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07 February 2024

AUDIT AND GOVERNANCE COMMITTEE

A meeting of the Audit and Governance Committee will be held in **Council Chamber, Arun Civic Centre, Maltravers Road, Littlehampton, BN17 5LF** on **Monday 19 February 2024 at 6.00 pm** and you are requested to attend.

Members: Councillors Walsh (Chair), O'Neill (Vice-Chair), P. Bower, Goodheart, Haywood, Jones, May, Oppler, Purser, Turner and Wallsgrove

PLEASE NOTE:

A live webcast of the meeting will be available via the Council's Committee webpages.

Any members of the public wishing to address the Committee meeting during Public Question Time, will need to email Committees@arun.gov.uk by 5.15 pm on **Monday 12 February 2024** in line with current Committee Meeting Procedure Rules.

For further information on the items to be discussed, please contact Committees@arun.gov.uk

AGENDA

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

   Members and Officers are invited to make any declaration of pecuniary, personal and/or prejudicial interests that they may have in relation to items on this agenda, and are reminded that they should re-declare their interest before consideration of the items or as soon as the interest becomes apparent.

Members and Officers should make their declaration by stating:

a) the item they have the interest in
b) whether it is a pecuniary/personal interest and/or prejudicial interest
c) the nature of the interest

3. MINUTES (Pages 1 - 8)

The Committee will be asked to approve as a correct record the Minutes of the Audit & Governance Committee held on 30 November 2023.

4. ITEMS ON THE AGENDA THAT THE CHAIRMAN OF THE MEETING IS OF THE OPINION SHOULD BE CONSIDERED AS A MATTER OF URGENCY BY REASON OF SPECIAL CIRCUMSTANCE

5. PUBLIC QUESTION TIME

To receive questions from the public (for a period of up to 15 minutes).

6. REVIEW OF THE MEMBERS' ALLOWANCES SCHEME - REPORT OF THE INDEPENDENT REMUNERATION PANEL (Pages 9 - 40)

Now that the Committee system has been in place for some time [since May 2021] it is timely to undertake a review of all allowances, and because the last full review was undertaken in July 2019.

The Regulations require the Council's IRP to review its Members' Allowances Scheme every four years.
[30 minutes]

7. INTERNAL AUDIT ANNUAL PLAN 2024/25 (Pages 41 - 54)

The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements. This report presents the plan for 2024-25 for approval by the Committee.
[10 minutes]

8. INTERNAL AUDIT CHARTER 2024/25 (Pages 55 - 68)

The Internal Audit Charter is a formal document that defines the internal audit activity's purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Public Sector Internal Audit Standards require the charter to be reviewed and approved annually.
[5 minutes]

9. INTERNAL AUDIT PROGRESS REPORT DECEMBER 2023 (Pages 69 - 84)

The report outlines the progress of the Council's Internal Audit service against the approved Internal Audit Plan for 2023/24 from 1 April 2023.
[15 minutes]

10. CORPORATE RISK REGISTER UPDATE (Pages 85 - 116)

The Corporate Risk Register is reviewed and updated in line with the requirements of the Council's Risk Management Framework.

Quarterly updates reflecting revisions are reported to the Audit and Governance Committee, this report highlights the changes since the last update.

It is proposed that the Committee considers and notes the revised Corporate Risk Register.
[20 minutes]

11. STATEMENT OF ACCOUNTS - ACCOUNTING POLICIES 2023/24 (Pages 117 - 138)

The report allows the Audit and Governance Committee to consider and note the accounting policies that will be applied to the Statement of Accounts 2023/24 for approval by the Committee. The statutory deadline for completion of the draft accounts is 31 May 2024 and approval of the final audited accounts is 30 September 2024. Should there be any changes to these deadlines, Members will be informed.
[5 minutes]

12. TREASURY MANAGEMENT STRATEGY & ANNUAL INVESTMENT STRATEGY 2024/25 (Pages 139 - 186)

The report has been prepared to ensure that the content complies with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2021.

Section 12 of the Local Government Act 2003 Act provides local authorities with the power to invest for any purpose relevant to its functions, or for the purposes of the prudent management of its finances. Broadly speaking, this means that its cash resources must be invested under the 'SLY' principles of Security, Liquidity and then Yield.
[15 minutes]

13. USE OF REGULATION OF INVESTIGATORY POWERS ACT (RIPA) ANNUAL REPORT 2023 (Pages 187 - 192)

The Regulation of Investigatory Powers Act 2000 (RIPA) governs the acquisition and disclosure of communications data and the use of covert surveillance by local authorities.

The Council has the ability to use powers under RIPA to support its core functions for the purpose of the prevention and detection of crime where an offence may be punishable by a custodial sentence of 6 months or more. There are three processes available to local authorities under RIPA: the acquisition and disclosure of communications data; directed surveillance; and covert human intelligence sources ('CHIS').

The Act sets out the procedures that the Council must follow if it wishes to use directed surveillance techniques or acquire communications data in order to support core function activities. The information obtained as a result of such operations can later be relied upon in court proceedings provided the Act is complied with.

The Home Office Code for Covert Surveillance and Property Interference recommends that elected Members, whilst not involved in making decisions or specific authorisations for the local authority to use its powers under the Act, should review the Council's use of the legislation and provide approval to its policies.
[10 minutes]

14. WORK PROGRAMME (Pages 193 - 196)

The Committee is required to note the Work Programme for 2023/24.
[5 minutes]

Note : If Members have any detailed questions, they are reminded that they need to inform the Chair and relevant Director in advance of the meeting.

Note : Filming, Photography and Recording at Council Meetings – The District Council supports the principles of openness and transparency in its decision making and permits filming, recording and the taking of photographs at its meetings that are open to the public. This meeting may therefore be recorded, filmed or broadcast by video or audio, by third parties. Arrangements for these activities should operate in accordance with guidelines agreed by the Council and as available via the following link Filming Policy

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AUDIT AND GOVERNANCE COMMITTEE

30 November 2023 at 6.00 pm

Present: Councillors Dr Walsh (Chair), O'Neill (Vice-Chair), Blanchard-Cooper (Substitute for Oppler), P. Bower, Haywood, Jones, May, Purser, and Wallsgrove

[Councillor Jones was absent from the Meeting for discussion of Items 437 - 443]

437. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillors Goodheart, Oppler, Turner. Cllr Jones had also sent apologies that he would be late to the meeting.

438. DECLARATIONS OF INTEREST

There were no Declarations of Interest made.

439. MINUTES

The Minutes of the meeting held on 28 September 2023 were approved by the Committee. These would be signed after the meeting.

440. ITEMS ON THE AGENDA THAT THE CHAIRMAN OF THE MEETING IS OF THE OPINION SHOULD BE CONSIDERED AS A MATTER OF URGENCY BY REASON OF SPECIAL CIRCUMSTANCE

There were no urgent matters for this meeting.

441. PUBLIC QUESTION TIME

No public questions had been submitted for this meeting.

442. 2021/22 EXTERNAL AUDIT PROGRESS UPDATE

The Chair welcomed James Stuttaford, Audit Manager for Ernst & Young LLP to the meeting. He gave a verbal update to the Committee explaining that they were very near to completing the audit, which they expected to be complete by the next meeting of the Audit & Governance Committee. Additional work had been required following the 2022 Pension Fund Evaluation, and it had been agreed that amendments would be made to the net pension fund asset on the balance sheet. Audit work remained ongoing in the area of Capital Grants Receipts in Advance, as there had been a difference of opinion with regards to the classification of items recorded. Ernst & Young LLP had concluded that the majority of those items should be recognised and reclassified to the Capital Grants Unapplied Reserve. Discussion with the finance team remained ongoing and the matter was due to be discussed again the following day, with the expectation that agreement could be reached. There was also small amounts of evidence required to support capital valuations, which was being worked on by the Estates Team. Once those areas were completed, Ernst & Young LLP would progress to the closing stages of the audit, including agreeing the amended version of the financial statements prior to signing.

There were no questions from Members.

The Group Head of Finance and Section 151 Officer reassured Members that the changes currently being discussed with Ernst & Young LLP, would not affect the reusable revenue reserves balances that had been reported to Policy & Finance as a matter of course throughout the financial year.

443. 2022/23 EXTERNAL AUDIT UPDATE

The Chair welcomed Kevin Suter, Associate Partner from Ernst & Young LLP to the meeting. He gave a verbal update to the Committee, explaining the situation nationally regarding a backlog of audits in the local government sector, which was not unique to Arun or to Ernst & Young LLP. He explained that the recently published (on 24 November 2023) Select Committee report provided a good summary of the background to all the issues. This was something the Government were looking to address, and guidance was awaited regarding a possible system reset, where a date may be given by which all non-complete audits would be stopped, then the auditors would move to report anyway, which would be some sort of modified opinion on the accounts. Whilst waiting for the guidance Ernst & Young LLP had been working to clear as many historic audits as possible. They had prioritised pension fund audits and value for money responsibilities, which they understood would continue as normal. Ernst & Young LLP were not currently able to give a statement on what would happen with the 2022/23 Arun District Council external audit, as depending on when and if a reset date was given, they may not be able to complete this audit at all. He explained that they were working with other stakeholders such as the National Audit Office and Chartered Institute of Public Finance and Accountancy’s (CIPFA), who set the requirements of the accounting code, and were also looking at making changes to their various responsibilities so the whole system could come together and get back to meeting the targets. As soon as further information became available, Ernst & Young LLP would be liaising with Arun.

The Chair asked what the main reason for the build-up of audits was, and whether this was due to Covid-19, working from home or lack of resources either centrally or in local government. The Associate Partner explained the backlog of completed audits was due to a combination of factors, the problem was starting to build prior to covid mainly due to lack of resources, which was exacerbated during Covid-19 as staff were diverted from producing accounts to other activities such as distributing grants, and local authorities, and external auditors had not been able to catch up.

Members were then given the opportunity to ask questions. It was asked how this practically effected Arun's finance department, and whether it would create a backlog for them to complete. The Group Head of Finance and Section 151 Officer explained they had sympathy for Ernst & Young LLP, however clarified that although the accounts were put onto the website slightly late, their working papers were in good order and had been available for audit for several months, so the resourcing issue mentioned by Associate Partner from Ernst & Young LLP did not apply to Arun. He explained if Ernst & Young LLP had to complete a full 2022/23 audit, this would inevitably be a lot of work for the finance team as, their assistance would always be required by the auditors to complete the audit.

The Chair sought clarification that with such a national backlog, the aim of national government would be to simplify the process and not increase the complexity. The Associate Partner hoped no more complexity to the accounts would be added whilst they were trying to work through the backlogs, and also long-term, and he reiterated that CIPFA, who set the accounting code of practice, were currently looking at what measures could be put in place to simplify this in the short term.

The Section 151 Officer added that over the years, the complexity and size of local authority accounts had greatly increased and this would inevitably make it much more difficult to clear audit backlogs under the current circumstances.

One Member asked whether Artificial intelligence would speed up the process. The Associate Partner believed this would be the case in the future, however this concept was only in the very early stages at the moment.

The Committee noted the report.

444. INTERNAL AUDIT PROGRESS REPORT SEPTEMBER 2023

The Chair welcomed Iona Bond, Senior Audit and Counter Fraud Manager, from Southern Internal Audit Partnership (SIAP), who then presented the report to the Committee. This outlined the progress of the Council's Internal Audit service against the approved Internal Audit Plan for 2022/23 from 1 April 2023, up to the end of September. She highlighted key points from the Internal Audit Progress Report. Good progress had been made on the audit plan, and they were almost at the halfway point, which was pleasing. The summary of live audit reviews showed those reviews where management actions were yet to reach their implementation date, and those with management actions running overdue. In relative terms the number of outstanding actions across work being done at Arun was relatively small. Since the last progress report, the only further management actions that were overdue were on Accounts Receivable, Homelessness and Business Continuity. Regarding Homelessness, there were lots of actions to be done in a short space of time and hard work been done which resulted in only one running overdue. The outstanding actions under Accounts Receivable and

Debt Management were due to process issues and the updates needed to be reviewed by relevant Committees, but the updates had been made. Annexe one showed further information regarding the high priority overdue actions. Business Continuity showed a number of overdue management actions, however very good progress had been made. On reflection she felt the target date for completing these management actions had been optimistic. The Senior Audit and Counter Fraud Manager did not have any concerns around the overdue management actions at this stage.

Section 7 which was the rolling work programme, showed the progress being made. The Senior Audit and Counter Fraud Manager updated Committee that the review of non-domestic rates (NNDR) showing in the finance section had now been finalised and a draft report on the medium term financial planning process audit, had been sent to Officers. In relation to all Quarter 3 audits, all had now been scoped. Overall, she felt Arun were in a very good position and would be meeting with the Corporate Management Team the following week, as she did at the start of each quarter, to see if any adjustments needed to be made to the plan. There had been very few adjustments made to the plan so far this year which was very pleasing.

The Chair summarised there was no cause for concern in the work carried out so far and invited questions from Members.

Debt Management on page 20 stated the Constitution would need to be changed, which was in progress, it was asked how far had this got? The Group Head of Finance and Section 151 Officer explained that in the Constitution there were some inconsistencies in the amounts to be written off, and the delegated authorities. The debt write off policy first needed to be approved by the Policy and Finance Committee. Once this had been done a report could be taken to the Constitution Working Party to iron out the inconsistences. This would satisfy the recommendations of the audit.

It was asked why the IT Disaster Recovery Planning had been deferred to the early part of 2024/25, as shown in Section 8 of the appendix. The Senior Audit and Counter Fraud Manager from SIAP explained that SIAP had experienced long-term sickness within the technology team, which had therefore restricted their capacity to deliver some of the technology audits, so it had been agreed with Arun this review would be pushed back one quarter. The reason this was felt appropriate was that the Corporate Business Continuity Planning Audit finalised at the beginning of 2023/24, touched on elements of Information Technology Disaster Recovery Plan.

The Committee noted the report.

445. TREASURY MANAGEMENT – INTERIM REPORT 2023/24

Upon the invitation of the Chair, the Group Head of Finance and Section 151 Officer introduced the report. He explained he was presenting this on behalf of the Senior Accountant (Treasury). This mid-year report had been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and covered the activities to 30 September 2023. It enabled the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

Investment income continued to perform well, with an expected investment income of £460k over budget. Interest rates remained high, however they were expected to reduce in due course. The Council were also due to repay unused energy support grants, which the Government gave to Councils in advance to provide households with financial support during the financial crisis. This money had been invested, thus increasing the Council's investment returns, but the next major repayment of money was due in 30 days' time.

Arun still had no external borrowing outside of the Housing Revenue Account. The Group Head of Finance and Section 151 Officer highlighted pages 38-40, which showed the prudential and treasury indicators. The Capital Finance Requirement (CFR) was the amount of capital expenditure that needed to be funded through borrowing. The CFR was set out on page 38, and the level of borrowing (table 4.4 on page 37) showed actual borrowing to be far less than the CFR figure. This meant Arun that had 'under borrowed' which was a good thing, because it meant that it was able to fund capital expenditure through balances such as energy payment grant money, capital tax precepts, business rates, which Arun could take advantage of whilst the money was in their bank account. Under borrowing negated the need to take out new borrowing, and was not unusual for local authorities to do. Arun had a very robust cash flow forecast model. Page 39, table 5.6 explained the borrowing limits. Arun had 2 borrowing limits which the Council were statutorily obliged to set. The limits were down to the Council to decide. These were the Operational borrowing limit, which was the maximum amount of borrowing that the Council would operate within and the Authorised borrowing limit, which gave the Council some headroom should it be required. Officers were not permitted to allow borrowing to exceed this limit. Arun was well below the Operating borrowing limit, which represented a good position for the Council. He then highlighted section 6 starting on page 40, which gave a general economic update.

Members were then given the opportunity to ask questions. Clarification was sought on the 14.8 million figure under Net borrowing in the table on page 39. The Group Head of Finance and Section 151 Officer explained this figure was the difference between total borrowing and investments, so our net position was that we had more investments than we were borrowing.

It was asked where the money from investments would go. The Group Head of Finance and Section 151 Officer explained this was funding the general fund revenue services.

As First Abu Dhabi Bank and Quatar National Bank were removed from the counterparty list earlier in the year, assurances were sought that similar investments to these would not be made in future. The Group Head of Finance and Section 151 Officer confirmed Officers were aware of the wishes of the Committee in relation to this. He explained they needed to ensure there were enough organisations on the counterparty list that were able to give a sufficient spread of investments and thus reduce risk whilst achieving investment security, liquidity and maximum yield. He was unable to definitively say that somewhere in the chain of Arun's investments were not held in areas the Committee may not wish to invest in, however he would look into this and report back. The Chair stated that the wishes of the Committee were clear, and money should not be invested in banks with obvious human rights issues. The Group Head of Finance and Section 151 Officer reiterated that it was important investments were spread in a way that minimized risk, and the Council were governed by CIPFA and DLUHC regulations, which required them to do this.

Discussion continued regarding whether or not Members were happy to recommend the addition of the Money Market Fund in recommendation 2.4 to Full Council, as there were no obvious human rights issues to consider, or whether they wanted the Group Head of Finance and Section 151 Officer to thoroughly investigate the organisation prior to doing so. There was a suggestion of deferring this recommendation until the February meeting, whilst the Group Head of Finance and Section 151 Officer undertook further investigation of the Council's investment portfolio, and the level of investments that may be in areas the Committee would otherwise not choose to invest in. Members agreed that they were happy to proceed with making the recommendation to Full Council, however they asked Officers to come back with this information to Members after the meeting. The Group Head of Finance and Section 151 Officer explained this was possible, however he wanted Members to be aware that there was a large list of investments to look at, and it may uncover some areas Members did not feel comfortable investing in. He explained that deferring the recommendation until February did slightly heighten risks regarding not having sufficient counterparties to mitigate investment risks. Members were confident Officers had picked State Street Global Advisors (SSGA) with consideration to the Committees previous instructions on the directions of how they wished to invest in the future. It was asked whether Officers were aware which particular funds we would be looking at investing in. The Group Head of Finance and Section 151 Officer explained this was not known yet. One Member also pointed out that the SSGA group had good ESG credentials, which was something that the Committee were keen to see.

The Chair again raised whether Committee felt they needed to defer this recommendation or whether they felt happy to proceed. Members were happy to proceed but again asked the Group Head of Finance and Section 151 Officer to provide information to Members after the meeting regarding the portfolio funds of SSGA. It was confirmed the outcome of this did not affect the recommendations being made to Full Council this evening.

The recommendations were proposed by Councillor Purser and seconded by Councillor Jones.

The Committee

RECOMMEND TO FULL COUNCIL that

1. the mid year treasury management report for 2023/24 be noted;

2. the treasury mid-year activity for the period ended 30 September 2023, which has generated interest receipts of £1,068,012 (4.65%). Budget £1,540,000 (3.20%), be noted;

3. the actual prudential and treasury indicators for 2023/24 contained in the report be noted; and

4. the addition of a further Money Market Fund (MMF) – State Street Global Advisors (details of which can be seen in 2.4 of appendix 1) be approved.

