Future

Strategic, Financial Risk Score 4

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.

Whilst the Chancellor's Budget provided the announcement of much welcome additional funding for the local government sector, the detailed allocations will not be known until the Provisional 2025/26 Local Government Finance Settlement is published, which is expected in late December. As in prior years, a single one year settlement is expected for 2025/26, although the Government has committed to providing multi-year settlements for future 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 2025/26 budget setting process this again included a Star Chamber process, where Service Directors are 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 has informed the shape and substance of next year's budget adjustments.

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: Director of Corporate Services & s151 Officer

3.9 Economic Environment (Impact 4, Likelihood 4) Current/Emerging/Future

Service Delivery, Strategic and Financial risk score 4

Prices in the UK went up by 1.7% in the 12 months to September, the lowest rate in three-and-a-half years. The Bank of England has a target to keep inflation at 2%, and puts interest rates up and down to try to meet it. In November, it cut rates for the second time in 2024, taking them to 4.75%.

Despite the easing of the current rate of inflation, prices are still rising, albeit at a lower rate, and the cumulative impact of a prolonged period of high inflation has still impacted across the council's various different budget headings.

This is particularly prevalent in the construction industry and is impacting upon the cost profile of a number of our capital projects. To mitigate this pressure, the council will need to consider project value engineering to ensure they are delivered within budget, or alternatively rationalising the number of deliverable projects in order to avoid the potential for significant overspends. For this reason, the risk remains scored at the highest level, despite the overall easing of economic conditions.

The cost of living crisis also continues to be a significant issue for both the Council and all Thanet residents. It 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. To mitigate these pressures, the council continues to provide financial support and advice to residents where it can. For example via our Housing Options Service which offers financial support and guidance to households, and the landlords of those households, experiencing homelessness or in threat of homelessness. Our Home Energy team offers financial support and guidance to those households experiencing fuel poverty. We proactively administer , for example the government funding (e.g. Household Support Fund, working in partnership with Age Concern, and Citizens Advice Bureau, and Council Tax Energy Rebate) or the provision of tools and information regarding benefit entitlement is on our website and information channels.

Corporate Risk Lead Officer: Director of Corporate Services & s151 Officer

3.10 Homelessness (Impact 4, Likelihood 4) Highest scoring mechanism is financial risk at 4 Current

Service Delivery, Strategic and Financial risk score 4

During 2022, the Council experienced an increased requirement to provide temporary accommodation (TA) for homeless households, and this trend has continued during 2023 and into 2024. Factors that have influenced this include:

- Increasing costs in the private rented sector, leading to more households struggling with their rent costs, whilst at the same time increases in Local Housing allowance rates have failed to keep pace with increases in rents.
- 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, impacting on the ability of the council to effectively prevent homelessness.

The cost of living crisis has compounded these pressures. Local housing allowances (LHA) have fallen significantly behind average private sector rents as a result of rent inflation, and although LHA was increased in April 2024, the rates are still not keeping up with increases in private sector rents. The Autumn 2024 budget indicated a further freeze to LHA rates in 2025. Cases that were previously 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 pressures led to a budget overspend in 2022/23 of around £1.2m and the decision to include budget growth of £800k in the 2023/24 budget. The 2023/24 out-turn for temporary accommodation costs showed an overspend of approximately £1.1m.

The Housing Options Team has developed a detailed action plan to mitigate and manage the risk of further increases in the costs of temporary accommodation, and to start to reduce these costs over time. The team meets fortnightly to monitor progress. This mitigation plan includes:

- The financial incentives available to landlords to encourage them to provide accommodation to households who might otherwise require temporary accommodation, have been increased in line with market pressures I. The council is able to provide financial support with rent-in-advance and deposits and payments to incentivise landlords to offer tenancies, with larger payments available for longer tenancies. This approach is continuing to be very successful, with around two thirds of all cases where the council has a homelessness prevention duty ending in a positive outcome. In the year to March 2024 61% of cases were successfully supported into a new home during the council's prevention duty stage – this is higher than the South East regional average of 50%, national average of 45%.

- The team is now fully staffed, including a number of additional roles to help manage the increasing service demands. In particular, we have recruited a new role of Homelessness Relief Officer, whose job is to support all households currently in TA to identify potential move-on options.

- New arrangements have been introduced for the collection of temporary accommodation charges, in line with the procedures already in place for rent collection from TDC's own tenants. We have seen reductions in unpaid charges as a result. These reviews also ensure that everyone eligible for Housing Benefit has completed the applications and has benefit in payment, which is paid directly into their rent account. This new approach has improved rent collection performance; In December 2023 TA rent arrears stood at £146k, they have now reduced to £102k, which represents 3.7% of the total charges.