446. CORPORATE RISK REGISTER UPDATE

Upon the invitation of the Chair, the Group Head of Finance and Section 151 Officer introduced the report, explaining that he was presenting this report on behalf of the Finance & Risk Manager. He highlighted the major cyber-attack score had recently increased but was still deemed to be medium risk. An additional medium risk had been identified (CRR4) relating to supplier support for the Council's electronic document management system. The Corporate Management Team had approved the removal of risk CRR18 relating to the Housing Benefit Subsidy as an auditor had now been identified to undertake the audit. The Corporate Management Team had approved the removal of risk CRR14 relating to Housing repairs - compliance failings. It was deemed that this risk was now being managed to an acceptable level and could now be managed at a service area level. To improve the risk management of major projects (CRR11) this risk had been separated into three separate risks by project: CRR11a - Major Project- Alexandra Theatre; CRR11b - Major Project - Littlehampton Seafront; CRR11c - Major Project - Bognor Regis Arcade.

Members were then invited to ask questions. One Member expressed concern regarding the amount of red risks from CRR10 – CRR11c, and CRR1a - CRR18. It was noted that there was reference to staff needing more training to improve these areas, and it was asked whether there was any progress on this. The Group Head of Finance and Section 151 Officer thanked the Member for the excellent question. He explained that some risks such as the Financial Resilience Risk would remain red for quite some time, although there was a plan to manage that risk and a lot of work was going on to address this. This was the case for other risks too. He said there was assurance to be gained just by the nature of recognising the risks and being aware that the problems were being actively managed. The corporate risks were reviewed on a 6 monthly basis, but there was continuous work being undertaken. The Internal Audit Manager explained the gross risk level was the starting point and effectively the worst-case scenario, and the net risk was the risk level once actions were already in place and those that the Council had committed to were taken into account. Some of these net risks were amber. The red risks CRR1-CRR11c were mostly red for the net risk, which appeared the most alarming. Some of these risks were for the major projects, and the risk at the start of these projects was more severe and would reduce as the project progressed. The aim was to reduce the net risk by mitigating the risks.

There was still concern that some of the issues were due to staff training, and it was asked whether there were any plans to improve on that. The Group Head of Finance and Section 151 Officer was not able to give an answer for this where the risks did not come under his area, however he suggested that if Members had particular concerns around certain risks, they could ask the relevant Group Head to attend the Audit & Governance Committee to explain this in further detail.

The Chair thought the risk owners of CRR1-B (Balance of Housing Revenue Account), CRR2 (Organisational capacity to deliver) and CRR7 (Climate Change) should provide a short-written report for the next meeting of the Audit & Governances Committee. There was agreement for this from the Committee.

The report was noted.

447. WORK PROGRAMME

The Internal Audit Manager presented the Work Programme to Committee, highlighting that the February meeting date had changed to Monday 19 February 2024.

The Committee noted the Work Programme.

(The meeting concluded at 7.15 pm)

REPORT TO:	**Audit & Governance Committee – 19 February 2024**
SUBJECT:	**Review of the Members' Allowances Scheme – Report of the Independent Remuneration Panel**
LEAD OFFICER:	**Daniel Bainbridge, Group Head of Law and Governance (Monitoring Officer)**
LEAD MEMBER:	**Councillor James Walsh – Chair of the Committee**
WARDS:	**All**
CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION: To comply with The Local Authority (Members' Allowances) (England) Regulations 2003 in terms of how regularly a council should conduct a review of its Members' Allowances Scheme, which should be reviewed at least every four years, and what a review should cover in terms of the allowances that Members can claim.	
DIRECTORATE POLICY CONTEXT: Responsibility for these matters sits within the remit of the Group Head of Law & Governance.	
FINANCIAL SUMMARY: The financial implications associated with the IRP's report are set out in Paragraphs 4.5 to 4.9 of this report.	

1. PURPOSE OF REPORT

1.1 The Audit & Governance Committee has responsibility for reviewing Councillor Allowances based on reports received from the Council's Independent Remuneration Panel (IRP) created under the Local Authorities (Members' Allowances) Regulations 2003.

1.2 The last full review of the Members' Allowances Scheme was approved by Council in July 2019. An interim review was undertaken by the IRP in November 2020 and reviewed the Special Responsibility Allowances of the Leader and Deputy Leader of the Council and Cabinet Members in preparing for the Council's move from a Leader and Cabinet form of governance over to a Committee system. This review examined the Special Responsibility Allowances (SRAs) that should be paid to the Service Committee Chairs and Vice-Chairs forming the structure. The recommendations approved by the Audit & Governance Committee were then approved by Council in January 2021.

1.3 Following the District Elections held in May 2023, and as it has been four years since a last full review of the Members' Allowances Scheme was undertaken, the Independent Remuneration Panel (IRP) has been working on and has now concluded its latest review of the Council's Members' Allowances scheme.

2. RECOMMENDATIONS

2.1 The Audit & Governance Committee is requested to consider the report of the Independent Remuneration Panel on its tenth review of the Members' Allowances Scheme, together with the financial appraisal set out in Paragraphs 4.4 to 4.8 which should be read in conjunction with the Panel's report and recommendations.

2.2 The Committee is asked to make any recommendations in approving a new scheme to Full Council on 13 March 2024 for final adoption.

3. EXECUTIVE SUMMARY

3.1 Now that the Committee system has been in place for some time [since May 2021] it is timely to undertake a review of all Councillor allowances, and because the last full review was undertaken in July 2019.

3.2 The Regulations require the Council's IRP to review its Members' Allowances Scheme every four years.

4. DETAIL

4.1 For the benefit of the Committee, it received a scoping report at its meeting held on 25 July 2023 confirming the Terms of Reference of the Panel and the general principles that should be applied in reviewing the next review of the Members' Allowances Scheme.

4.2 The report also set out the timetable for the review that has been undertaken and the Committee will note that all the proposed actions listed have been undertaken by the Panel. This included a Seminar for all Members of the Council on 4 September 2023, the opportunity for Members to complete a questionnaire; and Councillor and officer interviews. The report that was submitted to the 25 July Audit & Governance Committee has been attached to this report as a background paper.

4.3 The Panel's Report setting out its recommendations can be viewed at Appendix 1 to this report.

Issues and Budget Summary

4.4 There are budgetary issues to consider in relation to the following recommendations:

(i) The Basic Allowance – in setting the budget for 2024/25, as the BA is linked to Officer pay awards, the 5.72% increase [confirmed in December 2023] as part of the 2023/24 staff pay award was added to the 2022/23 budget for BA backdated to 1 April 2023. Although the % uplift for the 2024/25 pay award is not known, as it is still to be confirmed, an estimate percentage has been built into the budget. If Members choose to agree the Panel's recommendation to increase the BA [Recommendation 1 in the Panel's report] this will represent a modest increase to this budget.

(ii) The IRP recommends changes to the amounts of Special Responsibility Allowances (SRAs) and other allowances in respect of:

- The Leader and Deputy Leader of the Council
- The Chair and Vice-Chair of the Planning Committee
- The Chairs and Vice-Chairs of the six Service Committees being the Policy & Finance Committee; the Corporate Support Committee; the Economy Committee; the Environment Committee, the Housing & Wellbeing Committee and the Planning Policy Committee
- The Vice-Chair of the Standards Committee
- The Leader of the Opposition
- The Appeals Panel and Co-Optee Allowance
- The Carer's Allowance [Childcare and Dependent Adult Allowances

(iii) The majority of SRAs are index linked to the staff pay award and the 5.72% increase confirmed in December 2023, has been built into the 2023/24 budget and an estimate percentage increase into the 2024/25 budget in anticipation of the 2024/25 pay award. The Panel's recommendations can be accommodated within the budget for 2024/25.

(iv) No changes are proposed to the SRAs set out below:

- Chair and Vice-Chair of the Council
- Chair and Vice-Chair of Licensing
- Member of Licensing
- Member of Planning
- Named Substitute for Planning
- Chair of Standards
- Independent Persons of the Standards Committee
- Chair and Vice-Chair of Audit & Governance
- Leaders of smaller Minority Groups

(v) No change is proposed for Town and Parish Council Allowances, but Members are asked to note that the Parish Basic Allowance is linked to District Basic Allowance [10%] and is also subject to being inflated in line with officer pay.

(vi) The Panel is recommending that the effective date for changes if agreed by Council to the scheme be 1 April 2024.

4.5 A table setting out the Members' Allowances Budget and impact of the IRP's proposed recommendations can be found below:

Budget	No of Cllrs	Budget 2023/24	Budget for 2024/25	Change	New Total	Change
Basic Allowance	54	£6,378 x 54 = £344,412	£366,810	£6,638 [+£260]	£358,452	£344,412 **[+14,040] = £358,452**
SRAs		**£111,268**	**£118,500**		**£98,807**	**See below**
Leader	1	£6,654	£6,654	£8,000	£8,000	£+1,346
Deputy Leader	1	£2,355	£2,355	£2,400	£2,400	£+ 45
Chairs of Service Committees	6	£5,667	£34,002	£4,000 [-1,667]	£24,000	£-10,002
Vice-Chairs Of Service Committees	6	£1,869	£11,214	£1,200 [-£669]	£7,200	£-4,014
Chair of Planning	1	£6,982	£6,983	£8,000	£7,500	£+ 518
Vice-Chair Planning	1	£2,305	£2,305	£2,500	£2,500	£+ 195
Vice-Chair Standards	1	£0	£0	£ 349	£ 349	£+ 349
Leader of the Opposition	1	£4,559	£4,559	£4,000	£4,000	£ - 559
The Appeals Panel and Co-optees Allowance incl IRP	5 [IRP]	£60 per meeting attended	£2,000	£65 per meeting	Depends on No of meetings	£ +5 per meeting attended
Carer's Allowance Childcare	Any Cllr can claim	£10 ph Up to limit £4k pa	Part of SRA budget	£12 ph (1 child) £15 ph (2 + Children No cap	Part of SRA budget	£ +2 ph No cap

Carer's Allowance Dependent Adult Allowance	Any Cllr can claim	£18.49 ph Up to limit £6k pa	Part of SRA budget	£24.95 ph No cap	Part of SRA budget	£ + 6.46 ph No cap

4.6 The Member's Basic Allowance total if approved for 2024/25 would be £358,452. The Panel's recommendations, if accepted, represent an increase of £14,040, which would mean a small overspend in respect of the 2024/25 budget, dependent upon what pay award percentage is confirmed. The budget for 2024/25 is £366,810. Built into this is an assumption of what the staff pay award and uplift in the Basic might mean for 2024/25. The proposed budget for 2024/25 is subject to Council approval as part of the overall consideration of the Council's budget.

4.7 The Special Responsibility Allowance total if approved for 2024/25 would be £98,807. The Panel's recommendations, if accepted, would represent a decrease in the budget of £12,461, however, part of this has been passed onto funding the proposed increase in BA. The budget for SRAs for 2024/25 is proposed to be £118,500. Built into this is the assumption of what the staff pay award and uplift in SRAs might mean for 2024/25. The proposed budget for 2024/25 is subject to Council approval as part of the overall consideration of the Council's budget.

4.8 The total increase in costs if all of the Panel's recommendations are approved to include changes to the BA and SRAs is £1,577.

4.9 The Co-Opted Member and Members of the IRP; Members and Witnesses to Committees and Panels uplift means a £5 per hour increase for any meeting attended against a budget proposed for 2024/25 totalling £2,000. No concerns are expressed if this recommendation is approved.

Overall cost of Allowances and Expenses

4.10 The IRP has stated in its report that it is mindful and conscious that any Scheme proposed for allowances and expenses must be appropriate for the Council and affordable in relation to budget provision.

4.11 It has set out the financial effect of its recommendations within its report, however, this does not provide line by line detail as to the financial effect of its recommendations if Members choose to approve and take up full entitlement of all the allowances that they are entitled to and especially in respect of the childcare and adult care allowance. It is recommended that Officers will pay particular attention to the recommendations in the Panel's report regarding the Carer's Allowance by keeping this under review. In view of the recommendations proposed for this part of the Allowances Scheme, an Equalities Impact Assessment has been completed and can be found at Appendix 2.

4.12 The overall financial effect of the IRP's recommendations compared with the allowances being paid for 2023/24 represents an increase of £1,577. Having consulted with the Finance Team, if approved, this small increase in cost can be accommodated from within the existing Committee Services budget and would not represent growth within the overall budget.

5.0 CONSULTATION

5.1 In line with the Constitution at Part 3 – Responsibility for Functions, the Audit & Governance Committee has responsibility for overseeing the work of the Independent Remuneration Panel in its periodic consideration of members' allowances. Having already reported to the Committee on 25 July 2023 by providing a scoping report setting out how the Members' Allowances Review would be undertaken, and the Committee agreeing that process, this report now presents the findings and recommendations of the Panel.

5.2 The Panel's report details the results of the Member Survey that all Members had the opportunity to complete and the Member and Officer interviews that were held. It also provides detail on the issues that were debated at the Members' Seminar held on 4 September 2023.

5.3 All Town and Parish Clerks were provided notification of the review and were provided with an opportunity to raise concerns. This is covered in the Panel's report.

6 OPTIONS / ALTERNATIVES CONSIDERED

6.0 At the time of writing this report, there are no other alternative proposals in place in terms of the review that has been undertaken of the Members' Allowances Scheme.

6.1 The Local Authority (Members' Allowances) (England) Regulations 2003 require the Council to have regard to the recommendations made to it by an IRP before it agrees or amends its Members' Allowances Scheme [Regulation 19.1]. The regulations have been attached to this report as a link and as a background paper.

6.2 The Committee may accept the IRP's recommendation as set out in Appendix 1 to the report or it can recommend alternatives to the IRP's recommendations, but it should state its reasons for doing so. The Committee could recommend to not continue with the review at this stage or could ask the IRP to reconsider or revisit any of its proposed recommendations.

6.3 To not agree the Panel's recommendations could put the Council at risk as this would mean that the Council would not be complying with The Local Authority (Members' Allowances) (England) Regulations 2003 in terms of how regularly a council should conduct a review of its Members' Allowances Scheme.

6.4 The Committee will recall that at its meeting held on 28 February 2023, it extended the terms of office of the IRP to 31 March 2023. If the Committee should decide to ask the Panel to revisit any of its recommendations, this would require the Panel to undertake further work. It is important to highlight in this instance that this would mean that it would be highly unlikely that the Panel's recommendations would be able to be reported to Full Council on 13 March 2024, as further consideration of its recommendations would require a further report to be brought to the Audit & Governance Committee first, most likely via a Special Meeting.

6.5 In that were to happen, the Committee would be asked at this meeting to extend the terms of office to all members of the Panel in 2024.

6.6 An implication of this action that the Committee would also need to accept is that this would delay the planned recruitment process for a new IRP in 2024.

7 COMMENTS BY THE INTERIM GROUP HEAD OF FINANCE/SECTION 151 OFFICER

7.0 The cost of the proposals in this report can be met within existing budget proposals provided the draft 2024/25 budget is approved by Special Council on 21 February 2024.

8 RISK ASSESSMENT CONSIDERATIONS

8.0 None associated with this report.

9 COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1 The Council must have regard to the recommendations of the Panel when determining the scheme of Members' Allowances.

9.2 The 2003 Regulations place certain duties on local authorities in connection with publicising the recommendations made by the Independent Remuneration Panel, the scheme of allowances adopted, and the actual allowances paid to Members in any given year. The Regulations also place the responsibility on the Council to ensure that copies of the Independent Remuneration Panel's report and recommendations are available for inspection at the Council's principal offices at all reasonable times and publish a notice in at least one newspaper circulating in the area.

9.3 The subsequent guidance to the Regulations, issued jointly by the Office of the Deputy Prime Minister and the Inland Revenue, urges local authorities to publicise more widely the report from the Independent Remuneration Panel, the scheme of allowances and the sums paid to each Councillors with the suggestion that, where possible, this information be published on the Council's website. Supporting information and explanations are also encouraged.

10 **HUMAN RESOURCES IMPACT**

10.0 None associated with this report.

11 **HEALTH & SAFETY IMPACT**

11.0 None associated with this report.

12 PROPERTY & ESTATES IMPACT

12.0 None associated with this report.

13 **EQUALITIES IMPACT ASSESSMENT (EIA)** / **SOCIAL VALUE**

13.0 If the Panel's recommendations are approved, this scheme of allowances provides financial assistance and support to those who might wish to stand for election in the future and those existing Councillors that require financial assistance with childcare or adult caring responsibilities.

13.1 The Panel acknowledges that the ability to claim Child and Dependent Carers' Allowances has a potentially significant impact on the ability of people to stand for election and work effectively as a Councillor, who might not otherwise be able to do so.

13.2 The Panel has made recommendations to increase these allowances to more realistic rates. A full EIA can be found at Appendix 2 of this report.

14 **CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE**

14.0 None associated with this report.

15 **CRIME AND DISORDER REDUCTION IMPACT**

15.0 None associated with this report.

16 **HUMAN RIGHTS IMPACT**

16.0 None associated with this report.

17 FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.0 None associated with this report.

CONTACT OFFICER:
Name: Daniel Bainbridge
Job Title: Group Head of Law and Governance (and Monitoring Officer)
Contact Number: 01903 737607

BACKGROUND DOCUMENTS*:*

Links to background papers mentioned in the report to be added here:

Audit & Governance Committee 28 February 2023 – Report

Report

Audit & Governance Committee 25 July 2023 - Report

Scoping Report to Committee

The Local Authority (Members' Allowances) (England) Regulations 2003

https://www.legislation.gov.uk/id/uksi/2003/1021

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REPORT OF THE

INDEPENDENT REMUNERATION PANEL

ON

MEMBERS' ALLOWANCES

FOR

ARUN DISTRICT COUNCIL

Contents

1. Introduction

1. Under the Local Authorities (Members' Allowances) (England) Regulations 2003, the Council is required to establish and maintain an Independent Remuneration Panel (IRP). The purpose of the Panel is to consider and make recommendations to the Council about the allowances paid to Members under its Scheme of Allowances, hereafter referred to in this report as "the Scheme". The Council must make the final decision on its Scheme but in doing so it must have regard to the advice of the IRP before making any changes. See Appendix 1 for details.
2. The Panel has recommended separately that the 2023-24 Basic and Special Responsibility Allowances be increased by 5.72% based on the total average of the increase in Officer's pay (excluding Apprenticeships, Directors and the Chief Executives) and in line with the national LGA pay award.
3. The Panel accepts that its role is to make recommendations and it is for the Members to decide what to do with the Panel's recommendations.