- Following the successful delivery of the council's first TA project at Foy House in Margate, we have acquired a second building in Truro Road Ramsgate, providing 7 self contained flats. Planning permission is currently being sought for the change of use from a hotel, and will let all of the flats as soon as consent is granted. Work is underway to identify opportunities to utilise the funding that is in the approved general fund capital programme for further TA projects, including commissioning external financial advice on how best to model the revenue implications of new projects. We are also currently in the process of purchasing 11 new build homes for use for Temporary Accommodation, approved by Cabinet in October 2024. We are confident that the external financial advice will enable the purchase of more homes specifically for use as Temporary Accommodation.

- Since the council committed to an accelerated housing delivery programme of at least 400 new affordable rented homes in July 2023, we have made a significant start in delivering the programme. We already have an approved pipeline of 206 homes, of which 37 have been delivered and let. This includes 49 homes on our own land, where we have recently let a construction contract for construction work to start on site this summer. We continue to investigate opportunities for the remainder of the programme and have started work on proposals that could deliver as many as 300 further homes. We have recently met with our newly elected MP regarding the importance of our Housing Delivery programme to ensure it receives the priority needed. Our agreed use of local lettings plans for these news homes ensure that at least half of them are let to households leaving temporary accommodation.

On 31 October, officers attended an emergency homelessness summit, convened by the District Council Network along with another 157 other councils, all facing pressures on their homelessness services. The issue is of national significance. Following the summit the council was a joint signatory to an open letter to the government seeking urgent support. Key asks included:

- Increases in local housing allowances and discretionary housing payments budget,
- Additional resources for homelessness prevention services, and
- Long term investment in more social housing.

The government has given additional financial support to local authorities in previous years and any additional funding announced for the current year, will help to manage the pressure on this service area.

Overall the mitigation plan currently in place has helped to stabilise the number of households in temporary accommodation over the past 3 months at around 300 households.

Corporate Risk Lead Officer: Corporate Director of Place

3.11 Environmental Act (Impact 4, Likelihood 4) Current/Emerging/Future

Reputation, Service Delivery, Strategic and Financial risk score 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 in 2021 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 were anticipated to start to take effect from mid 2023 but implementation has been delayed.

The extended producer responsibility (EPR) scheme will commence from the start of the 2025/26 financial year. The scheme seeks to make those who introduce packaging into the market responsible for its entire lifecycle, ensuring that product design incorporates considerations for disposal and recycling. Packaging producers will be required to pay into the scheme on the basis of the weight of the raw materials they use to produce packaging. Different tariffs applying to the varying materials used to manufacture packaging products.

From April 2025 local authorities will receive 'packaging payments' via the EPR scheme. In Kent this will apply to both districts and boroughs as waste collection authorities and also the county council as the waste disposal authority. Indicative estimates of the year 1 payment (2025/26) are not known at the time of drafting this report but are anticipated in time for consideration as part of the 2025/26 budget setting process. From April 2026, local authority funding via EPR will be predicated upon the efficiency of service delivery and provision of recycling services. Failure to meet reasonable expectations could result in up to a 20% deduction in EPR payments that the council could expect to receive.

The Deposit Return Scheme (DRS) was originally intended to be launched in 2025 but is now scheduled to start in England by October 2027. The principal aims of the scheme are to enhance recycling rates, lessen environmental litter, and transition towards a circular economy. The DRS also has the potential to dramatically effect recycling volumes collected at the kerbside and the implications for the council and how this will integrate with the new EPR scheme packaging payments are not yet known.

DEFRA's consultation response to collection reforms (now titled "Simpler Recycling") was published in May 2024. Local authorities will be required to collect the same recyclable materials from all households by 31 March 2026.

The Head of Cleansing is taking an active role in industry workshops and events on the forthcoming changes and continues to monitor announcements from DEFRA on this subject. The long term financial impact to the council as a Waste Collection Authority resulting from the various anticipated changes highlighted above remain unclear and as such the risk score currently remains high.

Corporate Risk Lead Officer: Director of Environment

Corporate Risk Owner: Head of Cleansing

3.12 **Climate change and Net Zero Strategy (Impact 4 Likelihood 4) Current/Emerging/Future**

Service Delivery, Strategic and Financial risk score 4

Although this risk continues to be high, there is significant activity taking place to support the council with its ambitions to reach net zero.

A funding bid is currently being developed for Phase 4 of the Government's Public Sector Decarbonisation Scheme (PSDS). This funding stream provides match-funded grants for public sector bodies to fund heat decarbonisation and energy efficiency measures. As nearly a third of the council's emissions are from its buildings and estate, if successful, this funding will enable improvement works which will significantly decrease the overall emissions which the council is directly responsible for. This will include measures such as replacing the gas boilers with low carbon technologies such as air source heat pumps at the Cecil Street, Margate offices and the Kent Innovation Centre as well as the council-owned leisure centres. In addition to replacing gas boilers, the programme will take a holistic approach and will include fabric improvements to the buildings, replace lighting with LED and will include solar PV installations. There is no guarantee however that this bid will be successful as it is anticipated that submissions will far exceed the total funding available. The application process closes on 25 November and an announcement will be anticipated some time in the new year, ahead of successful applications being awarded funding by approximately the end of May 2025. In addition to the PSDS bid, we have recently completed a mini-tender to appoint a contractor to deliver a 400 kWp rooftop solar PV array on Ramsgate Leisure Centre as part of Sport England's Swimming Pool Support Fund Phase two grant fund. The deadline for delivery is the end of March 2025.

Another significant contributor to the council's emissions is from its fleet, so this has continued to be an area of focus. Recent investigations have indicated that the use of Hydrotreated Vegetable Oil (HVO) as an alternative fuel is potentially viable and a formal trial will take place from November 2024 using a selection of existing cleansing services vehicles. The use of HVO has the potential to substantially reduce the emissions of the entire vehicle fleet. HVO is however considered to be a transitional fuel and not a solution in the long term. It would therefore not be a permanent alternative to electric or any other zero emission vehicles, but will help to reduce emissions in the short term whilst the council prepares for a wider scale change to zero emission vehicles.

In the meantime, work is ongoing to review the council's wider net zero action plan, and an updated Carbon Reduction Plan will be produced in the coming months to assess the latest status, and future forecasts of the council's emissions. This activity will be crucial in order to create a clearer picture of the funding required to support the council in working towards its net zero ambitions by 2030.

This activity will continue to be monitored by the council's Climate Change Cabinet Advisory Group, which meets every other month, reflecting the priority status, as well as regularly with the Corporate Management Team (CMT) and through the re-instatement of a Net Zero CMT sub-group.

Corporate Risk Lead Officer: Head of Strategy & Transformation

3.13 **EA inspection for Ground Water Risk Assessments that haven't been completed (Impact 4 Likelihood 4) Current risk**

In November 2017, the Environment Agency published revised guidance on ground water risk assessments stating that risk assessments now need to be carried out on existing burial grounds as well as new grounds being planned. These risk assessments only have to be carried out in areas of the cemetery where multiple burials have taken place in the last 10 years. There is no evidence to suggest these risk assessments have been carried out in either Margate or Ramsgate Cemeteries, however, when these cemeteries opened, this wouldn't have been a requirement. In 2022 new legislation placed a requirement on cemeteries having a permit unless they meet certain conditions which include having the groundwater risk assessment. Failure to comply could lead to EA inspection.

A contractor has been appointed to undertake an assessment for both cemeteries with an output anticipated early in 2025. This will ensure compliance with the legislative requirements.

Corporate Risk Lead Officer: Director of Environment

Corporate Risk Owner: Head of Neighbourhoods

3.14 **Manston Airport DCO has been granted - Appeal dismissed (Impact 3 Likelihood 4)**

Following the appeal dismissal, RiverOak Strategic Partners (RSP) have indicated the opening of a cargo hub at Manston in 2028. Depending on the nature of imports, Regulatory Services will be required to provide Port Health Authority (Public Protection) officers based on required volumes of inspections. As part of a unilateral agreement through the DCO, the airport operators have also agreed to fund a new continuous monitoring air quality station. This too will require additional resources in the EP team to commission, maintain and calibrate.

Mitigations

RSP have indicated that the development will proceed with initial opening planned for 2028. Engagement with airport operators will take place to determine further opening plans, level and nature of imports anticipated, including countries of origin. When more is known an exercise can take place to secure staffing budget and recruit new Public Protection staff to fill the required Port Health roles as this cannot be accommodated within the current team (4 FTE). Further engagement will also be undertaken regarding the commissioning of the new continuous AQ monitoring station and any longer term resource requirements in EP.

Corporate Risk Lead Officer: Director of Environment

Corporate Risk Owner: Head of Neighbourhoods

4. Alternative Options

4.1 The Governance and Audit Committee is being asked to approve the corporate risk management quarterly report and note the progress update.

4.2 The Committee could opt to make suggestions to the report

5. Consultation

5.1 There has not been any formal consultation undertaken for this report as none was required.

6. Corporate Implications

6.1 Finance and Resources

6.1.1 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.

6.2 Legal and Constitutional

6.2.1 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.

6.3 Council Policies and Priorities

6.3.1 This report relates to the following corporate priorities: -

- To keep our district safe and clean
- To deliver the housing we need
- To protect our environment
- To create a thriving place
- To work efficiently for you

6.4 Risk

6.4.1 As detailed in the body of this report.

6.4.2 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**. which is presented twice a year in Sept (November for this risk cycle) and March - and as such this was presented in the meeting of 4th November

6.5 Climate Change and Biodiversity

6.5.1 There are no climate change and biodiversity implications arising directly from this report..

7. Equality, Equity and Diversity Implications

7.1 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.