2. The Independent Remuneration Panel (IRP)

The current IRP was appointed at Council in November 2018 and further extended in March 2023 by the Audit & Governance Committee. The Panel consists of five Members: John Thompson MBE (Chair), Alan Ladley, Andrew Kelly, Sarah Miles and Celia Thomson-Hitchcock. The Members of the Panel come with a wide range of experience. Their profiles are at Appendix 2.

3. Executive Summary

The Panel believes that access to democracy is an important objective - while people should not take on public office mainly for the allowances, good candidates should not be put off standing by financial pressures. If they are, then those who can stand for election come increasingly from unrepresentative groups. The Panel have tried to reflect this in its recommendations, while being mindful of the effects on the Authority's Budget.

The Panel met over a period of five months to conduct a wide-ranging review of Members' Allowances. It listened to Members and Officers and examined a broad range of written data. The Report contains a series of recommendations, which are set out on page 9. In arriving at these, the Panel considered a range of issues.

The Panel found that due to the ongoing effects of Covid, the financial crisis and the change in governance structure to a Committee system, the workload of Members has increased, so a modest increase in the Basic Allowance (BA) would be appropriate.

The Chairs of Service Committees SRAs were set before the workloads and levels of responsibility were known. It is now clear that these SRAs are too high when compared with Regulatory Committee Chairs. The Panel was advised that the Chairs have very limited decision-making responsibilities, with Members having an increased decision-making role, therefore it is right that the renumeration is re-allocated from the Chairs of the SRAs to all Members, via the BA, thus making the rise in the BA almost budget neutral.

The Panel considered carefully and in great detail the role of Vice Chairs and Deputies and have standardised their Allowance at 30% of the Chairs' and Leader's SRAs.

Both Members and the Panel are aware that the SRA payable to the Leader of the Council is one of the lowest in the Southeast, including the five Authorities in the Southeast operating service Committee arrangements. Therefore, the Panel recommends an uplift to ensure that applicants of sufficient calibre are attracted to the role.

The SRAs payable to the Chair and Vice Chair of the Authority are higher than average in the area. It does however include an allowance, which is taxed, for out-of-pocket expenses so the Panel recommends no change in the amount currently paid.

The Planning Committee has been identified as having a significantly higher workload and responsibility than others, so the Panel proposes a modest increase to the SRAs of the Chair and Vice Chair. Some minor changes to other SRAs are recommended. As is the introduction of a modest SRA for the Vice Chair of the Standards Committee.

Travel and Subsistence Allowances should continue to be paid at the current rate (the maximum allowed under HMRC guidelines).

The Panel has considered at length the need for realistic Allowances for Dependent Adults and Children. Current levels are found to be too low, so it is recommended they are increased, together with improved arrangements to further ensure the Allowances are well publicised, easily accessible and flexible while easily auditable. Additionally, the Authority is asked to consider arrangements for Maternity, Paternity and Adoption leave.

The Panel continues to recommend that a Member should be able to claim all SRAs to which they are entitled. Obviously, Members are free to renounce any SRA if they choose.

Parish Allowances were looked at; it is the decision of individual Parishes if any are paid, most do not. The Panel do not see any reason to recommend changes to the current arrangements.

The Panel has identified that the proposed changes to the Basic and Special Responsibility Allowances will increase costs in the region of £1,933 a very modest 0.443%, while assuring that Roles and Responsibilities are fairly and correctly rewarded.

Finally, the Panel recommends all allowances should be linked to any rises in Officers' Pay, so removing the anomaly of some allowances not being so linked. This keeps the allowances reasonably up to date in the four-year gaps between reviews. If workloads and responsibilities for which SRAs are payable change considerably during this period, a light touch review in the intervening period is recommended.

4.Investigation Methodology

The Panel carried out a full review of the Scheme of Allowances. Before starting work they met with the Audit and Governance Committee in July 2023. The Panel then held a well-attended open seminar for Members. (Ap 3) Following this, all members were invited to complete a detailed questionnaire and 25 responded: more than in previous years (Ap 4). A series of 12 interviews were held with selected Members; (Ap 5), Senior Officers' views were also obtained (Ap 5), Reference was made to comparisons with other West Sussex and Southeast Authorities (Ap 6&7). Additional, desk-based research was undertaken, examining Members' roles and responsibilities in ADC and comparisons with other Authorities, together with National and Local Policies (Ap 6)

The Panel also considered the outcomes following the previous Panel Report. This information was helpful and was used as a significant element of the evidence upon which the Panel has based its report and recommendations.

5.General Principles

1. With rising energy and other costs of living increases, the Panel is very aware that the Council is faced with great challenges in setting a balanced budget for 2024-25 and beyond.
2. Recruitment of Members has always been recognised as an important part of the Panel's consideration. The introduction of the current national Scheme in 2000 was driven by the need to make engagement in local governance more widely accessible.
3. The Panel reflected on the importance of the role of elected Members and the importance of clarity in identifying and setting out these roles.
4. Voluntary Service Element is a reduction in the BA paid to all Members to reflect that part of a Councillor's work should be voluntary and not remunerated. There is no statutory requirement to show a discount and only a third of Authorities covered by the Southeast Employers do so. The Panel and Members believe it is important that some element of the work of Members continues to be voluntary, ie, that some hours are not remunerated. This must be balanced against the need to ensure that financial loss is not suffered by elected Members, and further to ensure that, despite the input required, people are encouraged to come forward as elected Members and that their service to the community is retained. In Arun this is set at 30% a figure accepted by most Members.

5. The Panel advocates that Members' allowances should be based on an external benchmark, so ensuring Allowances are maintained at a level appropriate to the wider economic landscape, removing them from the political arena and local pressures. The Panel considered the Consumer Price Index (CPI) as a useful benchmark. There is universal support within the Members and the Panel that to continue to link the BA and Special Responsibility Allowances (SRAs) to Officers' pay is the best benchmark for the Authority.
6. The Panel also felt it is important that both current and potential future Councillors were able to easily access information on the requirements of the role, and to ensure that the Scheme of Allowances is consistent with the expectations of these roles. With this in mind, the Panel had access to ADC Member role profiles.

Findings

1. Feedback to the Panel was that due to the ongoing effects of Covid, (an increase in digital working has led to greater public involvement with the workings of the Council) the financial crisis (leading to more constituents' demands) and the move to the Service Committee system, a modest increase in the **Basic Allowance** would be appropriate. (Recommendation 1)
2. The **Chairs of Service Committees** SRAs were set before workloads and levels of responsibility were known. With some years of experience of how these Committees work, it is now clear to the Panel that these SRAs are too high and should be brought in line with Regulatory Committee SRAs. The Panel was advised that the Chairs have very limited decision-making responsibilities, with Members having an increased decision-making role, therefore it is right that the renumeration is re-allocated from the Chairs of the SRAs to all Members, via the BA. (Recommendation 4)
3. By the same argument **Vice-Chairs of Service Committees** should also be reduced and be set at 30% of the Chairs' SRA. Some Members expressed the view that SRAs should not be paid to Deputies and Vice-Chairs. The Panel focussed on this in interviews with Members and were convinced that the Vice Chairs played in important role in agenda setting and supporting the Chair; as well as deputising for the Chair. (Recommendation 5)
4. There was some support and justification for an increase in the **Leader's SRA**. The allowance paid to the Leader, even with the SRA as Chair of the Policy and Finance Committee added, is one of the lowest in the Southeast (41 out of 56). The allowance was set by removing the former Cabinet Member SRA from the Leader's SRA. Even before then the Leader's SRA had been in the in the lowest quartile of Southeast Leaders' SRAs. This SRA should be set at a reasonable level so that good candidates are attracted to applying when elections take place. The Panel therefore recommends an increase in the Allowance, noting it is still below the average SRA paid to Leaders in the Southeast (2nd lowest overall) and lowest by District population paid in West Sussex. (Recommendation 2)
5. The **Deputy Leader's** SRA is increased very slightly so that it is 30% of the Leader's Allowance. (Recommendation 3)

6. The SRAs paid to the **Chair and Vice Chair of the Council** are much higher than elsewhere in West Sussex. However, unlike other Authorities, their out-of-pocket expenses are included in the allowance, which means also they are subject to tax. Although administratively more difficult, out-of-pocket expenses could be paid as flat allowances per month, possibly with larger items claimed against an invoice. No recommendations are made: the Authority might compare their arrangements with other authorities.
7. The **Chair of the Planning Committee** SRA is clearly too low. This Committee meets twice as frequently as any other Committee, meetings can extend into a second day. The high profile and level of external scrutiny and challenge to the decision-making responsibility in a District with major housing building projects were takin into account by the Panel. The increase would take the SRA to near the top SRAs paid in West Sussex. (Recommendation 6)
8. The **Vice-Chair of the Planning Committee** should also be increased and set at 30% of the Chairs’ SRA. (Recommendation 7). The Panel proposes no change to the SRAs paid to Members of the Planning Committee or named substitutes.
9. The Panel propose a new SRA for the **Vice Chair of the Standards Committee.** It corrects the anomaly of the Standards Committee being the only Committee where the Vice Chair does not receive an SRA, although they fill similar roles to Vice Chairs on other committees. In line with other Vice Chairs the SRA is set at 30% of the Chair’s SRA. (Recommendation 8)
10. The SRA paid to the **Leader of the Opposition** who has limited decision-making responsibilities is in the Panel’s view too high and should be reduced. It should be about 50% of the Leader’s SRA and similar to the SRA for Chairs of Service Committees. (Recommendation 9)
11. Some Members expressed concern about a few Members’ poor attendance at meetings and failure to undertake statutory training, particularly for planning and licensing. This does not fall with the remit of the review. However, the panel were reassured that Group Leaders recognised the importance of good attendance and behaviour.
12. Similarly, the Panel believes the SRA paid to **Panel Members and Co-optees Allowances** should increase by £5, to partly mitigate the effects of inflation, and from now on be linked to Officers’ Pay. (The Panel declare an interest as they are remunerated at the rate paid to Co-opted Members). (Recommendation 10)
13. The Panel makes no recommendation to change any of the other SRAs currently in payment.
14. 33% of Districts & Boroughs in the South-East operate a **one SRA per Member policy.** This Council is amongst the majority who do not. The Panel~~’s~~ agrees strongly with Members that if a Member undertakes a responsibility, they should be remunerated for it. (Note that the split of the Leader’s and Deputy Leader’s SRAs from their constitutional responsibilities to lead the Policy and Finance Service Committee make the one SRA policy well-nigh impossible.)
15. The ability to claim **Child and Dependent Carers’ Allowances** has a potentially significant impact on the ability of people to stand for election and work effectively as a Member, who might not otherwise be able to do so. Research shows current hourly rates are too low and should be set at levels that allow these costs to be met in full. The cost to the Council is low as there are few claimants. The panel has made

recommendations to increase the rates to more realistic maxima. The setting of annual limits is unrealistic as the need is usually ongoing and the Member may be disenfranchised. The Panel heard that claiming arrangements need to be both clearer and more flexible, whilst still ensuring that claims are properly evidenced. However, the Panel do not consider a Business receipt is always possible or indeed necessary. Councillors face particular challenges in finding babysitters or carers, as the demand is sporadic and often in the evening, where for example it is difficult to access nurseries or child minders. The Head of Paid Service should continue to arbitrate on claims made where there is uncertainty. (Recommendations 11 and 12).

16. There is a scheme covering **Adoption, Maternity and Paternity for Members** in line with a scheme for Officers. This should be reflected in the Scheme of Allowances and the Officers' scheme should be published on the Authority's public facing website. (Recommendation 13)

17. There were no demands to change the **Travel and Subsistence allowances**. The arrangement for claiming these allowances needs to be clearly communicated to Members. They remain linked to the rates payable to Officers (and are currently set at HMRC maximum).

18. No recommendations are made to change the list of approved duties for which allowances, etc may be claimed.

19. **Town and Parish Councils** were invited to complete a short questionnaire 7 did so. There was no desire to change the current arrangements whereby Town and Parish Councillors may be paid up to 10% of District Council's Basic Allowance. Few Councils chose to pay any allowance. Those who do, meet the cost from their own precept.

20. Continuing a **four-year review** process works well. Targeted reviews can be commissioned at any time.

Recommendations

Having considered the Scheme in line with the Terms of Reference laid out in Appendix 1 following the Methodology (Ap 3-7) and the General Principles above, the Panel's recommendation for each allowance paid are as follows:

Basic Allowance	
Recommendation 1:	**The Basic Allowance be increased from £6,378 to £6,638.**
Special Responsibility Allowances (SRAs)	
Recommendation 2:	**The Special Responsibility Allowance paid to the Leader of the Council be increased from £6,654 to £8,000.**
Recommendation 3:	**The Special Responsibility Allowance paid to the Deputy Leader be increased from £2,355 to £2,400.**
Recommendation 4:	**The Special Responsibility Allowance Service Committee Chairs be reduced from £5,667 to £4,000**
Recommendation 5:	**The Special Responsibility Allowance Service Committee Vice-Chairs be reduced from £1,869 to £1,200**
Recommendation 6:	**The Special Responsibility Allowance paid to the Chair of Planning be increased from £6,982 to £7,500**
Recommendation 7:	**The Special Responsibility Allowance paid to the Vice-Chair of Planning be increased from £2,305 to £2,500**
Recommendation 8:	**A Special Responsibility Allowance of £349 be paid to the Vice-Chair of Standards**
Recommendation 9:	**The Special Responsibility Allowance paid to the Leader of the Opposition be reduced from £4,559 to £4,000.**
Recommendation 10:	**The Appeals Panel and Co-optees Allowances be increased from £60 per meeting to £65 per meeting and now be linked to Officers' Pay.**
Recommendation 11:	**That the hourly rate for Childcare be increased from £10 an hour to a maximum of £12 per hour for one child and £15 per hour for two or more children. That the annual limit be removed and the rules for claiming be clarified.**
Recommendation 12:	**That the Adults Dependant Care rate be raised to a maximum of £24.95 an hour. The rules be clarified, annual limit be removed, and that Head of Paid Service will decide on the rate be paid on a case-by-case basis.**
Recommendation 13:	**A scheme of allowances covering Adoption, Maternity and Paternity be adopted for Members in line with a scheme for Officers and the Officers' scheme be published on the Authorities public facing website.**
Recommendation 14:	**Town and parish Councils may pay up to 10% of the Authority's Basic Allowance to their own Members.**

Effective Date for Changes

The Panel recommend that the effective date for changes to the Scheme be 1 of April 2024 for all Allowances.

Budget Impact

The net cost of these changes is £1,933 for both the Basic Allowance and Leader's SRA increases. The proposed increase to the Dependent Adults and Child Carers' Allowances is not expected to impact the budget, as the number of Members claiming this allowance is very small. The recommendations for 2024/25 represent a 0.443% increase to the 2023/24 cost for the Scheme of Allowances.

Renunciation

Any Member may, on notifying the Head of Paid Service, renounce all or part of any allowance to which they are entitled. The request must be made in writing and clearly state the period for which the reduction is to be applied.

Future Reviews

The Panel recommends a four-yearly cycle of full reviews, with a light touch review of SRAs in the intervening period.

Revocation of Previous Schemes

The previous scheme of Members' Allowances as approved by Council on 19 July 2019 is revoked with effect from 1 April 2024.

Acknowledgements

The Panel is grateful for the support and co-operation received from Members and Senior Officers and for the excellent assistance of Jane Fulton in Committee Services.

Appendix 1. Terms of Reference

The Independent Remuneration Panel's Terms of Reference are to consider and make recommendations:

- to the authority as to the amount of Basic Allowance that should be payable to its elected members
- to the authority about the responsibilities or duties which should lead to the payment of a special responsibility allowance and as to the amount of such an allowance
- to the authority about the duties for which a travelling and subsistence allowance can be paid and as to the amount of this allowance
- as to the amount of co-optees' allowance
- as to whether the authority's allowances scheme should include an allowance in respect of the expenses of arranging for the care of children and dependants and if it does make such a recommendation, the amount of this allowance and the means by which it is determined.
- on whether any allowance should be backdated to the beginning of a financial year in the event of the scheme being amended
- as to whether annual adjustments of allowance levels may be made by reference to an index, and, if so, for how long such a measure should run to make recommendations as to which members of an authority are to be entitled.

The Panel should also have regard to:

- the nature and type of role and responsibility of Elected Members and the level of commitment involved.
- the difference in responsibility and time commitment of Leading Members; Service Committee and statutory Committee Chairs and back-bench Members and the Chair and Deputy Chair of the Council.
- schemes operating in similar authorities elsewhere.
- the level of remuneration paid for other types of public duties.
- whether allowances should be payable to meet Members' out of pocket expenses
- the need to attract and retain Members of appropriate calibre and representative of the demographic make-up of the district.
- the need to ensure that the scheme is straight-forward; economic to operate and justified in terms of affordability (in the public's perception) and working within existing budgetary constraints.
- a scheme that aims to compensate for the time put into the roles and responsibilities undertaken – bearing in mind that there should be an element of public service.
- a scheme that encourages Councillors to work flexibly and to develop themselves and their role in the community.

Appendix 2. Members of the Independent Remuneration Panel

The Panel Members are:

- John Thompson MBE – has worked in the public, private and charity sectors. Has been on IRPs and an Independent Person for various Authorities since 2001. He was appointed to the Board of Governors of Chichester University in July 2022. He has been a School Governor for many years. He is Chair of the Avisford Medical Group Patient Participation Group.
- Celia Thomson-Hitchcock – Owns Head to Toe Beauty Salon. She was Chair of the Littlehampton Traders Partnership for eight years and continues to work closely with local businesses, veterans and the wider community promoting Littlehampton and good causes.
- Alan Ladely – has lived in West Sussex for nearly 50 years and was a police officer with Sussex Police for 36 years, serving in Horsham, Bognor Regis, Littlehampton and Chichester as well as the police HQ in Lewes. He retired in 2009 at the rank of Detective Superintendent. Subsequently he worked for six years for Sussex Police as the Force Information Manager, overseeing the forces' information assets as well as the management of Data Protection and Freedom of Information. Alan now lives in Bognor Regis and helps his wife who runs a retail business in the town.
- Andrew Kelly - has lived in West Sussex since the late 1980s. He is a Fellow of the Chartered Institute of Personnel and Development and has had a career in Human Resources spanning over 35 years. Initially he worked in the private sector -hospitality, food retailing and financial services, then as HR Director for several NHS Trusts and more latterly worked in local government. Now retired after operating his own HR consultancy business, he has continued with voluntary work for local organisations, currently as Chair of Trustees with Arun Counselling Centre in Littlehampton.
- Sarah Miles MBA- has worked in the academic, public, private and charity sectors. A former entrepreneur, University Lecturer at Portsmouth Business School, Business Improvement Director and private Business Consultant, she has recent experience as a Trustee at Mind (Brighton and Hove) and Dove Lodge (Littlehampton).