7.2 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

8. Crime and Disorder Implications and Community impact

There are no Crime and Disorder and Community Implications

9.0 Subject History

9.1 This is part of the ongoing Risk Management Process

Background Papers

None

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Report Sign Off
Legal Ingrid Brown (Head of Legal and Democracy & Monitoring Officer)
Finance Matt Sanham (Head of Finance and Procurement)

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Mid Year Review 2024/25: Treasury Management and Annual Investment Strategy

Governance & Audit Committee	4 December 2024
Report Author	Chris Blundell, Director of Corporate Services and Section 151 Officer
Cabinet Portfolio Member	Councillor Rob Yates, Cabinet Member for Corporate Services
Key Decision	No
Decision Classification	Unrestricted
Call in status	For information
Previously Considered by	Cabinet - 28 November 2024
Ward	Thanet Wide

Purpose of the Report

This report summarises treasury management activity and prudential / treasury indicators for the first half of 2024/25.

Recommendation(s)

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 2024/25 Treasury Management Strategy Statement) to Council for approval.

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

Summary of Reasons

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 2024/25 mid-year position for treasury activities.

Background

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."

Key reporting items to consider include:

- 2024/25 mid-year capital expenditure on long term assets was £11.4m (2023/24 mid-year: £5.9m), against a full-year budget of £124.2m.
- The Council's gross debt, also called the borrowing position, at 30 September 2024 was £17.2m (30 September 2023: £19.7m).
- The Council's underlying need to borrow to finance its capital expenditure, also called the Capital Financing Requirement (CFR), is estimated to be £96.5m at 31 March 2025 (31 March 2024: £56.8m).
- 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 £106.5m.
- As at 30 September 2024 the Council's investment balance was £30.4m (30 September 2023: £55.4m).
- It is proposed that the 2024/25 Treasury Management Strategy Statement be amended as described in section 3 of this report.

Relevant Issues

1 Treasury Management and Capital Strategy

1.1 Treasury Management

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. Two additional quarterly reports are also provided to the Governance and Audit Committee.

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 2024/25 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 2024/25;
- A review of the Council's borrowing strategy for 2024/25;
- A review of any debt rescheduling undertaken during 2024/25;
- A review of compliance with Treasury and Prudential Limits for 2024/25.

3 Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, Capital Strategy and Non-Treasury Investment Report, was approved by the Council on 22 February 2024.

3.2 It is proposed that both the Operational Boundary and Authorised Limit for borrowing in the 2024/25 TMSS (referred to in section 3.1 above) be increased by £3m to reflect the increase in the 2024/25 GF capital programme as per the 10 October 2024 Council Report on the Medium-Term Temporary Accommodation Plan.

3.3 During the half year ended 30 September 2024 the Council operated within the treasury and prudential indicators set out in the 2024/25 TMSS.

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 reprofiling of £20.779m from the previous year. The £26.311m increase to the HRA budget is as per the Revised 4 Year HRA Capital Programme report agreed at the 11 July 2024 Council meeting.

Capital Expenditure	2024/25 Original Budget £m	Current Position – Actual spend at 30/09/24 £m	2024/25 Revised Budget £m
General Fund	52.625	6.653	72.185
HRA	25.746	4.793	52.057
Total	**78.371**	**11.446**	**124.242**

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	2024/25 Original Budget £m Total	Current Position – Actual at 30/09/24 £m	2024/25 Revised Budget £m GF	2024/25 Revised Budget £m HRA	2024/25 Revised Budget £m Total
Total spend	**78.371**	**11.446**	**72.185**	**52.057**	**124.242**
Financed by:					
Capital receipts	3.524		2.205	4.018	6.223
Capital grants	55.455		54.408	13.358	67.766
Reserves	7.920		1.433	13.280	14.713
Revenue	0.300		0.290	0.370	0.660
Total financing	**67.199**		**58.336**	**31.026**	**89.362**
Borrowing need	**11.172**		**13.849**	**21.031**	**34.880**

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 CFR.

Prudential Indicator – the Operational Boundary for external debt

	2024/25 Original Estimate £m	Current Position – Actual at 30/09/24 £m	2024/25 Revised Estimate £m

Prudential Indicator – Capital Financing Requirement			
CFR –General Fund	44.227		41.311
CFR – HRA	54.995		55.157
Total CFR	99.222		96.468
Net movement in CFR	**42.449**		**39.695**
	2024/25 Original Indicator £m	**Current Position – Actual at 30/09/24 £m**	**2024/25 Revised Indicator £m**
Prudential Indicator - the Operational Boundary for External Debt			
Borrowing	101.500	17.181	104.500
Other long term liabilities*	35.000	5.216	35.000
Total debt	**136.500**	**22.397**	**139.500**

** Any 'on balance sheet' PFI schemes and leases etc.*

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 2024/25 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.