Appendix 3. Methodology- Seminar

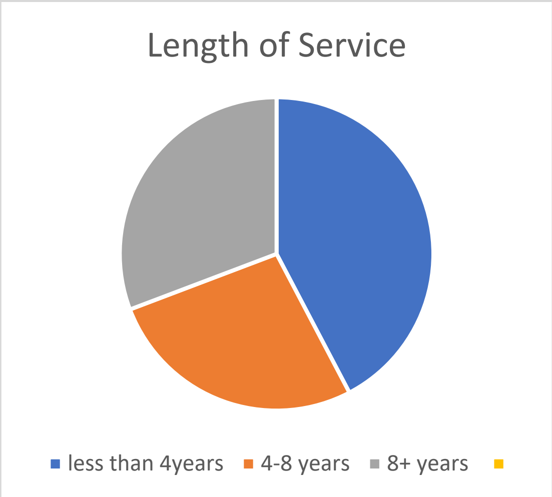
The main points from Members were as follows, including the Panel's response:

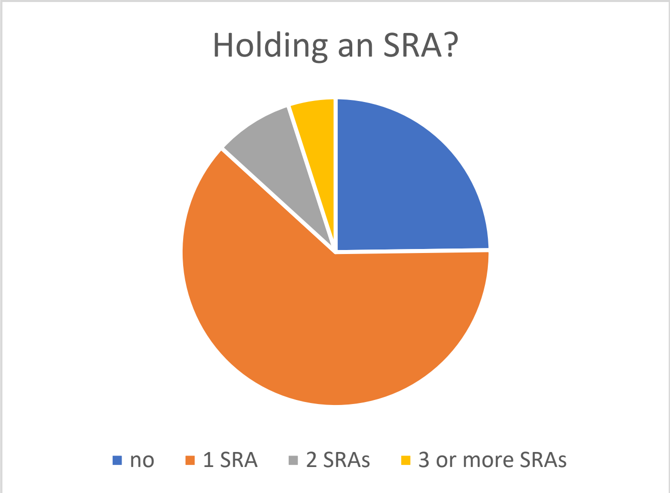
- The Vice Chair of Standards Committee should receive an SRA – Recommended in the Panel's Report.
- Re Panel interviews with Members, can previous SRA holders and Members be interviewed as they will bring experience/views covering the years since the last review to the attention of the Panel? On advice the Panel decided not to interview former Members, even with recent changes there remained a wealth of experience and corporate knowledge that the panel was able to draw up on.
- How do we ensure that IRP members are independent and do not make political comments? The Panel relies entirely on the evidence, the process is clear and transparent -For example, the questionnaire is manged by Committee Services, the names of respondents are not known; the interviews are based on what interviewees

do, not which party they belong to. None of the Panel hold any political office in or without the District.

- How will interviews be organised? They were set up by the Committee Services Manager and wherever possible at least two members of the panel attended all meetings with Members and Officers.
- Can interviewees see the questions beforehand? All interviewees were sent a copy of questions before interview.
- Full Council resolved to look into reducing the number of Cllrs that the Council has. Would any revised Councillor numbers figure into what you are doing as this could affect workload? This review was conducted on the basis of the existing number of Members and structure of the Council. Should there be a reorganisation a Panel would be convened to consider the impact of the changes on responsibilities and workload.
- Have you spoken to any Councils who have an alliance as this could impact allowances paid? We have looked at other Authorities that operate a Committee system and to an authority where groups work in a similar way to Arun. We could find no near model to what was operating at Arun during the period of our review.
- Will you be interviewing members of the Planning Committee in terms of what that role is and what a Planning Committee Member does and does not do? The role is a massive responsibility. The Panel interviewed a Panning Committee Member and had hoped to interview the Chair. The Panel's report reflects the concerns expressed in the seminar.
- No requests were made for the data collected to be provided before interviews.
- What other data is used? The hours spent by members in all Council meetings form an important part of the review. The Panel also comments on attendance at meetings and training. Ward work responsibility was covered in the survey and interviews.

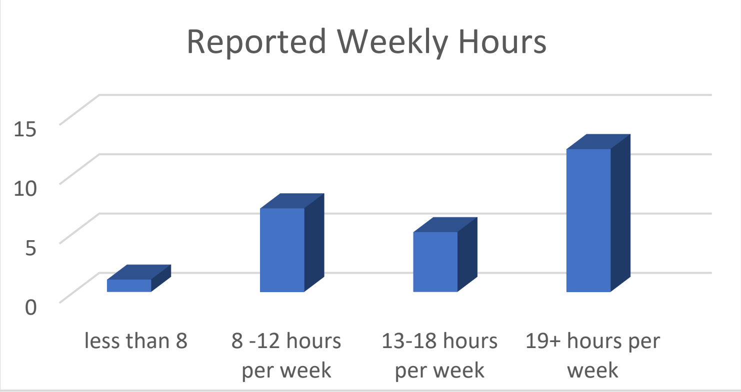
Appendix 4. Methodology- Questionnaire
All members were emailed a questionnaire to complete anonymously. 26 completed them (around 50%, a higher proportion than previously). The findings were valuable and helped to inform areas to explore at interview.
Make up of Respondents:





84% said they were happy with the Travel and Subsistence Allowance
60% thought the Childcare Allowance was too low.
4% said the BA was too high, the remaining 92% said about right or too low.

<u>Average reported hours per week on Basic Members work:</u>



Although not scientifically valid, the self-reported hours are a useful insight into the hours Members spend on Council work, not including any work that attracts an SRA. Note that the proposed increased allowance equates to approximately 18 hours a week for 45 weeks of the year x National Living Wage of £11.42, minus 30% PSE.

Appendix 5. Methodology- Interviews

The Panel met and/or corresponded with the following Members and Officers to explore any issues regarding allowances:

- Councillor Matt Stanley, Leader of the Council and Chair of the Policy & Finance Committee
- Councillor Carol Birch, Chair of the Housing and Well-being Committee; Member of the Policy & Finance Committee, Deputy Leader of the Green Group
- Councillor Billy Blanchard-Copper, Chair of the Licensing Committee; Member of the Planning Committee, Member of the Environment Committee,
- Councillor James Walsh, Chair of the Audit and Governance Committee; Vice-Chair of the Council; Vice-Chair of the Economy Committee, Member of the Housing & Wellbeing Committee
- Councillor David Huntley, Chair of the Standards Committee; Leader of the Independent Group; Member of the Planning Policy Committee;
- Councillor Shirley Haywood, Vice Chair of the Licencing Committee; Vice-Chair of the Housing & Wellbeing Committee; Member of the Audit & Governance Committee; Named Substitute for Planning
- Councillor Richard Bower, Member of the Planning Committee; former Chair of the Planning Policy Committee and Planning Committee; Member of the Corporate Support Committee;
- Councillor Francis Oppler, Chair of the Corporate Support Committee; Member of the Policy & Finance Committee; Member of the Audit & Governance Committee;
- Councillors Alison and Andy Cooper, Chair of the Council; former Chair of Housing & Wellbeing Committee; and former Chair of the Council; former Chair of the Licensing Committee and former Chair of the Economy Committee – current Member of the Policy & Finance Committee and Economy Committee and Licensing Committee

- Councillor Sue Wallsgrove – Leader of the Green Group; Chair of the Environment Committee; Vice-Chair of Planning; Member of the Audit & Governance Committee
- Councillor Mike Northeast – Leader of the Labour Group and Member of the Planning Committee and Economy Committee
- Daniel Bainbridge, Group Head of Law & Governance and Monitoring Officer
- Jane Fulton, Committee Services Manager
- The Corporate Management Team and Officers from the Finance Team

Several Councillors were unable to fix mutually convenient dates for interview.

Appendix 6. Information examined.

The Panel accessed the following:

- The Arun District Council Constitution
- The Arun District Council website
- Committee Memberships list
- The Municipal Calendar
- Copies of previous Independent Remuneration Panel Reports
- Extracts of Full Council and Committee Agendas and Minutes
- Annual Schedules of Payments to Members
- Southeast Employers' Survey of Allowances Paid to Members
- Details of the Basic and SRA Allowances in payment and increase due following the 2023 pay award to Officers.
- Other Authorities' Schemes of Allowances, particularly. Gosport, Runnymede, Spelthorne, Swale and Tandridge where Service Committee systems are operated.
- Various local and national Policies.

Appendix 7. SE Employers' Data

This data set provides some interesting but limited external comparisons. The only relevant comparisons are:

- Looking at West Sussex Districts and Boroughs the current rankings of key SRA holders in ADC are:
    - Leader 7th out of 7 authorities paying this SRA.
    - Deputy Leader 6th out of 6 – One authority did not report an SRA.
    - Service Committee Chairs – not reported and vary between the 5 authorities referred to at App 6.
    - Chair of Planning 3rd out of 7
    - Vice Chair of Planning 3rd out of 7
    - Chair of Audit 2nd out of 7
    - Chair of Licencing 2nd out of 7

- All authorities pay travel and subsistence (the majority pay the HMRC maximum of 45p a mile) and run schemes that allow claims for dependents and maternity, paternity and adoption. Most deal with these claims on a case-by-case basis.

EQUALITY IMPACT ASSESSMENT

Name of activity:	Tenth Review of the Members' Allowances Scheme	**Date Completed:**	18 January 2024
Directorate / Division responsible for activity:	**Law & Governance**	**Lead Officer:**	Jane Fulton

Existing Activity	**N**	**New / Proposed Activity**	**Y**	**Changing / Updated Activity**	**N**

What are the aims / main purposes of the activity?

The review of the Council's Members' Allowances Scheme is undertaken by an Independent Remuneration Panel appointed by the Council's Audit & Governance Committee. The IRP is appointed and undertakes its reviews of the Council's Members' Allowances Scheme in line with The Local Authority (Members' Allowances) (England) Regulations 2003.

These Regulations confirm that an authority should review is Members' Scheme of Allowances every four years. As the last full review of the Members' Allowances Scheme was undertaken and approved by Council in July 2019, a full review has been undertaken.

The Panel has undertaken a review of the following parts of the Members' Allowances scheme:

- The Basic Allowance [paid to all 54 Councillors]
- Special Responsibility Allowances [paid to Councillors holding a position of additional responsibility for example Chairs and Vice-Chairs of Committees; the Leader and Deputy Leader of the Council; the Leader of the Opposition and Leaders of small minority groups]
- Co-opted Members and Members of the Independent Remuneration Panel; Members and Witnesses to Committees and Panels
- Carer's Allowance – the childcare allowance and Dependent Adult Allowance
- Arrangements for Adoption, Maternity and Paternity for Members in line with the scheme in place for Officers
- Travel and subsistence allowances
- Town and Parish Council allowances

What are the main actions and processes involved?
To fulfil the Council’s obligations in ensuring that it complies with The Local Authority (Members’ Allowances) (England) Regulations 2003 in approving its scheme of allowances.

Who is intended to benefit & who are the main stakeholders?
In fulfilling the Council’s obligations and in ensuring that it complies with The Local Authority (Members’ Allowances) (England) Regulations 2003 – the review of the Members’ Allowances Scheme will: • Ensure that access to democracy is open to all. That those wishing to stand as a Councillor at future elections or have been elected as a Councillor are not penalised financially in undertaking their role and to remove any barriers that might prevent anyone from considering standing as a Councillor • Ensure that a realistic Carer’s Allowance is paid covering childcare and the dependent adult allowance. • Ensure that feedback from Town and Parish Councils in terms of the allowances that they are entitled to pay under the Regulations are also reviewed and updated. The key stakeholders are: • Arun District Councillors • Town and Parish Councillors • Independent Persons of the Standards Committee • The Independent Remuneration Panel [IRP] • Co-optees Members and witnesses to Committees and Panels • The Officer team supporting the IRP – Committee Services Manager; the Group Head of Law & Governance and Monitoring Officer; the Finance Team

- South East Employers – using their benchmarking data
- Other authorities operating a Committee system form of governance

Have you already consulted on / researched the activity?
The Audit & Governance Committee received and noted a scoping report on 25 July 2023 setting out how the review would be undertaken; the timetable for the review; and the actions that would be undertaken in undertaking this exercise. A Seminar for all Members of the Council was held on 4 September 2023 to introduce Members to the IRP and to explain the key components forming the review of the scheme. A questionnaire was sent to all Members of the Council to complete asking questions on all aspects of allowances paid. Interviews were held with Councillors and Officers over November and December 2023. Town and Parish Councils were consulted on the proposals in December 2023.

Impact on people with a protected characteristic (What is the potential impact of the activity? Are the impacts high, medium or low?)

Protected characteristics / groups	Is there an impact (Yes / No)	If Yes, what is it and identify whether it is positive or negative
Age (older / younger people, children)	Yes positive	The Members' Allowances Scheme can pay a Childcare Allowance or an Adult Carers Allowance to those that have childcaring or adult caring responsibilities.

Disability (people with physical / sensory impairment or mental disability)	Yes positive	The Council operates a travel and subsistence scheme. An assessment is undertaken with any Councillor who has physical/sensory impairment or a mental disability to ensure that they can undertake their role with the provision of suitable IT equipment and in terms of safely accessing and exiting either the Arun Civic Centre or Bognor Regis Town Hall.
Gender reassignment (the process of transitioning from one gender to another.)	No	There are no known implications.
Marriage & civil partnership)	No	There are no known implications.
Pregnancy & maternity (Pregnancy is the condition of being pregnant & maternity refers to the period after the birth)	Yes Positive	There is no known impact for Councillors due to pregnancy or maternity. The Local Government Act 1972, Section 85 confirms that a Councillor must attend a meeting to which they have been appointed to for a consecutive period of six months otherwise this would lead to their disqualification as a Councillor. The Council is able to approve a dispensation to allow an extended period beyond six months in certain circumstances. It is intended that pregnancy and maternity requests are dealt with in this way.
Race (ethnicity, colour, nationality or national origins & including gypsies, travellers, refugees & asylum seekers)	No	There are no known implications.
Religion & belief (religious faith or other group with a recognised belief system)	No	There are no known implications.
Sex (male / female)	No	There are no known implications.
Sexual orientation (lesbian,	No	There are no known implications.

gay, bisexual, heterosexual)		
Whilst **Socio economic** disadvantage that people may face is not a protected characteristic; the potential impact on this group should be also considered	No	There are no known implications.

What evidence has been used to assess the likely impacts?
The review of the Members' Allowances Scheme has been undertaken in line with the Local Authority (Members' Allowances) (England) Regulations 2003. It makes recommendations around the paying of allowances in line with legislation. This includes confirming the detail around areas such as childcare and adult caring responsibilities that Councillors may have and how the Council can assist Councillors in undertaking their responsibilities in these areas. It also makes recommendations around adoption, maternity and paternity options.

Decision following initial assessment			
Continue with existing or introduce new / planned activity	**Y**	**Amend activity based on identified actions**	**N**

Action Plan			
Impact identified	**Action required**	**Lead Officer**	**Deadline**

Monitoring & Review	
Date of last review or Impact Assessment:	This is the first time an EIA has been completed in reviewing the Members' Allowances Scheme
Date of next 12-month review:	If approved by Council on 13 March 2024, the recommendations will come into force from 1 April 2024
Date of next 3-year Impact Assessment (from the date of this EIA):	The scheme will be reviewed again in 2027 unless any changes to the governance structure of the council take place within this timeframe

Date EIA completed:	18 January 2024
Signed by Person Completing:	Jane Fulton – Committee Services Manager

Agenda Item 7

Arun District Council

REPORT TO:	**Audit and Governance Committee – 19 February 2024**
SUBJECT:	**Internal Audit Annual Plan 2024-25**
LEAD OFFICER:	**Antony Baden, Group Head of Finance and Section 151 Officer**
LEAD MEMBER:	Cllr Dr Walsh
WARDS:	**All**
CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION: The Council's budget promotes all of the Council's Corporate Priorities.	
DIRECTORATE POLICY CONTEXT: The Council's Internal Audit Service has an effect on all Directorates of the Council.	
FINANCIAL SUMMARY: There are no direct financial implications arising from the report. Provision of a sound Internal Audit Service should result in effective financial control and guard against theft and fraud.	

1. PURPOSE OF REPORT

1.1. The purpose of this paper is to present the Internal Audit Plan 2024-25 to the Audit and Governance Committee in accordance with the requirements of the Public Sector Internal Audit Standards.

2. RECOMMENDATIONS

2.1. The Committee is requested to approve the internal audit plan 2024-25 as attached.

3. EXECUTIVE SUMMARY

3.1. The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements. This report presents the plan for 2024-25 for approval by the Committee.

4. DETAIL

4.1. The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:

- The framework of internal control, risk management and governance is appropriate and operating effectively; and

- Risks to the achievement of the Council's objectives are identified, assessed and managed to a defined acceptable level.

4.2. Internal audit focus should remain proportionate and appropriately aligned to key areas of organisational risk.

4.3. All auditable areas of review remain within the audit universe and are subject to ongoing assessment. The audit plan will remain fluid to ensure internal audits ability to react to the changing needs of the Council.

4.4. Other reviews, based on criteria other than risk, may also be built into the work plan. These may include 'mandatory' audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate a contribution to the audit opinion on risk management, control and governance.

5. CONSULTATION

5.1. No consultation has been undertaken with external bodies.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. No other options are available**.**

7. COMMENTS BY THE GROUP HEAD OF COPRORATE SUPPORT/SECTION 151 OFFICER

7.1. A fit for purpose, monitored Internal Audit system enhances financial control and reduces the risk of theft and fraud for the Council.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The Internal Audit Plan is not delivered inhibiting the production of an annual opinion in accordance with the Accounts & Audit Regulations 2015 and accompanying guidance (PSIAS).

8.2. The proposed Internal Audit Plan is approved by Corporate Management Team and Audit & Governance Committee (CMT). A regular progress report is presented to CMT and Audit & Governance Committee to monitor progress against the plan.

8.3. As detailed within the Internal Audit Charter the CIA will notify CMT and Audit & Governance Committee if in their opinion they are in any way inhibited in carrying out assurance work.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. A sound system of Internal Audit is one of the requirements of the Local Government Finance Act 1972.

10. HUMAN RESOURCES IMPACT

10.1. There are no impacts.

11. HEALTH & SAFETY IMPACT

11.1. There are no impacts.

12. PROPERTY & ESTATES IMPACT

12.1. There are no impacts

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. There are no impacts.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. There are no impacts.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. There are no impacts.

16. HUMAN RIGHTS IMPACT

16.1. There are no impacts.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. There are no impacts.

CONTACT OFFICER:
Name: Antony Baden
Job Title: Group Head of Finance and Section 151 Officer
Contact Number: 01903 737558

BACKGROUND DOCUMENTS*:*

None

Southern Internal Audit Partnership

Assurance through excellence and innovation

ARUN DISTRICT COUNCIL
INTERNAL AUDIT PLAN 2024-25

Prepared by: Iona Bond, Assistant Head of Partnership

February 2024

Introduction

The role of internal audit is that of an:

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

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of Internal Audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal Audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant stakeholders to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Southern Internal Audit Partnership's continued contact and liaison with those responsible for the governance of the Council.

Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The strategic lead will be Iona Bond, Assistant Head of Partnership, supported by Nick Barrett, Audit Manager.

Conformance with Internal Auditing Standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2020 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

In considering all sources of evidence the external assessment team concluded:

> *'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.*
>
> *We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'*

Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team which are required to be disclosed under internal auditing standards.

Arun District Council – Our Vision: A Better Future 2022 - 2026

Arun District Council have developed the Council Vision for 2022 - 2026 which sets their priorities for the next 4 years. The vision was adopted by Full Council on 9 March 2022.

The four themes underpinning the vision are:

- **Improving the wellbeing of Arun**
- **Delivering the right homes in the right places**
- **Supporting our environment to support us**
- **Fulfilling Arun's economic potential**

Council Risk

The corporate risks assessed by the Council are a key focus of our planning for the year to ensure it meets the organisation's assurance needs and contributes to the achievement of their objectives.

We will monitor the corporate risk register closely over the course of the year to ensure our plan remains agile to the rapidly changing landscape.

Risk Number	Title	Risk Score
7	Climate Change	16
11a	Major Project – Alexandra Theatre	16
1b	Balance of HRA	12
2	Organisational Capacity to Deliver	12
11b	Major Project – Levelling Up Fund Projects	12
11c	Major Project – Bognor Regis Arcade	12
3	Change Management and Transformation	9
4	ICT – Major Successful Cyber Attack	9
5	Corporate Business Continuity	9
12	Increased Homelessness	9
10	Planning Policy and Conservation – Development Plan	8
1a	Financial Resilience	8
8	Corporate Health and Safety	8
9	Equality and Diversity	8
16	Chief executive Resignation/Vacancy	8
4	ICT – Physical or Technical Failure ICT – Permission to Access Government Systems ICT – Document Management System Supplier Support	6 6 6
15	Ineffective Complaints Management	6
6	Information Governance and Data Protection	4
13	Housing Management System Implementation	4
14	Compliance Failings	4
17	Disabled Facilities Grant	4
18	Housing Benefit Subsidy	4

Developing the Internal Audit Plan 2024/25

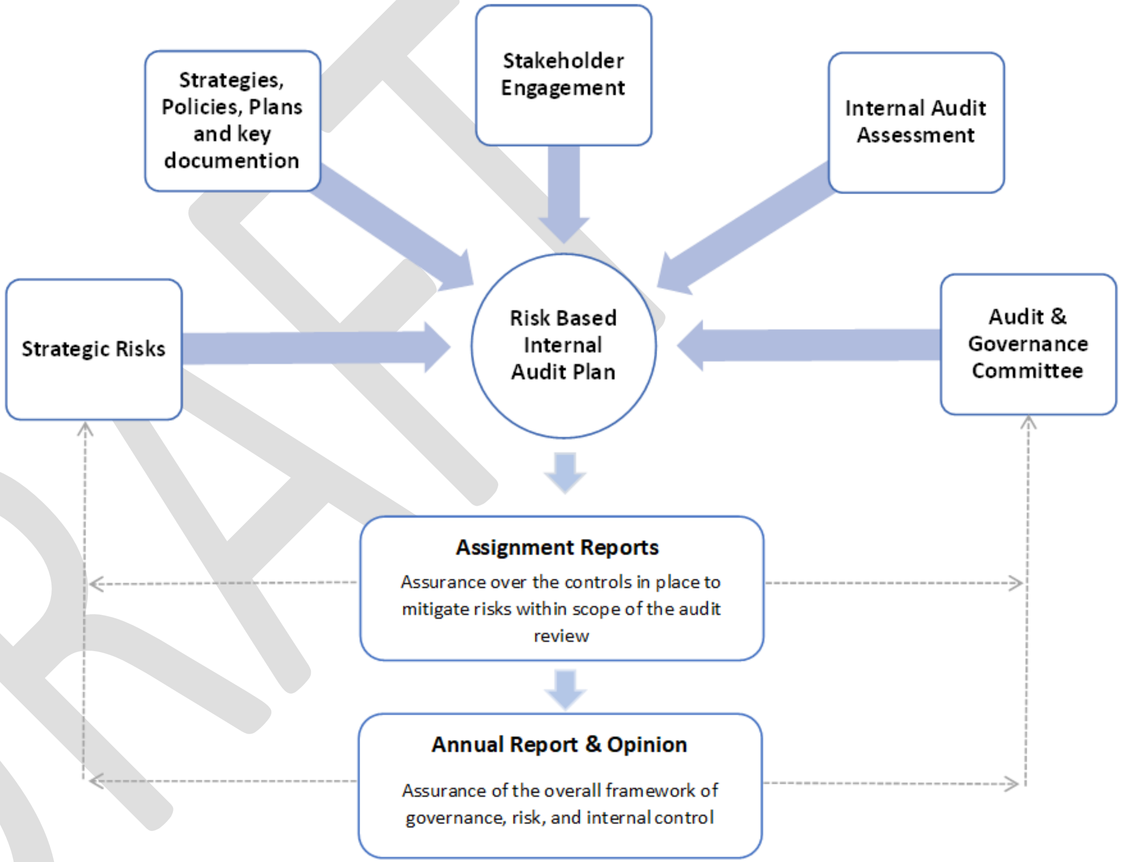
In accordance with the Public Sector Internal Audit Standards there is a requirement that internal audit establish a risk-based audit plan to determine the resourcing of the internal audit service, consistent with the organisation's goals.

Based on conversations with key stakeholders, review of risk registers, key corporate documents and our understanding of the organisation, the Southern Internal Audit Partnership have developed an annual audit plan for the coming year.

Audit planning is a perpetual process throughout the course of the year to ensure we are able to react to new and emerging risks and the changing needs of the organisation.

The Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers to ensure that duplication is minimised, and a suitable breadth of assurance is obtained.



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Internal Audit Plan 2024-25

Audit Review	Audit Sponsor	Indicative Scope	Corporate Risks	Proposed Timing
Governance				
Strategic Economic Partnerships	Director of Growth	Assurance over governance, rights of access, third party assurance, contingency arrangements, exit strategy, hosting arrangements (accountabilities), benefit realisation.		Q3
UK Prosperity Fund	Director of Growth	Assurance over the governance arrangements in place for the management and distribution of grant funding.		Q1
IR35	CX	Compliance with the requirements of IR35 “intermediaries legislation” which requires challenges of people who supply their services to clients via their own company.		Q2
Human Resources	CX	Assurance against key services / risk over a cyclical period, to include: · Workforce Strategy / Development · Performance Management · Absence Management · Recruitment · Training & Development · Use of Agency Staff · Use of Volunteers For 2024-25 coverage will focus on the recently implemented Competency and Behaviour Framework.	CRR 2	Q3

Audit Review	Audit Sponsor	Indicative Scope	Corporate Risks	Proposed Timing
IT				
Disaster Recovery Planning	Director of Environment and Communities	Assurance that the disaster recovery plan is comprehensive, appropriately documented, governed and tested.	CRR 4	Q2
Wi-fi Security	Director of Environment and Communities	Assurance over the controls in place to safeguard the new wi-fi network	CRR4	Q1
Finance				
Accounts Payable	CX	Cyclical review as a key financial system.		Q1
Housing Benefits	CX	Cyclical review as a key financial system.		Q1
Payroll	CX	Cyclical review as a key financial system.		Q2
Savings Realisation	CX	Assurance over the controls in place for the development, governance, monitoring and delivery of identified savings to meet known future budget pressures.		Q3
Improving the Wellbeing of Arun				

Audit Review	Audit Sponsor	Indicative Scope	Corporate Risks	Proposed Timing
Community Safety/Development	Director of Environment and Communities	Assurance over the controls in place for the prevention and monitoring of anti social behaviour.		Q1
Delivering the Right Homes in the Right Places				
Housing Allocations	Director of Environment and Communities	Assurance over the controls in place for the processing of applications, assessments and allocation of housing.		Q4
Repairs and Maintenance (statutory H&S checks)	Director of Environment and Communities	Assurance of the governance and management of statutory checks (to include overview of effective contract management arrangements and deliverables as relevant).		Q2
Responsive and Emergency Repairs	Director of Environment and Communities	Assurance over the governance arrangements in place for the management and operation of the responsive repairs contract.		Q3
Neighbourhood Services/Tenancy Management	Director of Environment and Communities	TBC – Tenancy Sustainability		Q1
Supporting our Environment to Support Us				
Cleansing Services	Director of Growth	To review the effective governance and contract management arrangements in place for cleansing services.		Q2

Audit Review	Audit Sponsor	Indicative Scope	Corporate Risks	Proposed Timing
Climate Strategy	Director of Growth	To provide assurance over the governance and delivery of Climate Change Strategy including accompanying action plan.	CRR7	Q3
Parks and Green Spaces	Director of Environment and Communities	To review the effectiveness of governance and contract management arrangements in place (incl. Health & Safety inspections required).		Q1
Environmental Health and Protection	Director of Growth	To provide assurance over regulatory activities including animal control, food safety, pollution control, contaminated land, enforcement. To include Private Sector Housing. 2024/25 coverage – Enforcement, including private sector housing.		Q2
Fees and Charges (Technical Services)	Director of Growth	To provide assurance over the fee setting process to ensure income maximised and costs are recovered.		Q3
Miscellaneous				
Licensing – Taxi's	Director of Growth	Assurance over the controls in place for the awarding and renewal of taxi licenses.		Q4
Other				
Management				Q1 – Q4
Total Days				**365**

Arun District Council

REPORT TO:	**Audit and Governance Committee – 19 February 2024**
SUBJECT:	**Internal Audit Charter 2024/25**
LEAD OFFICER:	**Antony Baden, Group Head of Finance and Section 151 Officer**
LEAD MEMBER:	Cllr Dr Walsh
WARDS:	**All**

CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:

The Council's budget promotes all of the Council's Corporate Priorities.

DIRECTORATE POLICY CONTEXT:

The Council's Internal Audit Service has an effect on all Directorates of the Council.

FINANCIAL SUMMARY:

There are no direct financial implications arising from the report. Provision of a sound Internal Audit Service should result in effective financial control and guard against theft and fraud.

1. PURPOSE OF REPORT

1.1. The purpose of this report is to present the Internal Audit Charter 2024-25 to the Audit and Governance Committee in accordance with the requirements of the Public Sector Internal Audit Standards.

2. RECOMMENDATIONS

2.1. The Committee is requested to approve the Internal Audit Charter as attached.

3. EXECUTIVE SUMMARY

3.1. The Internal Audit Charter is a formal document that defines the internal audit activity's purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Public Sector Internal Audit Standards require the charter to be reviewed and approved annually.

4. DETAIL

4.1. The Accounts and Audit (England) Regulations 2015 state:

'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management control and governance processes, taking

into account public sector internal auditing standards or guidance'

The Public Sector Internal Audit Standards (attribute standard 1000) requires that all internal audit activities maintain an 'internal audit charter'.

The internal audit charter establishes internal audits position within the organisation including:

- Recognising the mandatory nature of the Public Sector Internal Audit Standards
- Defining the scope of internal audit responsibilities.
- Establishing the organisational independence of internal audit.
- Establishing accountability and reporting lines (functional and administrative).
- Arrangements that exist with regard anti-fraud and anti-corruption.
- Establishing internal audit rights of access.
- Defining the terms 'board' and 'senior management' for the purpose of internal audit.

In accordance with the Standards the internal audit charter should be reviewed annually (minimum) and approved by senior management and the Audit and Governance Committee.

5. CONSULTATION

5.1. No consultation has been undertaken with external bodies.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. No other options are available**.**

7. COMMENTS BY THE GROUP HEAD OF COPRORATE SUPPORT/SECTION 151 OFFICER

7.1. A fit for purpose, monitored Internal Audit system enhances financial control and reduces the risk of theft and fraud for the Council.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. In not maintaining an internal audit charter the Council would not be operating in accordance with the Accounts & Audit Regulations 2015.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. A sound system of Internal Audit is one of the requirements of the Local Government Finance Act 1972.

10. HUMAN RESOURCES IMPACT

10.1. There are no impacts.

11. HEALTH & SAFETY IMPACT

11.1. There are no impacts.

12. PROPERTY & ESTATES IMPACT

12.1. There are no impacts

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. There are no impacts.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. There are no impacts.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. There are no impacts.

16. HUMAN RIGHTS IMPACT

16.1. There are no impacts.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. There are no impacts.

CONTACT OFFICER:
Name: Antony Baden
Job Title: Group Head of Finance and Section 151 Officer
Contact Number: 01903 737558

BACKGROUND DOCUMENTS*:*

None

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Southern Internal Audit Partnership

Assurance through excellence and innovation

ARUN DISTRICT COUNCIL
INTERNAL AUDIT CHARTER 2024/25

Prepared By: Iona Bond, Assistant Head of Partnership

January 2024

Internal Audit Charter – 2024/25

Introduction

The Public Sector Internal Audit Standards (the Standards) provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes:

- the mission;
- core principles;
- definition of internal audit; and
- Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'.

The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority, and responsibility.

Mission and Core Principles

The IPPF 'Mission' aims *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*

The 'Core Principles' underpin delivery of the IPPF mission:

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

Authority

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which state that a relevant body must:

'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards (updated 2017).

Purpose

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The role of internal audit is best summarised through its definition within the Standards, as an:

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

Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Arun District Council lies with the S151 Officer.

For the Council, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Assistant Head of Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the *'Mission'*, *'Core Principles'*, *'Definition of Internal Auditing'*, the *'Code of Ethics'* and *'the Standards'*.

Definitions

For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Audit & Governance Committee.

Senior Management – those responsible for the leadership and direction of the Council. At the Council this shall mean the Corporate Management Team.

Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the S151 Officer who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Monitoring Officer responsibility, legality and standards.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit & Governance Committee).

Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The S151 Officer will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

'Senior Management' and *'the Board"* will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to *'senior management'* and *'the Board'*, for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to *'senior management'* and *'the Board'*.

If the Chief Internal Auditor, *'the Board'* or *'Senior Management'* consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the S151 Officer accordingly.

Independence and objectivity

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to *'senior management'* and *'the Board'*;
- reports functionally to *'the Board'*;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team; and
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to *'Senior Management'* and *'the Board'*. The nature of the disclosure will depend upon the impairment.

Due professional care

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity, but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the *'Mission', Core Principles', Definition of Internal Auditing'*, the '*Code of Ethics'* and the *'Standards'* and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported in accordance with the Council's Anti-fraud and Corruption Policy.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

Access to relevant personnel and records

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

Scope of Internal Audit activities

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The Council assume a Key Stakeholder role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the SIAP. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls.

Managing the risk of fraud is the responsibility of line management and strategic responsibility for reactive and proactive fraud work sits with the S151 Officer who would ensure any suspected or detected fraud or corruption was investigated.

The Council participates in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other local authorities and external agencies to detect potential fraudulent activity.

The S151 Officer will commission resource to undertake any investigations required and notify SIAP of any suspected or detected fraud to inform their opinion.

SIAP will review the governance arrangements to prevent, detect and investigate fraud and irregularities on a cyclical basis.

Reporting

Chief Internal Auditor's Annual Report and Opinion

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Senior Management

As those responsible for the leadership and direction of the Council. It is imperative that the Senior Management Team are engaged in:

- approving the internal audit charter (minimum annually);
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement.

Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to *'Senior Management'* and *'the Board'* for approval.

Southern Internal Audit Partnership – Client Portfolio

Strategic Partners:	Hampshire County Council
Key Stakeholder Partners:	West Sussex County Council Havant Borough Council East Hampshire District Council Winchester City Council New Forest District Council Mole Valley District Council Epsom & Ewell Borough Council Reigate & Banstead Borough Council Tandridge District Council Crawley Borough Council Arun District Council Guildford Borough Council
Blue light Key Stakeholder Partners:	Hampshire & IoW Fire & Rescue Authority West Sussex Fire Service Office of the Hampshire Police & Crime Commissioner / Hampshire Constabulary Office of the Sussex Police & Crime Commissioner / Sussex Police Force Office of the Surrey Police & Crime Commissioner / Surrey Police Force
External clients:	Waverley Borough Council Hampshire Pension Fund West Sussex Pension Fund New Forest National Park Authority Ringwood Town Council Lymington & Pennington Town Council Langstone Harbour Authority Chichester Harbour Authority Isle of Wight College

Assurance Services

- **Risk based audit**: in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.

- **Developing systems audit**: in which:

  - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
  - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.

- **Compliance audit**: in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.

- **Quality assurance review**: in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.

- **Fraud and irregularity investigations:** Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the Council's Anti Fraud and Anti Corruption Strategy.

- **Advisory / Consultancy services**: in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

REPORT TO:	**Audit & Governance Committee 19 February 2024**
SUBJECT:	**Internal Audit Progress Report December 2023**
LEAD OFFICER:	**Antony Baden, Group Head of Finance and Section 151 Officer**
LEAD MEMBER:	Cllr Dr Walsh
WARDS:	**All**
CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION: The Council's budget promotes all of the Council's Corporate Priorities.	
DIRECTORATE POLICY CONTEXT: The Council's Internal Audit Service has an effect on all Directorates of the Council.	
FINANCIAL SUMMARY: There are no direct financial implications arising from the report. Provision of a sound Internal Audit Service should result in effective financial control and guard against theft and fraud.	

1. PURPOSE OF REPORT

1.1. The Committee has a responsibility to review the Internal Audit Progress report to ensure that action has been taken by relevant managers on risk based issues identified by Internal Audit.

2. RECOMMENDATIONS

2.1. The Committee is requested to receive this report and note progress to date, as at 31 December 2023.

3. EXECUTIVE SUMMARY

3.1. The report outlines the progress of the Council's Internal Audit service against the approved Internal Audit Plan for 2023/24 from 1 April 2023.

4. DETAIL

4.1. Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and

- undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.

4.2 In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Chief Internal Auditor is required to provide a written status report to the Audit Committee, summarising:

- The status of 'live' internal audit reports (outstanding management actions);
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and a summary of significant issues that may impact on the Chief Internal Auditor's annual opinion.

4.3 The progress report is attached at Appendix 1 and provides a clear and transparent articulation of internal audit activity, performance, and outcomes during the period up to 31 December 2023.

5. CONSULTATION

5.1. N/A

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. The report is for information only.

7. COMMENTS BY THE GROUP HEAD OF FINANCE ANDSECTION 151 OFFICER

7.1. A fit for purpose, monitored Internal Audit system enhances financial control and reduces the risk of theft and fraud for the Council.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The main risks arising from the process are:

- Issues raised by Internal Audit are not appropriately actioned by managers. This could result in weak systems control, increasing the risk of theft and fraud. Regular reporting and monitoring reduces the risk;
- The other risk is slippage of the approved Audit programme. This would mean the approved programme is not delivered and resources not directed as planned. Regular reporting and monitoring reduces the risk.

8.2. Processes in place and financial controls mitigate against these risks.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. A sound system of Internal Audit is one of the requirements of the Local Government Finance Act 1972.

10. HUMAN RESOURCES IMPACT

10.1. There are no impacts.

11. HEALTH & SAFETY IMPACT

11.1. There are no impacts.

12. PROPERTY & ESTATES IMPACT

12.1. There are no impacts.

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. There are no impacts.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. There are no impacts.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. There are no impacts.

16. HUMAN RIGHTS IMPACT

16.1. There are no impacts.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. There are no impacts.

Name: Antony Baden
Job Title: Group Head of Finance and Section 151 Officer
Contact Number: 01903 737558

BACKGROUND DOCUMENTS*:* Annual Internal Audit plan 2023/24

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Southern Internal Audit Partnership

Assurance through excellence and innovation

ARUN DISTRICT COUNCIL

INTERNAL AUDIT PROGRESS REPORT DECEMBER 2023

Prepared by: **Iona Bond, Assistant Head of Partnership**

January 2024

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

> ***'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'***

The standards for 'proper practices' are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

> ***'Independent, objective assurance and consulting activity designed to add value and improve an organisations' operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.***

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations' objectives.

2. Purpose of report

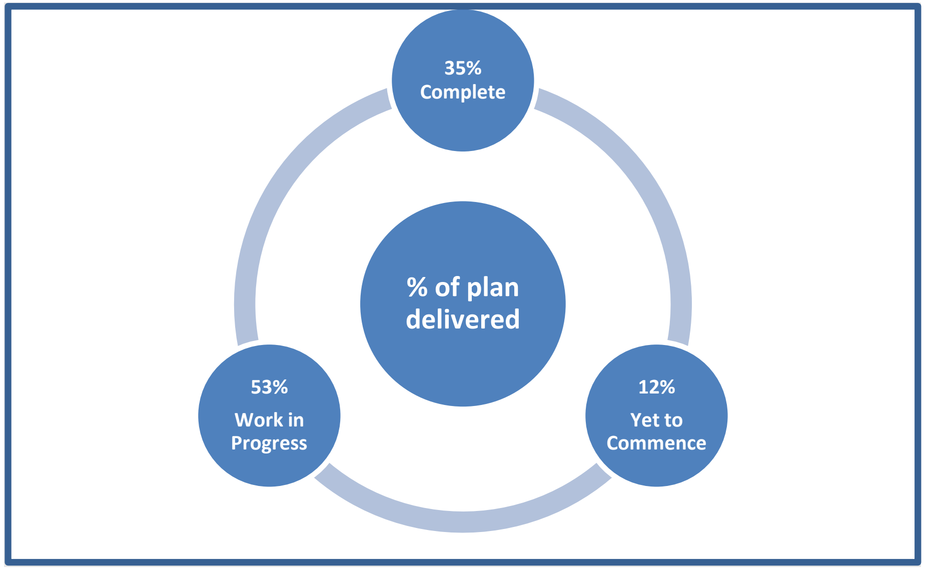
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

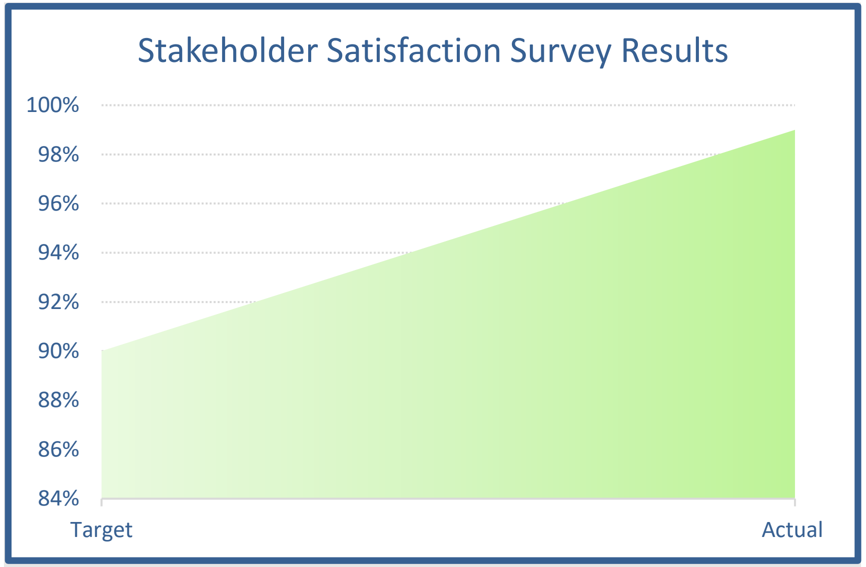
- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:

Substantial	*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	*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	*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	*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.*

3. Performance dashboard





Compliance with Public Sector Internal Audit Standards

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. The report concluded:

'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.

We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'

4. Analysis of 'Live' audit reviews

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)*	Not Yet Due	Complete	Overdue		
							L	M	H
2022/23									
Cyber Security	25/11/2022	CEX	Reasonable	10 (2)	1 (0)	8 (2)	1		
Information Governance	09/12/2022	CEX	Reasonable	8 (5)	0 (0)	5 (3)		1	2
Use of Agency Workers	30/01/2023	CEX	Limited	10 (0)	0(0)	8 (0)		2	
Decision Making and Accountability	08/02/2023	CEX	Substantial	3 (0)	3 (0)	0 (0)		3	
Climate Strategy	12/04/2023	DoE&C	Reasonable	2 (1)	1 (0)	1 (1)			
Car Parks and Enforcement	23/05/2023	DoG	Reasonable	7 (1)	0 (0)	6 (1)		1	
Accounts Receivable and Debt Management	13/06/2023	CEX	Reasonable	4 (1)	2 (0)	1 (0)			1
Homelessness	06/07/2023	DoE&C	Limited	13 (13)	4 (4)	8 (8)			1
Business Continuity	28/07/2023	DoE&C	Limited	23 (10)	2 (0)	15 (8)		4	2
2023/24									
Fraud Framework	05/09/2023	CEX	Reasonable	12 (1)	4 (1)	3 (0)		5	
National Non Domestic Rates (NNDR)	02/11/2023	CEX	Reasonable	4 (1)	1 (0)	3 (1)			
Risk Management	27/11/2023	CEX	Reasonable	5 (0)	2 (0)	2 (0)		1	
Total							**1**	**17**	**6**

***Total number of actions (total number of high priority actions)**

Audit Sponsor			
CEX	Chief Executive	DoE&C	Director of Environment and Communities
DoG	Director of Growth		

5. Executive Summaries of reports published concluding a 'Limited' or 'No' assurance opinion

There have been no reports published concluding a "Limited" or "No" assurance opinion to date for 2023/24.

6. Planning & Resourcing

The internal audit plan for 2023-24 was presented to the Corporate Management Team and the Audit & Governance Committee in February 2023.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 7.

7. Rolling Work Programme

Audit Review	Sponsor	Scoping	Terms of Reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Governance								
Fraud Framework	CEX	✓	✓	✓	✓	✓	Reasonable	
Risk Management	CEX	✓	✓	✓	✓	✓	Reasonable	
Annual Governance Statement	CEX	✓	✓	✓	✓	✓	Substantial	
Human Resources	CEX	✓	✓					
IT								
Cyber Security	DoE&C	✓	✓					Q4
System Development and Implementation (eforms)	DoE&C	✓	✓	✓	✓	✓	Reasonable	
PCI	DoE&C	✓	✓	✓	N/A	N/A	N/A	Advisory work
Finance								
NNDR	CEX	✓	✓	✓	✓	✓	Reasonable	
Housing Rents	DoE&C	✓	✓	✓				
Medium Term Financial Planning	CEX	✓	✓	✓	✓			
Improving the Wellbeing of Arun								
Disabled Facilities Grant	DoE&C	✓						Q4

Audit Review	Sponsor	Scoping	Terms of Reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Leisure	DoE&C	✓	✓	✓				
Delivering the Right Homes in the Right Places								
Housing Voids	DoE&C							Q4
Planning and Development Management	DoG							Q4
Supporting Our Environment to Support Us								
Environmental Health and Protection – Food Safety	DoG	✓	✓	✓				
Environmental Health and Protection – Noise	DoG	✓	✓					
Fulfilling Arun's Economic Potential								
Corporate Property Portfolio	DoG	✓	✓	✓				

8. Adjustments to the Internal Audit Plan

The following adjustment to the plan has been made:

Removed from the Plan	Reason
Economic Regeneration	Following the work undertaken in 2022/23, there is no requirement for additional work this year.
IT Disaster Recovery Planning	In consultation with management this review has been deferred to the early part of 2024/25. Some coverage of this area was included within our 2022/23 review of corporate business continuity planning.
Transformation	No audit requirement in 2023/24.
Replacement Housing IT System	No audit requirement in 2023/24.
Housing Responsive Repairs	Service capacity. Timing of audit to be reconsidered as part of the 24/25 audit planning cycle.
Parks and Green Spaces	Service capacity. Timing of audit to be reconsidered as part of the 24/25 audit planning cycle.
Licensing – Taxi's	Service capacity. Timing of audit to be reconsidered as part of the 24/25 audit planning cycle.

Annexe 1

Overdue 'High Priority' Management Actions

Information Governance - Reasonable			
Observation: The Council's Data Protection Policy stipulates that all staff are required to undertake an annual programme of mandatory refresher data protection training. Appropriate training and briefings on data protection policies and procedures should be provided to Councillors on a biannual basis. Whilst we confirmed that data protection refresher training had been rolled out to staff in May 2021 and Councillors in 2020, there had not been any refresher training provided or planned for this year as at the time of the audit testing.			
Management Action	**Original Due Date**	**Revised Due Date**	**Latest Service Update**
The Council will provide DP training to all Councillors following the May 2023 elections and every 2 years thereafter	31.07.2023	31.10.2023 29.02.2024	In progress. The July 2023 date was not achievable due to the need for Councillors to undertake their induction programme following the May 2023 elections. That programme is now complete and the DP training will now be rolled out. Training still to be rolled out.

Information Governance - Reasonable
Observation: The ICO webpage, requires organisation's with systems and applications used for processing or storing personal data to maintain an information asset register. The asset register should capture details of all information assets (software and hardware) including the following information: • The asset owner. • The data held. • Asset location. • Retention periods. • The legal basis for holding the data, and.

- Security measures deployed.

We confirmed from our discussions with the Information Governance Manager and the Data Protection Officer that the Council do not have an Information Asset Register, or a Record of Personal Data held.

Assets registers are expected to be reviewed periodically to ensure they remain up to date and accurate. The register would also enable the Council to demonstrate that all personal information held and processed by the Council are handled in line with GDPR guidance and would also assist the IMT in responding to DSAR effectively and in a timely manner.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
The Council will implement a corporate Information Asset Register and review annually thereafter	31.12.2023	29.02.2024	In progress and scheduled for completion by end of February 2024.

Accounts Receivable and Debt Management - Reasonable

Observation:

Although there is a Sundry Debtors Write Off Policy and Corporate Debt Policy in place neither had been reviewed/updated in accordance with designated frequency. Neither of these documents make reference to policy or procedures for refunds, credit notes or the Dunning policy, for the collection of outstanding debts.

Discussions with Alan Smith, Group Accountant confirmed there are no formal written policy/procedures for refunds and credit notes. It was advised that this is usually down to the discretion of the service or if there has been an error with entry to the system. Whilst we acknowledge that there may be a need for applying some discretion in managing refunds/credit notes, it would be advisable to have a framework within which to operate and for required authorisations and segregation of duties to be applied.

Write off values stated within the Corporate Debt Policy and Write Off Policy were inconsistent with those stated in the Council's Constitution.

The Constitution 2021 - Version 2.2 (January 2023), on page 162 (Page 24) states that the Group Head of Finance is approved to write-off a combination of debts to the value of £8,000 in any one financial year, rather than up to £10,000 as stated in the Accounts Receivable Write-Off Policy dated January 2022.

The Constitution also mentions that subject to any policy adopted by Finance and Policy Committee, debts greater than £8,000 may only be written off with relevant committee approval, however the Council's Debt Policy states over £10,000.

Management Action	Original Due Date	Revised Due Date	Latest Service Update

Update of the Accounts Receivable Write-Off Policy and Constitution so they both agree.	30.09.2023	31.01.2024	In progress. Instruction passed to Legal Services for amendment to be made. This (as with other changes to the Constitution) will need Committee approval prior to formal adoption.

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Homelessness - Limited			
Observation: During discussions with the Interim Housing Options Manager, it was explained that there is no monitoring undertaken to ensure that all key correspondence with clients and evidence of appropriate authorisation is uploaded in HOPE for each case.			
Management Action	**Original Due Date**	**Revised Due Date**	**Latest Service Update**
Peer reviews to be carried out by officers on each others cases	31.08.2023	30.11.2023 29.02.2024	In progress. A template for the reviews is currently being developed. High workloads has meant a delay in implementing peer checks.

Business Continuity - Limited
Observation: The Emergency Plan details individual roles and includes the preparatory role and the response role for each position. The preparatory role includes responsibilities such as training, maintain a working knowledge of the plan, understand duties, ensure contact details are up to date and some roles have wider preparatory responsibilities. There was no evidence that many of these roles have been assigned to individuals and therefore staff with no training or knowledge of the Emergency Plan may be required to respond in an emergency. The training spreadsheet details the training provided to individual members of staff and what role/s they have been assigned however some of the roles in the training spreadsheet had different titles to those in the plan and some roles in the plan were not included in the training spreadsheet. Appendix 1.13 of the Generic Emergency Plan sets out the training requirements for the emergency planning roles. A review of the spreadsheet that records the training provided to individual members of staff found that: • Some training has been provided but most of it was some time ago and one officer had not had any training.

- Two courses have never been provided.
- Some courses have only been undertaken by the EP officer.

Tactical Emergency Management training was provided in November 2022 to some senior management.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
CMT will be asked to approve and support the training of officers as identified for the programme of training.	31.08.2023	30.11.2023 29.02.2024	Consultation and presentation to be given to CMT mid November. Proposal to CMT in February

Business Continuity - Limited

Observation:
The Generic Emergency plan states that 'each plan should be reviewed, trained for and exercised at least once in three years', discussions confirmed that testing of the plan has not taken place.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
CMT will be asked to approve and support the exercising of officers, as identified for the programme of exercising.	30.09.2023	30.11.2023 29.02.2024	Incorporated into the consultation and presentation scheduled for CMT mid November. Proposal to CMT in February

Annexe 2

Overdue 'Low & Medium Priority' Management Actions (September 2023)

Audit Review	Report Date	Opinion	Priority	Due Date	Revised Due Date
Cyber Security	25.11.2022	Reasonable	**Low**	31.03.2023	31.10.2023 30.04.2024
Information Governance	09.12.2023	Reasonable	**Medium**	31.07.2023	31.10.2023 31.01.2024
Use of Agency Workers	30.01.2023	Limited	**Medium**	31.07.2023	31.12.2023 30.09.2024
			Medium	31.07.2023	31.12.2023 30.09.2024
Business Continuity	28.07.2023	Limited	**Medium**	30.11.2023	30.03.2024
			Medium	30.09.2023	30.11.2023 30.03.2024
			Medium	30.11.2023	30.04.2024
			Medium	30.11.2023	30.04.2024
Fraud Framework	05.09.2023	Reasonable	**Low**	30.11.2023	31.03.2024
			Low	30.11.2023	31.03.2024
			Low	31.12.2023	31.12.2024
			Low	31.12.2023	31.12.2024
			Medium	31.10.2023	31.01.2024
Risk Management	27.11.2023	Reasonable	**Medium**	31.12.2023	31.01.2024
Car Parks and Enforcement	23.05.2023	Reasonable	**Medium**	31.12.2023	30.06.2024
Decision Making and Accountability	08.02.2023	Substantial	**Medium**	30.11.2023	29.02.2024
			Medium	31.12.2023	31.03.2024
			Medium	31.12.2023	29.02.2024

REPORT TO:	**Audit and Governance Committee 19 February 2024**
SUBJECT:	**Corporate Risk Register Update**
LEAD OFFICER:	**Antony Baden, Group Head of Finance and Section 151 Officer**
LEAD MEMBER:	**Cllr Dr James Walsh**
WARDS:	**All**

CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:

The Risk Management Framework presented to the Audit and Governance Committee on 28 September 2023 has been used to review the strategic risks facing the Council.

As a result of the review a revised Corporate Risk Register has been produced.

DIRECTORATE POLICY CONTEXT:

The Corporate Risk Register is an overriding risk management tool that will capture corporate risks from across the Council.

FINANCIAL SUMMARY:

There are no direct financial considerations.

1. PURPOSE OF REPORT

1.1. The purpose of the report is to highlight the updates to the Corporate Risk Register since it was last reported to the Audit and Governance Committee on 30 November 2023.

2. RECOMMENDATIONS

2.1. Members of the Audit and Governance Committee are asked to consider and note the revised Corporate Risk Register.

3. EXECUTIVE SUMMARY

3.1. The Corporate Risk Register is reviewed and updated in line with the requirements of the Council's Risk Management Framework.

3.2. Quarterly updates reflecting revisions are reported to the Audit and Governance Committee, this report highlights the changes since the last update.

3.3. It is proposed that the Committee considers and notes the revised Corporate Risk Register.

4. DETAIL

4.1. A report recommending the adoption of a new Risk Management Framework was presented to the Audit and Governance Committee on 29 November 2022. A subsequent report was provided to the Committee on 28 September 2023 detailing amendments to the Framework.

4.2. Corporate risks are risks that could influence the successful achievement of our long- term core purpose, priorities, and outcomes. These are risks that could potentially have a council wide impact and/ or risks that cannot solely be managed at a Service Area Level because higher level support or intervention is needed.

4.3. The Council's Risk Matrix (an extract from the Risk Management Framework) used to score each risk is included as Appendix 1 to this report.

4.4. Risks are assessed for Gross and Net risk. This method is used to evaluate the effectiveness of the identified actions used to mitigate the likelihood or impact of each of the risks.

4.5. The Corporate Management Team have reviewed the Corporate Risk Register in line with the review and reporting requirements of the Risk Management Framework included as Appendix 2 to this report.

4.6. The quarterly review of high risks was undertaken by the Corporate Management Team on 16 January. In addition, any changes to medium risks during the quarter were also reviewed. This report captures those updates.

4.7. A Corporate Risk Register Summary of the high risks and the updated medium risks is attached as Appendix 3 to this report. The Corporate Risk Register Summary records the changes in scores and any additions or removals to the Corporate Risk Register.

4.8. Actions have been reviewed and updates are highlighted on the risk register entries- Appendix 3.

4.9. At the Audit and Governance Committee on 30 November, an enhanced written update was requested in respect of the following risks:

- CRR1- B: Balance of Housing Revenue Account.
- CRR 2: Organisational capacity to deliver.
- CRR 7: Climate Change.