	2024/25 Original Estimate £m	**Current Position – Actual at 30/09/24 £m**	**2024/25 Revised Estimate £m**
Gross borrowing	86.273	17.181	89.520
Plus other long term liabilities*	12.568	5.216	5.202
Total gross borrowing	**98.841**	**22.397**	**94.722**
CFR (year end position)	99.222		96.468

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	2024/25 Original Indicator £m	Current Position – Actual at 30/09/24 £m	2024/25 Revised Indicator £m
Borrowing	106.500	17.181	109.500
Other long term liabilities*	45.000	5.216	45.000
Total	**151.500**	**22.397**	**154.500**

** Any 'on balance sheet' PFI schemes and leases etc.*

5 Annual Investment Strategy 2024/25

5.1 The Treasury Management Strategy Statement (TMSS) for 2024/25, which includes the Annual Investment Strategy, was approved by Council on 22 February 2024. 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 quality financial institutions.

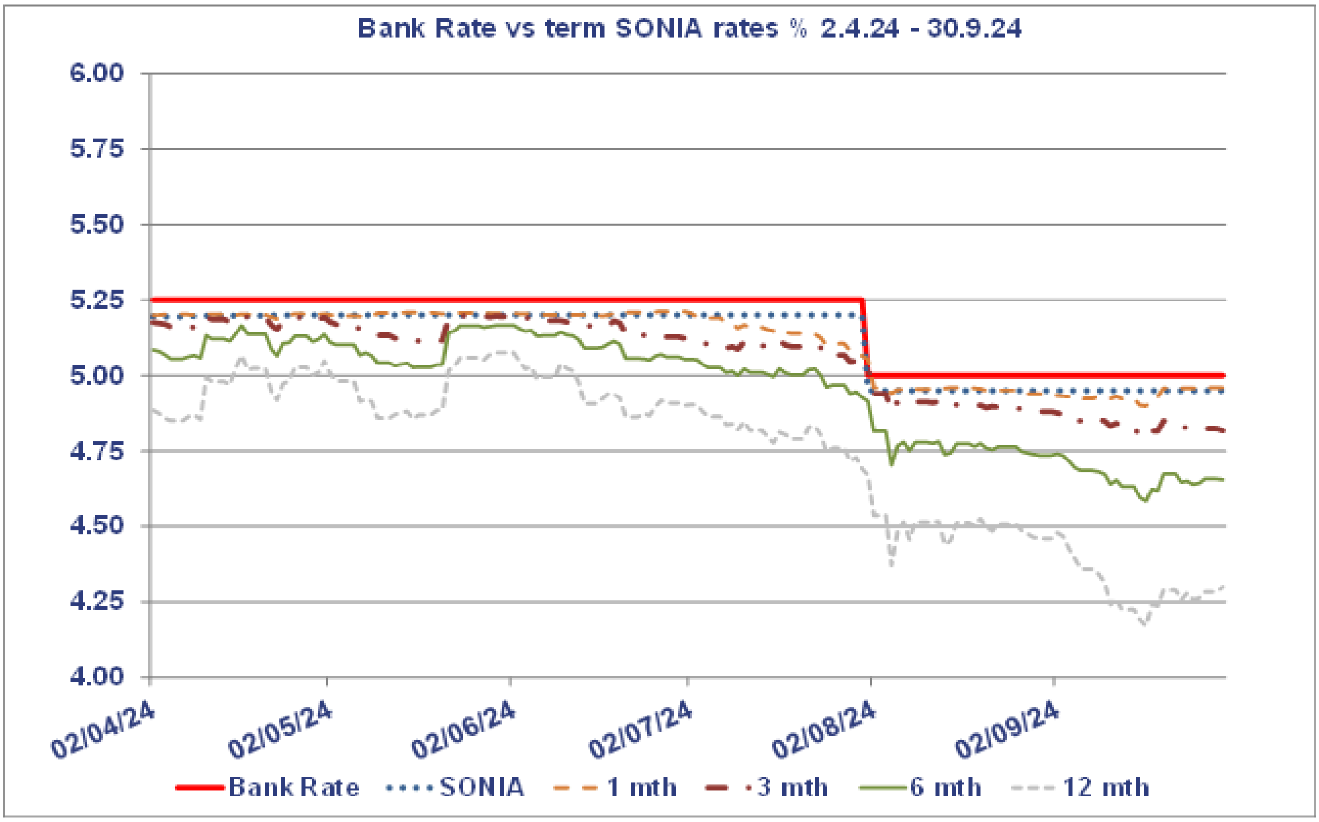
5.3 **Creditworthiness**

The UK's sovereign rating has proven robust through the first half of 2024/25.

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 2024



	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.20	5.21	5.20	5.17	5.08
High Date	02/04/2024	03/05/2024	27/06/2024	17/04/2024	31/05/2024	30/05/2024
Low	5.00	4.95	4.90	4.79	4.58	4.17
Low Date	01/08/2024	01/08/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
Average	5.17	5.12	5.11	5.06	4.96	4.75
Spread	0.25	0.25	0.31	0.41	0.58	0.91

5.6 The Council held £30.425m of investments as at 30 September 2024, with maturities all under one year (£41.677m at 31 March 2024). The investment portfolio yield for the first six months of the year is 5.19%, in line with the benchmark (average 7 day SONIA compounded rate) of 5.19%. The constituent investments are:

Sector	Country	Total £m
Banks	UK	6.257
Money Market Funds	UK	20.168
Local Authority Loans	UK	2.000
Bond Funds	UK	2.000
Total		**30.425**

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 2024/25.

5.8 The Council's budgeted investment return for 2024/25 is £1.515m (£0.757m half-year) and performance for the first half of the financial year is above budget at £0.874m. The revised estimate for 2024/25 is £1.340m.

5.9 The above bond fund is a pooled investment fund accounted for at fair value, although there is a mandatory statutory override for local authorities to reverse all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. There was an unrealised fair value gain of £76k as at 31 March 2024 and it is not expected that the cessation of the override will have an adverse impact on the Council.

5.10 Investment Risk Benchmarking

Investment risk benchmarks were set in the 2024/25 Treasury Management Strategy Statement (TMSS) for security, liquidity and yield. The mid-year position against these benchmarks is given below.

5.10.1 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.

5.10.2 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.

5.10.3 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 5.19%, in line with the benchmark (average 7 day SONIA compounded rate) of 5.19%.

5.11 Investment Counterparty criteria

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

6 Borrowing

6.1 The Council's capital financing requirement (CFR) revised estimate for 2024/25 is £96.468m. 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 £17.181m (table 4.5) and will have utilised an estimated £79.287m of cash flow funds in lieu of borrowing (assuming no additional borrowing is undertaken during the year). This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring if gilt yields remain elevated, particularly at the longer-end of the yield curve (25 to 50 years).

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

6.3 The Council repaid £2.443m of maturing debt during the first half of this financial year using investment balances, as below:

Lender	Principal £'000	Interest Rate	Repayment Date
PWLB	43	3.08%	23/04/24
PWLB	2,400	4.88%	01/07/24
Total	**2,443**		

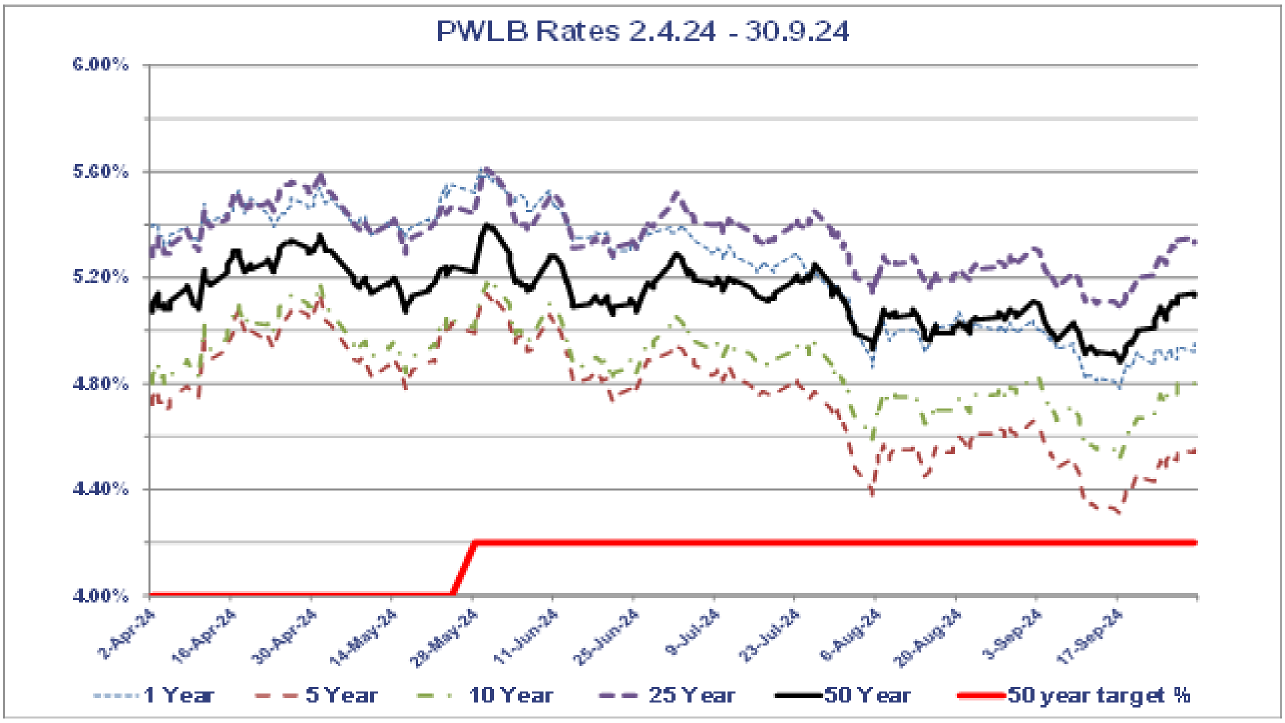
As below, a further £0.043m of existing maturing debt is due to be repaid during the second half of this financial year. In addition, the Council has a long term loan of £4.5m from Dexia which has a lender's option/borrower's option (LOBO) feature. The option allows Dexia to alter the interest rate every 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%	23/10/24
Total	**43**		

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 on-going budgetary pressures. Our borrowing strategy will therefore also be regularly reviewed and then revised if necessary, to achieve optimum value and risk exposure in the long-term.

6.5 The graph and table below show the movement in PWLB borrowing rates for the first six months of the year to 30 September 2024.

6.6 PWLB borrowing rates during half year ended 30th September 2024



	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

6.7 Gilt yields and PWLB certainty rates were less volatile than at this time last year. Overall, the 10, 25 and 50-year part of the curve endured a little volatility but finished September very much as it started in April.

6.8 Where there was some movement downwards, this came in the shorter part of the curve as markets positioned themselves for Bank Rate cuts in the second half of 2024 and into 2025, although the continued stickiness of inflation and the prevailing tight labour market was a concern for those looking for more sizeable falls ahead.

6.9 At the beginning of April, the 5-year certainty rate was the cheapest part of the curve at 4.72% whilst the 25-year rate was relatively expensive at 5.28%. May saw yields at their highest across the whole curve.

6.10 Conversely, 17 September saw the low point for the whole curve, with the 5-year certainty rate falling to 4.31% before rebounding to 4.55% by the end of the month. Similarly, the 50-year certainty rate fell to 4.88% but finished the month at 5.13%, slightly higher than at the start of April.

6.11 As at 3 October 2024 Link Group (the Council's external treasury management advisor) still forecasted rates to fall back over the next two to three years as inflation dampens, although there was upside risk to Link's Bank Rate forecast. The CPI measure of inflation was expected to fall below 2% in the second half of 2025 however, and Link forecasted 50-year rates to stand at 4.20% by the end of September 2026. The major caveats were the considerable gilt issuance to be digested by the market over the next couple of years, and geo-political uncertainties which abounded in Eastern Europe and the Middle East in particular.

6.12 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 (GF)** is gilt plus 80 basis points (G+80bps)
- **PWLB Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- **PWLB Certainty Rate (HRA)** is gilt plus 40bps (G+40bps)

The **UK Infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

6.13 Debt repayment and rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.

6.14 The Council's budgeted debt interest payable for 2024/25 is £2.592m (£1.296m half-year) and performance for the first half of the financial year is below budget at £0.370m, reflecting the use of internal borrowing (see section 6.1). The revised estimate for 2024/25 is £2.490m.

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.

%	2024/25 Original Indicator	2024/25 Revised Indicator
GF	15.6%	9.5%
HRA	14.4%	6.1%

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.

	2024/25 Original Upper Limit	Current Position – Actual at 30/09/24	2024/25 Revised Upper Limit
Maturity structure of fixed rate borrowing			
Under 12 months	50%	26.7%	50%
1 year to under 2 years	50%	0.5%	50%
2 years to under 5 years	50%	1.5%	50%
5 years to under 10 years	50%	13.7%	50%
10 years to under 20 years	50%	40.6%	50%
20 years to under 30 years	50%	11.2%	50%
30 years to under 40 years	50%	0.0%	50%
40 years to under 50 years	50%	5.8%	50%
50 years and above	50%	0.0%	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 Alternative Options

8.1 The recommended option (to ensure regulatory compliance as set out in sections 1 and 2 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 2024/25 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. Consultation

9.1 Not applicable

10. Corporate Implications

10.1 Finance and Resources

The financial implications are highlighted in this report.

10.2 Legal and Constitutional

There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the DLUHC Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

The Council must approve any amendment to the treasury management strategy and annual investment strategy in accordance with the relevant provisions of the Local Government Act 2003, the CIPFA Code of Practice for Treasury Management in the Public Services, the Ministry of Housing, Communities and Local Government's (previously DHLUC) Local Government Investment Guidance issued under Section 15(1) (a) Local Government Act 2003 and the CIPFA Prudential Code for Capital Finance.

10.3 Council Policies and Priorities

This report relates to the following corporate priorities: -

- To keep our district safe and clean
- To deliver the housing we need

- To protect our environment
- To create a thriving place
- To work efficiently for you

10.4 Risk

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

10.5 Climate Change and Biodiversity

No implications identified.

10.6 Equality, Equity and Diversity Implications

There are no particular equalities implications arising.

10.7 Crime and Disorder Implications and Community Impact

None identified.

10.8 Subject History and Background Papers

Not applicable

11 Disclaimer

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

Report Author Contact:Chris Blundell, Director of Corporate Services & S 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 2024/25

Corporate Consultation Undertaken

Finance: Matthew Sanham, Head of Finance and Procurement
Legal: Ingrid Brown, Head of Legal and Democracy & Monitoring Officer

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

1 Link Group's Economic Update (issued by Link on 3 October 2024)

1.1 The third quarter of 2024 (July to September) saw:

- Gross Domestic Product (GDP) growth stagnating in July following downwardly revised Q2 figures (0.5% q/q);
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- Consumer Price Index (CPI) inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

1.2 The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services Purchasing Managers Index (PMI) balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.

1.3 The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the Office for National Statistics (ONS) reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.

1.4 The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Link's colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.

1.5 The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.

1.6 Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

1.7 CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

1.8 The Bank initiated its loosening cycle in August with a 25 basis points (bps) rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the European Central Bank (ECB) more than the Federal Reserve (Fed), opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

1.9 Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, Link's central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, Link thinks a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

1.10 Link's forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November Monetary Policy Committee (MPC) meeting and the release of the Bank of England Quarterly Monetary Policy Report.

1.11 Looking at gilt movements in the first half of 2024/25, Link notes the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about

10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to Link's forecast of 3.0%.

1.12 The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) may be the degree of investors' faith in Artificial Intelligence (AI).

2 Link Group's Interest Rate Forecast (issued by Link on 3 October 2024)

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.

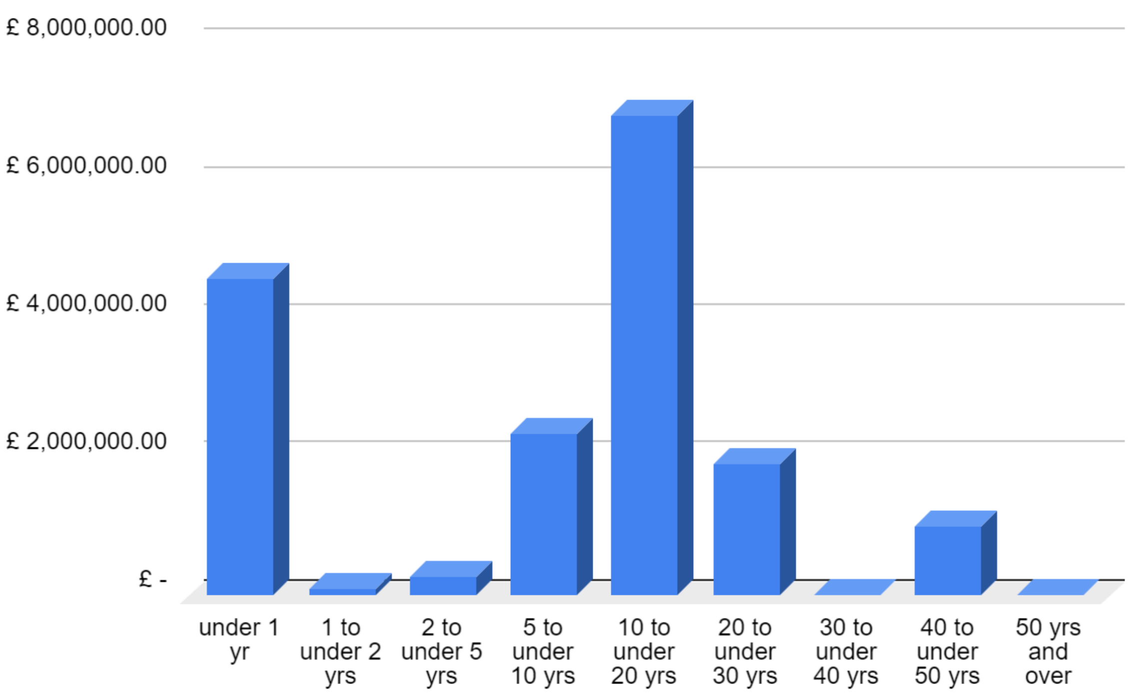
2.2 Link's latest forecast on 28 May 2024 sets out a view that short, medium and long-dated interest rates will fall back over the next year or two, although there are upside risks in respect of the stickiness of inflation and a continuing tight labour market, as well as the size of gilt issuance.

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

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

3 Debt Maturity

3.1 The maturity structure of the Council's borrowing as at 30 September 2024 (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, £2.443m of council debt with the PWLB matured, and was repaid, during the first half of this financial year.

ANNEX 2 – GUIDANCE ON THE TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY – MID YEAR REVIEW REPORT 2024/25

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.