The enhanced written updates are included in Appendix 4 to this report.

4.10. Members of the Audit and Governance Committee are asked to consider and note the updates resulting in the revised Corporate Risk Register.

5. CONSULTATION

5.1. There is no requirement for public consultation in relation to the Corporate Risk Register, this is an internal risk management tool.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. Not applicable.

7. COMMENTS BY THE GROUP HEAD OF FINANCE/ S151 OFFICER

7.1. Members will note that some risks will always remain on red by their very nature. The important point is that the risks are identified and then managed, and where possible, mitigations are put in place. There will be some cases whereby it will be financially prohibitive to implement the desired mitigation and such risks will continue to be managed very closely.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The Corporate Risk Register aids in the effective management of strategic risks faced by the Council. (Appendix 3)

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. None

10. HUMAN RESOURCES IMPACT

10.1. There are no direct human resource implications. However, the Corporate Risk Register will assist in the effective management of related risks.

11. HEALTH & SAFETY IMPACT

11.1. There are no direct implications. However, the Corporate Risk Register will assist in the effective management of related risks.

12. PROPERTY & ESTATES IMPACT

12.1. There are no direct implications. However, the Corporate Risk Register will assist in the effective management of related risks.

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. There are no direct implications. However, the Corporate Risk Register will assist in the effective management of related risks.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. There are no direct implications. However, the Corporate Risk Register will assist in the effective management of related risks.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. None.

16. HUMAN RIGHTS IMPACT

16.1. None.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. There are no direct implications. However, the Corporate Risk Register will assist in the effective management of related risks.

CONTACT OFFICER:
Name: Vicky Ashmore
Job Title: Finance and Risk Manager
Contact Number: X37606

BACKGROUND DOCUMENTS*:*

Audit and Governance Committee report - 29 November 2022
Arun District Council

Audit and Governance Committee report - 28 September 2023
Arun District Council

Housing and Wellbeing Committee - Audit and Governance Committee report – 23 November 2023
Arun District Council

Policy and Finance Committee – 8 January 2024
Arun District Council

Policy and Finance Committee – 8 February 2024
Arun District Council

Arun District Council Website- Climate Change
Climate change | Arun District Council

APPENDIX 1: ARUN DISTRICT COUNCIL'S RISK MATRIX

IMPACT					
	Very High (4)	4	8	12	16
	High (3)	3	6	9	12
	Medium (2)	2	4	6	8
	Low (1)	1	2	3	4
		Unlikely (1)	Possible (2)	Likely (3)	Very Likely (4)
	LIKELIHOOD				

To ensure resources are focused on the most significant risks. The Council's approach to risk management is to assess the risks identified in terms of both the potential likelihood and impact so that actions can be prioritised.

The risk management process requires each risk to be assessed twice- gross and net risk levels.

Gross Risk Level: is taken on the basis that there is no action being taken to manage the identified risk and/ or any existing actions are not operating effectively. The worst-case scenario if the risk were to occur.

Net Risk Level: This re-evaluates the risk, taking into consideration the effectiveness of the identified existing actions. The reality if the risk were to occur in the immediate future.

APPENDIX 2: REVIEWING AND REPORTING FRAMEWORK

Net Risk Level and Score	**Frequency of Reviews (applies to <u>all</u> risk registers)**
High 12-16	These are significant risks which may have a significant impact on the Council and the achievement of its objectives if not managed. Immediate management action needs to be taken to reduce the level of net risk. Any net red risks at a service area level will be included alongside corporate risks reported to the Corporate Management Team. **As a minimum review <u>quarterly</u>**
Medium 4-9	Although usually accepted, these risks may require some additional mitigation to reduce likelihood if this can be done cost effectively. These risks should be reassessed to ensure conditions remain the same and existing actions/ controls are operating effectively. **As a minimum review <u>6- monthly</u>**
Low 1-3	These risks are being effectively managed and any further action to reduce the risk would be inefficient in terms of time and resources. These risks should be reassessed to ensure that conditions remain the same and existing actions/ controls are operating effectively. **As a minimum review <u>annually</u>**

APPENDIX 3: CORPORATE RISK REGISTER SUMMARY

HIGH RISKS: QUARTERLY REVIEW UPDATE

CRR Ref	Directorate or Service Area	Risk Area	Gross Risk Level (Risk is Likelihood x Impact)	Net Risk Level (Risk is Likelihood x Impact)	Last Review Date	Change in Net Risk Level	Risk Owner
CRR 1-B	Housing/ Finance	Balance of Housing Revenue Account	16 (4x4)	12 (3x4)	CMT Performance Board: 16 January 2024	→	Tony Baden/ Richard Tomkinson
CRR 2	All Directorates	Organisational capacity to deliver	16 (4x4)	12 (4x3)		→	Karl Roberts/ Philippa Dart
CRR 4.5	All Directorates	ICT- Planning, building control and Land Charges System supplier support	12 (4x3)	12 (4x3)		Additional Risk 20/12/2023	Jackie Follis
CRR 7	All Directorates	Climate Change	16 (4x4)	16 (4x4)		→	Philippa Dart/ Joe Russell-Wells
CRR 11a	All Directorates	Major Project- Alexandra Theatre	16 (4x4)	16 (4x4)		→	Karl Roberts
CRR 11b	All Directorates	Major Project- Littlehampton Seafront Project	12 (3x4)	8 (2x4)		↓	Philippa Dart
CRR 11c	All Directorates	Major Project- Bognor Regis Arcade	12 (3x4)	12 (3x4)		→	Karl Roberts

MEDIUM RISKS: CHANGES DURING THE QUARTER

CRR 4.1	All Directorates	ICT- Major successful cyber-attack	16 (4x4)	8 (2x4)	CMT Performance Board: 16 January 2024	↓	Jackie Follis
CRR 4.2		ICT- Physical or technical failure	12 (3x4)	6 (2x3)		→	Jackie Follis
CRR 4.3		ICT- Permission to access government systems.	12 (4x3)	6 (2x3)		→	Jackie Follis
CRR 4.4		ICT- Document Management System supplier support	12 (4x3)	12 (4x3)		↑	Jackie Follis
CRR 12	Homelessness	Increased Homelessness	16 (4x4)	9 (3x3)		→	Richard Tomkinson
CRR 13	Housing	Housing Management System Implementation	12 (3x4)	6 (2x3)		↑	Richard Tomkinson
CRR 14	Housing Repairs	Compliance Failings	4 (1x4)	4 (1x4)		Reinstated January 2024	Richard Tomkinson
CRR 15	Housing	Ineffective Complaints Management	9 (3x3)	4 (2x2)		↓	Richard Tomkinson

APPENDIX 3: CORPORATE RISK REGISTER

Risks that could influence the successful achievement of our long-term core purpose, priorities, and outcomes. These are:

1. Risks that could potentially have a council- wide impact and/ or
2. Risks that cannot be managed solely at a Service Area Level because higher level support or intervention is needed.

CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR1 - B	Finance/Housing	Balance of Housing Revenue Account	Service management and national pressures reduce income and increase costs leading to a potential HRA deficit by end March 2023 to be mitigated by approval of changes in capital financing.	Current financial climate Increase in costs. Significant predicted overspends on planned and responsive repairs contract and Supervision and Management in current year. Increase in cost of Housing ICT/transformation project. Prior years overspends on reactive maintenance.	Without mitigation HRA balance at critical level resulting in potential failure of service. Financial loss to the Council. Increase in enforcement actions. Increase in homelessness.	Tony Baden/ Richard Tomkinson

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GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
16 (4x4)	Officers have completed their work with a consultant from CIPFA to review the Council's HRA accounting policies in respect of depreciation, capital accounting and staff recharges. Good progress has been made and proposals are currently being reviewed prior to implementation to ascertain if they comply with the main CIPFA accounting code of practice. Member updates held in September 2023 on HRA finances to ensure transparency. Dedicated post for income recovery. Data analysis undertaken using Mobysoft to identify cases for next stage recovery action/ more specific intensive recovery action. Regular case reviews undertaken with specialist Housing Officer. Regular monthly training on income recovery for Housing Officers. Budget monitoring. Review of Capitalisation Policy.	**12** (3x4)	Further work is currently being undertaken by the Housing and Finance departments to investigate other areas of spend within the HRA where it may be possible to identify savings and efficiencies. It is expected that a written report will be presented to CMT in September 2023. Introduce service charges where applicable (action for completion in 2024- 25). Review and remodel HRA business plan and workstream realignment. Completion by 31st March 2024.

	Review of Borrowing Strategy. Contract Management. Review of Repairs Contract. Close adherence to rent arrears policy and procedures. Ensure officers understand the impact of timely intervention. Staff training. Debt advice- dedicated officer. Good communication with tenants. Specialist IT software.		

CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR 2	All Directorates	Organisational capacity to deliver.	Lack of resilience in the existing staff structure, so do not have the necessary number of staff with the right skills to deliver services and the Council's priorities. Inability to meet the expectations of service users due to organisational capacity. Inability to attract and retain suitably skilled staff.	Uncompetitive salaries offered for certain positions/ professions. A comprehensive job profiling process that does not recognise external market forces and is resource intensive. Limited scope for career progression can reduce the retention of talented staff. Lack of prioritisation of key workstreams. Impact and potential future impact of the coronavirus pandemic. Skills shortage externally – this is not Arun specific impacting Arun's ability to recruit. Local government – attractiveness/ age profile implications (approx. 60- 70% of staff over 40). Image of Local Government- increased by the media presenting a negative image of the public sector. Negative social media compounds the negativity related to the Council in general.	Non- achievement of corporate priorities. Loss of staff with essential knowledge and experience. Service disruption leading to a loss of productivity- whilst new starters/replacements are recruited and trained. Service performance and staff health and welfare could be compromised due to high attrition rates. Increased staff sickness. Increased costs of recruitment. High turnover. Hybrid/ remote working- positive or negative impact not yet fully known. This depends on the demographic, research to date points to flexibility being attractive. Stress can be more hidden when staff are working from home/ adopting the hybrid mode. Reduced sickness rates have been recorded whilst staff have been working from home. Inability to respond to additional priorities or emergency situations.	Karl Roberts/ Philippa Dart

GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
16 (4x4)	The Council's performance appraisal process identifies individual training requirements and individual objectives linked to service delivery plans. Utilisation of secondment opportunities to benefit from existing skills and develop individual staff. Investment in development of staff via the corporate training budget. Adequate notice periods built into posts. Staff sickness monitoring and reporting undertaken. The use of market supplements and other recruitment and retention payments to attract applicants to vacancies and retain staff. Job profiling is used to determine grades. Pay comparison/ benchmarking exercise with other Local Authorities is regularly undertaken. Lead specialist appointed to help develop the Council's operating model.	**12** (4x3)	To review recruitment and retention initiatives to attract and retain appropriately skilled staff. Identify a specific training plan for all management tiers to cover business and management processes (for example, including Risk Management, the Constitution, Committee Structure/ Committee Reports and Budget management/ monitoring. Undertake regular staff engagement surveys. Annual workforce/ resource planning in conjunction with the zero- based budgeting process. Aids the alignment of Corporate, directorate and service area priorities. Operating Model/ Workforce Strategy/ Service reviews to align resources with new Council Vision. Review of job profiling and current reward strategy. All of the above have to be considered in the context of the Councils current financial position and the need for in year savings in 23/24. Progress will be considered when a savings strategy is developed in the autumn of 23.

CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR 4.5	All Directorates	ICT	5. Supplier unable to support planning, building control and land charge system (Ocella) or withdraws product.	Supplier giving notice.	A number of service areas rely on this system as their main back-office system and without it would not be able to operate.	Jackie Follis

GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
12 (4x3)	5. Monitor contract and supplier performance. Maintain dialogue with Company CX. *13/03/2023 Supplier has given notice and will cease support from December 2026*	**12** (4x3)	Continue dialogue with supplier. Start looking at alternative products/ options.

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CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR 7	All Directorates	Climate Change	Failure to make the activities of the Council carbon neutral by 2030. Failure to complete/ achieve the actions detailed in the Council's Climate Action and Biodiversity Work Plan 2022- 2023.	Increased severity of global warming caused by continued use of carbon. A lack of understanding, resource allocation, and commitment to achieving climate change goals, through both officer actions and members vote. Slow take- up of energy saving measures e.g. green/ renewable tariffs, smart meters, installation of PV etc. Increase of sustainable energy costs verses carbon energy in short term. Inadequate level of sustainability required in proposal/ approved developments. Inadequate level of sustainability required in the Councils procurement process, for both purchased goods and services. Slow development of Government led policies for home/office energy standards, including for new developments and retrofit projects. Lack of financial support through relevant and applicable Government funding/grants. Government slow to introduce waste strategy including mandatory food waste collection. Slow take-up of electric, hybrid and low- emission vehicles- lack of accessible charging points. Progress of initiatives delayed due to Covid.	Increased likelihood of extreme weather: (hot and cold) impacting vulnerable residents and staff. Increased likelihood of flooding (coastal, fluvial and surface) impacting on properties. Extreme weather impacting the delivery of day-to-day services and damaging properties, both residential and cooperate. In turn an increased budget required for regular repairs of these damages. Detrimental impact on the local environment, including a significant reduction or loss in biodiversity and ecosystem stability. Continued reduction of air quality and resident health through emissions associated with petrol/diesel fuelled transport.	Philippa Dart/ Joe Russell-Wells

GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
16 (4x4)	Climate Change & Sustainability Manager appointed. Prioritisation of climate change in council Vision Increased national awareness and drive for change including Member desire to progress climate change agenda. Government manifesto promises and global input (COP26 and beyond) and introduction of legislation. Council monitoring and implementing changes to Government standards (e.g. Future Homes). The Council's Carbon Neutral Strategy 2022- 2030 and Climate Action and Biodiversity Work Plan 2022- 2023 including actions and clear priorities being progressed. Continued annual monitoring of Scope 1, 2 and 3 emissions in line with greenhouse gas protocols and guidance. The analysis for the 22-23 financial year has now been completed and reports are currently being updated to reflect any changes in emissions. Annual update and review of the Council's Climate Action and Biodiversity Work Plan. The updated report is now under review from officers across the Council. The final report will be taken to P&F in March 2024. Work has started around the procurement 'deep dive' and emission analysis for the 22/23 financial year. This works includes extensive analysis and review of procurement emissions (Arun's single largest emitter) and will help determine next steps and produce a list of actions which will be used to help increase reductions in this area. Additionally, Ricardo are looking to produce a strategy prioritising low carbon purchasing and will use information gathered during the procurement deep dive to help determine next steps and produce a list of actions which will be used to help increase reductions in this area. A draft report has now been issued to ADC and is undergoing internal review. Development of climate related training for officers (mandatory) and members. This will include an introduction to climate change/ sustainability, emissions and what the Council aims to do and is doing to reach the 2030 carbon neutral target. As this is mandatory training this should be completed by mid-August 2023. A 2-year contract to access this training has now been taken forward. Provision of Carbon Literacy training at senior level (including director and group heads, along with managers) to help start behavioural change within the Council. Further trainings to be carried out through the 23/24 year to	**16** (4x4)	Support to be provided to suppliers and contractors, as well as local SMEs, businesses and companies around emission reduction and procurement changes. This will be in the form of support via information sheets and guidance documentation, as well as sign posting to external help and support. Time scale: this will be one of the focuses for the above role and will start once they are appointed. It is being considered if the Council can support an external climate fund for non-profits to help them in their journey of sustainability. This has been copied from what Horsham are doing - Community Climate Fund | Horsham District Council. Time scale: originally this was going to use the additional £100k made available by members during the budget setting of the 2022-2023 financial year. However this has been discarded now and there will be review to implement this into the 24-25 climate change budget. An officer report has been drafted and is ready to go. A motion was put forward around examining the concept and feasibility to establish a mechanism of advocacy and improved protect for the River Arun. This is currently being explored by officers.

include other officers to help imbed climate change/sustainability thinking throughout all levels of the Council. Cohorts and 3 and 4 have been booked in for the end of 2023 and early 2024. A cohort targeted an elected members is booked in for early 2024, currently 11 members have signed onto this. If successful additional training cohorts for members will be considered.

Arun become a Bronze certified Carbon Literate organisation in 2023, requirements to become Silver are being reviewed and it is hoped that the Council will become Silver in 2024.

Work has been completed around the energy audits of a selection of key buildings for the Council. These provide next steps on how to improve efficiency and drive down emission production. Building on from this funding for the LCSF phase 4 was successful and a heat decarbonisation plan is now underway for Arun Leisure Centre, using the energy audit for this to help inform this. Willmott Dixon have completed the heat decarbonisation plan and internal review has been completed. The final report, and supporting documents have been sent to Salix for review and payment request. It is hoped that in the future when/if other waves of the LCSF are made available further work can be completed.

Continued connection with other D&Bs within West Sussex (and externally) to share ideas and support climate change related work.

A feasibility study is being procured to review the possibility of generating renewable electricity at Mewsbrook car park. This opportunity was sent to consultants on 3/1/2024 so this process has just begun. Officers will look to appoint the winning bid on 31/1/2024.

A Climate Change and Sustainability officer was appointed in Autumn 2023 and are providing further support to the Council in reducing emissions, through engagement (including with the youth council) and general project support. They will also be looking at increasing internal and external communication on climate change factors. Work has started on implementing a town and parish council network which has future targets of spreading to community organisations to support the community around climate change understanding on highlighting actions that can easily be taken.

Regular reporting of carbon reduction targets and actions to Committee

Options for developing planning policy guidance and Supplementary Planning Documents (SPD) aimed at improving the sustainability of developments compared to the current position and action plan to be progressed.

Liaison with external agencies (water agencies on local water quality- Blue Flag beaches and the Sussex Air Quality Partnership, Sussex Nature Partnership around biodiversity and BNG across Sussex).

	Liaison with partners/ advice on provision of suitable vehicle charging points for the future and advice to residents on energy saving, reduction in carbon emission, wellbeing etc. Providing support for other national/ local initiatives e.g. waste recycling and the Sussex Kelp Project. A members brief event has been booked in for Mid-October to provide members (and interested officers) on an update on the Kelp restoration occurring off the South Coast.		

CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR 11a	All Directorates	Major Project- Alexandra Theatre	Failure to regenerate coastal towns within the district. Failure to deliver major projects in line with funder requirements meaning funding is withdrawn. Insufficient resources to deliver vision and aspirations for the district.	Lack of funding to deliver major projects. Decisions not made swiftly enough. Lack of public/ partnership acceptance of, and buy-in to strategies. Legal challenges increase- correspondence from Arun Arts under review- June 23. Multiple major projects running simultaneously- resources stretched. Impact of growth of Butlins and Chichester University influencing local market conditions. Other Council borrowing priorities/ increase in PWLB rates. Further uncertainty over availability of Council and external funding in the future. Inconsistent decision making leading to projects being started and then abandoned.	Project fails to deliver objectives on time and/ or exceeds budget. Developers and invested could be deterred. Lack of growth. Possible legal issues from developer plans submitted before the Council consideration of schemes. Missed opportunities to invest in areas of development potential. Lack of visible progress with developments. Financial and reputational risk/ poor publicity. Development of Council land (car parks etc) could mean loss of income streams. Further uncertainty over availability of Council and external funding in the future. Business closure e.g. in retail, hospitality and leisure sectors. The Council could face large revenue costs for aborted projects if external funding is withdrawn.	Karl Roberts

GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
16 (4x4)	Briefings for members (held regularly). Temporary employment of Head of Regeneration. (extended until 31/03/24). Project Manager post extended until 31/03/25. Bidding for external funds (arts council). Use of external support – Project Officers. Communications – Press Releases. Engagement with Partners e.g.: University, Bognor Regis Regeneration Board, Town & Parish Councils. High level business plan undertaken to inform future strategy. Specific project risk schedule. Provision made for Arun Arts equipment.	**16** (4x4)	Retendering of contract underway following withdrawal of previous contractor.

CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR 11b	All Directorates	Major Project- Littlehampton Seafront Project	Failure to regenerate coastal towns within the district. Failure to deliver major projects in line with funder requirements meaning funding is withdrawn. Insufficient resources to deliver vision and aspirations for the district.	Lack of funding to deliver major projects. Decisions not made swiftly enough. Lack of public/ partnership acceptance of, and buy-in to strategies. Existing covenants and leases impose restrictions on scheme design. Multiple major projects running simultaneously- resources stretched. Other Council borrowing priorities/ increase in PWLB rates. Uncertainty surrounding major Government schemes impacting the area e.g. Arundel by-pass, Chichester by- pass. Further uncertainty over availability of Council and external funding in the future. Inconsistent decision making leading to projects being started and then abandoned.	Project fails to deliver objectives on time and/ or exceeds budget. Developers and invested could be deterred. Lack of growth. Possible legal issues from developer plans submitted before the Council consideration of schemes. Missed opportunities to invest in areas of development potential. Lack of visible progress with developments. Area turns into a commuter belt and is not regenerated leading to decline. Financial and reputational risk/ poor publicity. Development of Council land (car parks etc) could mean loss of income streams. Further uncertainty over availability of Council and external funding in the future. Business closure e.g. in retail, hospitality and leisure sectors. The Council could face large revenue costs for aborted projects if external funding is withdrawn.	Philippa Dart

GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
12 (3x4)	Update report presented to every meeting of Policy and Finance Committee. Regular updates included in members newsletter. Project supported financially by external funds. Use of external support – project management and cost control (Mace) Communications – Press Releases, posters in the town/on site. Website kept up to date. Engagement with stakeholders (internal and external). Engagement with parties regarding leases and covenants. Project specific risk register reviewed and updated. Project progress reported to Project Board. Resourced by internal project team.	**8** (2x4)	Communications strategy in preparation for construction phase. Logistics review of construction phasing to minimise impact on council revenue (car parks income) and summer season generally. Engagement with Harvester agent regarding scheme layout. Cost review. Promotion of new concession opportunities.

CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR 11c	All Directorates	Major Project- Bognor Regis Arcade	Failure to regenerate coastal towns within the district. Failure to deliver major projects in line with funder requirements meaning funding is withdrawn. Insufficient resources to deliver vision and aspirations for the district. Relationship with existing tenants.	Lack of funding to deliver major projects. Decisions not made swiftly enough. Lack of public/ partnership acceptance of, and buy-in to strategies. Multiple major projects running simultaneously- resources stretched. Impact of growth of Butlins and Chichester University influencing local market conditions. Other Council borrowing priorities/ increase in PWLB rates. Further uncertainty over availability of Council and external funding in the future. Inconsistent decision making leading to projects being started and then abandoned.	Project fails to deliver objectives on time and/ or exceeds budget. Developers and invested could be deterred. Lack of growth. Possible legal issues from developer plans submitted before the Council consideration of schemes. Missed opportunities to invest in areas of development potential. Lack of visible progress with developments. Area turns into a commuter belt and is not regenerated leading to decline. Financial and reputational risk/ poor publicity. Further uncertainty over availability of Council and external funding in the future. The Council could face large revenue costs for aborted projects if external funding is withdrawn. Need to resolve delivery/ management mechanism for residential units created.	Karl Roberts

GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
12 (3x4)	Briefings for members. Temporary employment of Head of Regeneration. (extended until 31/03/24). Funding secured from Brownfield Land Fund. Other external funding opportunities being explored. Use of external support – Project Officers. Communications – Press Releases Engagement with Partners e.g.: University, Bognor Regis Regeneration Board, Town & Parish Councils. Specific project risk schedule	**12** (3x4)	Increased briefing & reporting to members.

CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR 4.1	All Directorates	ICT	1. Loss of technology, data, and communications; through major cyber compromise. Detection and containment delays may mean increased damaged and increased data loss. A national attack will mean access to cyber experts and other government agency help may not be available.	Major successful cyber- attack.	Loss of all ICT facilities including back-office systems, telephony, printing, public facing systems and laptops. Major risk of data loss and data breaches. Significant disruption of service with no IT systems for staff & customers (2 to 6- month phased recovery). Initial outlay for new IT equipment (£m's) and loss of income / additional organisational costs may not be recoverable via insurance (est. £10m). Each day of downtime= c£90k loss of productivity.	Jackie Follis
CRR 4.2			2. Loss of technology, data, and communications; through major outage of datacentre, or integral infrastructure component failure.	Physical or technical failure (e.g. fire, flood, hardware or communications failure).	Loss of some/ all ICT facilities including back-office systems, public facing systems, telephony, and printing. Limited risk of data loss, laptops word still work outside of council premises although with reduced facilities. Potentially a significant disruption of service with no IT systems for staff & customers (5-28- day phased recovery). Initial outlay for new IT equipment (£m's) and loss of income/ additional organisational costs but may be recoverable via insurance. Each day of downtime= c£90k loss of productivity.	
CRR 4.3			3. Permission to connect to government systems such as DWP is revoked.	Lack of resources / not having a current code of connection certificate. Service provider not accepting mitigations and/or remediation plan.	Unable to undertake functions requiring access to government systems e.g. benefits processing.	
CRR 4.4			4. Supplier unable to support corporate document management system (C-Cube) or withdraws product.	Company has been taken over, key support staff have left and we are the only user of this product (and only LG customer).	A number of service areas rely on this system for their electronic documents and without it would not be able to operate.	

GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
16 (4x4)	1. Cyber protection layers, recovery facilities, air-gap backups, advance notifications and warnings, cyber training, staff security policy, staff awareness training, and cyber response plan. Services should have a BCP in place including scenarios for extended periods of no ICT. Monitor that OOH cover & contracts meet acceptable standards (CMT). Continually review new cyber defences and recovery approaches.	**8** (2x4)	The impact has a major significance for the risk as it would stop almost all services the council provides for up to 6 months and could cost millions in unrecoverable costs. Reducing the likelihood or impact amount by any amount even if only to reduce by a point factor would be worthwhile. New security post starts January 2024.
12 (3x4)	2. Key component redundancy by design, immutable/ off- site backups (for recovery), a limited capacity recovery site, cloud services, laptops as standard issue, website hosted externally, insurance cover for IT equipment. Services should have a BCP in place including scenarios for extended periods of no ICT.	**6** (2x3)	Accept risk and existing mitigations.
12 (4x3)	3. Undertake annual IT Health Check, create and action remediation plan and submit application to Cabinet Office. Would need to look at another organisation to process DWP data for benefits.	**6** (2x3)	Ensure sufficient resources allocated. New security post starts January 2024.
12 (4x3)	4. Monitor contract and supplier performance. Discuss with new company CX their business road map. *07/11/2023 Supplier has given notice and support will be moving to 'reasonable endeavours' from September 2024. They will not be renewing the contract beyond August 2025.*	**12** (4x3)	Continue dialogue with supplier. Start looking at alternative products/ options. Some funding is built into 2024/25 budget.

CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR 12	Directorate of Environment and Communities	Homelessness	Increase in homelessness presentations. Homelessness demand exceeds resources available.	Not being able to meet the homelessness need. Lack of suitable Emergency Accommodation and available Temporary Accommodation. Private Sector housing market becoming more expensive. Increased complex homeless presentations. Impact of the cost-of-living increases demand. Increases in mortgage rates lead to more housing repossessions.	Inadequate resource to manage the number of presentations. Legal challenge. Children being subject to homelessness. Vulnerable people (disabled, elderly, chronically ill etc.) being subject to homelessness.	Richard Tomkinson

GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
16 (4x4)	Effective planning and deployment of resources. Timely decision making and effective casework management by Housing Options Officers. Regular monitoring of caseloads by the Team Leader. Flag to Senior Management Team.	**9** (3x3)	Aim to increase supply of accommodation for those who are homeless/ threatened with homelessness- acquire 7 new units by March 2023 through LAHF scheme. Review the possibility of a temporary adjustment to the allocation policy to prioritise households in TA; complete the review by end of September. Develop and deliver Emergency Accommodation (nightly paid) reduction plan.

CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR 13	Directorate of Environment and Communities	Housing	Delayed or non- implementation of the new housing management system Cx.	Poor project management. Interface/API solution delays with partners. Reduced project team resources/sickness/absence/resignations. Lack of, or changes in decision making. Lack of service level expertise. Contractual issues. Additional costs.	Reputational damage. Inability to deliver services. Inability to collect payments. Inability to set rents. Inability to create and end tenancies. Reduced service to tenants. Missed opportunity for service improvement. Coming to the attention of the Housing Ombudsman & Regulator for Social Housing.	Richard Tomkinson

GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
12 (3x4)	Change in project manager via 3C consultants to give improved governance and direction to the project. Backfills completed for the project team, less requirements on them from their day-to-day roles. New project manager working closely with Civica and will escalate within Civica and Arun if the project plan timescales look at risk. Project plan includes more time for testing, build, data passes and realistic contingency based on previous projects of this type. Four full time members of staff working on the project. Project board established. Business process mapping underway.	**6** (2x3)	Performance monitoring of project management.

CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR 14	Directorate of Environment and Communities	Housing Repairs	Compliance Failings	Housing continues to be under notice by the Regulator for Social Housing.	Regulator takes over compliance. Budget pressures to resolve with urgency. Reputational damage. Tenant complaints. Risk of serious incidents increased.	Richard Tomkinson

GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
4 (1x4)	Robust contract evaluation. Regular financial checks. Have alternative suppliers/ framework in reserve Appointed different gas contractors for Domestic and Commercial Contracts so have built in back up should one fail. Monthly contract review meetings.	**4** (1x4)	These measures have been established. Activity is undertaken to a program and continues to be managed and reviewed closely.

CRR Ref	DIRECTORATE OR SERVICE AREA	RISK AREA	RISKS IDENTIFIED	CAUSES	EFFECTS	RISK OWNER
CRR 15	Directorate of Environment and Communities	Housing	Ineffective complaints management.	High staff turnover. Lack of training. Lack of procedure. Lack of lessons learnt reviews.	Reputational damage. Poor relationship with tenants. Missed opportunity for service improvement. Complaints escalation. Non-compliance with the Ombudsman complaint handling code. Coming to the attention of the Housing Ombudsman & Regulator for Social Housing.	Richard Tomkinson

GROSS RISK LEVEL (Risk is Likelihood x Impact)	EXISTING CONTROLS/ MITIGATING ACTIONS	NET RISK LEVEL (Risk is Likelihood x Impact)	FURTHER ACTIONS
9 (3x3)	Adherence to the Corporate Complaints Procedure requires the Council to have clear mechanisms in place for tenants to complain, and to respond to complaints promptly and effectively. The Corporate Complaints process has been revised with complaints being handled/ investigated within the service area. This increases awareness, accountability, and responsibility enhancing the potential for service area improvements. Resource implications of the revised process are being monitored and addressed. Correct culture on complaints handling means complaint resolution is well managed and actions are clearer. Staff training workshop completed in July 2023 with periodic refresher training. This includes policy awareness training including the positive benefits from complaints and consideration of Ombudsman complaints/ guidance.	**4** (2x2)	None

Appendix 4: Enhanced written updates

CRR 1- B: Balance of Housing Revenue Account

At Housing & Wellbeing Committee on the 23rd November 2023, the Interim Group Head of Housing and Group Head of Finance & Section 151 Officer presented a detailed update on the budget performance of the Housing Revenue Account (HRA) for 2023/24. The report forecasted that the HRA reserve balance would fall to £902k by the end of the financial year, which was well below the Council's self-set target balance of £2 million but still well above a zero balance. The significance of this point is that the HRA reserve must not fall into negativity and if it were to do so, the Council would run a very high risk of central government intervention. The update also included several actions designed to maintain the HRA reserve at the forecasted level. These included reductions in certain areas of planned and cyclical maintenance, measures to optimise rental income and the establishment of procurement frameworks with the aim of driving down repairs and maintenance expenditure.

Further actions to improve the financial performance are also being developed:-

- Introduce service charges where applicable (action for completion in 2024-25).
- Refresh and remodel the HRA business plan.
- Keep internal recharges and Depreciation costs under review.

Officers will continue to seek other ways of improving the overall performance of the HRA and will continue to actively manage the risk level. However, Members will note that the risk is likely to remain red for the foreseeable future.

CRR 2: Organisational capacity to deliver.

This risk remains high. The Council financial position has meant that as part of the savings strategy for 24/25 a number of vacant posts have been deleted from the organisation. Furthermore the number of Group Heads in the Senior Management Team is proposed to be reduced from 9 to 6.

All of these changes mean that the organisation will need to consider very carefully the resourcing of any new projects and how much time will be required to deliver existing and future work. The agreed financial strategy includes a commitment to review how services are delivered and it is anticipated that this work will also look at how further efficiencies can be made. This is a very significant piece of work and will involve the whole organisation. The outcomes of this work are scheduled for implementation in 2025/26.

The Financial Strategy Report was presented at the Special Meeting of the Policy and Finance Committee on 8 January 2024. This includes further information regarding the information above and can be viewed on the Council's website: Arun District Council.

Action has been taken to provide stability to the organisation including updating the Councils policy on its approach to flexible working. The use of agency staff is gradually being reduced through permanent recruitment and where that remains challenging for certain professions a range of other incentives are being used such as Market Force Supplements.

CRR 7: Climate Change

The Council declared a Climate Emergency in January 2020 and set a target for the council to become carbon neutral by 2030. This target includes all emissions from scope 1, 2 and 3 sources. With scope 1 being generated through the heating of our buildings and running our fleet, scope 2 being emissions generated when we purchase our electricity and scope 3 generated from the upstream and downstream activities of the Council, including areas like our purchased goods/services (or procurement), business travel and commuting.

Following the above motion, the Council commissioned a carbon audit for the 2020-2021 financial year. Results were used to set the Council's baseline and to inform the Carbon Neutral Strategy 2022-2030 (adopted in October 2021). The Climate Action and Biodiversity Work Plan 2022-2023 (adopted in February 2022) was also produced to sit alongside this strategy to showcase what actions that Council is taking, could undertake or will undertake to support the reduction of emissions.

Each year an emission audit is undertaken to monitor the Council's emissions, with results being compared to the baseline and incorporated into the Climate Action and Biodiversity Work Plan. To inform members on how things are going two reports are taken each year to Policy and Finance:

- An update on the Council's scope 1, 2 and 3 emissions.
- An update to the Climate Change and Biodveristy Work plan. This includes updates to all projects going on within the Council and incorporates any changes to emissions.

The above will be taken to the Policy and Finance committee on 8th February 2024 and 7th March 2024, respectively.

All documentation is available on the Council's website - Climate change | Arun District Council and updates to staff, members and residents occurs throughout the year to ensure everyone is kept as up to date as possible. Climate Change is also currently one of the four main pillars of the Council's vision document.

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Arun District Council

REPORT TO:	**Audit and Governance Committee – 19 February 2024**
SUBJECT:	**Statement of Accounts – Accounting Policies 2023/24**
LEAD OFFICER:	**Antony Baden, Group Head of Finance and Section 151 Officer**
LEAD MEMBER:	Councillor Dr James Walsh
WARDS:	**All**

CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION:

The Council's financial planning and reporting promotes all the Council's Corporate Priorities.

DIRECTORATE POLICY CONTEXT:

The Council's financial planning and reporting influences all the Directorates of the Council.

FINANCIAL SUMMARY:

There are no direct financial implications arising from the report.

1. PURPOSE OF REPORT

1.1. The purpose of the report is for this Committee to consider and note the accounting policies applied to the 2023/24 Statement of Accounts.

2. RECOMMENDATIONS

2.1 It is recommended that this Committee:

Notes the accounting policies that are applied to the Statement of Accounts 2023/24.

3. EXECUTIVE SUMMARY

3.1. The report allows the Audit and Governance Committee to consider and note the accounting policies that will be applied to the Statement of Accounts 2023/24 for approval by the Committee. The statutory deadline for completion of the draft accounts is 31 May 2024 and approval of the final audited accounts is 30 September 2024. Should there be any changes to these deadlines, Members will be informed.

4. **DETAIL**

4.1. It is the responsibility of those charged with governance (this Committee) to consider the accounting policies to be applied to the Statement of Accounts for the year ended 31 March 2024.

4.2. The Statement of Accounts sets out the Council's income and expenditure for the year and its financial position as at 31 March 2024.

4.3. The accounting policies are the specific principles, bases and conventions, rules and practices applied by the Council in preparing and presenting the financial statements. The accounting policies are included in Appendix 1 to this Report.

4.4. The accounting policies for 2023/24 remain substantially unchanged from 2022/23.

5. CONSULTATION

5.1. No consultation is required to take place with external organisations.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. Not applicable.

7. COMMENTS BY GROUP HEAD OF FINANCE/SECTION 151 OFFICER

7.1. Approval of the policies ensure the Statement of Accounts is prepared using proper accounting practices as required by statute.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. Not meeting statutory requirement of preparing Statement of Accounts using proper accounting practices.

8.2. Potential adverse audit outcomes of not having approved policies.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. There are no direct implications.

10. **HUMAN RESOURCES IMPACT**

10.1. There are no direct implications.

11. **HEALTH & SAFETY IMPACT**

11.1. There are no direct implications.

12. PROPERTY & ESTATES IMPACT

12.1. There are no direct implications.

13. **EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE**

13.1. There are no direct implications.

14. **CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE**

14.1. There are no direct implications.

15. **CRIME AND DISORDER REDUCTION IMPACT**

15.1. There are no direct implications.

16. **HUMAN RIGHTS IMPACT**

16.1. None.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. There are no direct implications.

CONTACT OFFICER:
Name: Jason Stott
Job Title: Interim Financial Services Manager and Deputy s151 Officer
Contact Number: 01903 737602

BACKGROUND DOCUMENTS*:*

The Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (CIPFA) [unable to include document due to copyright]

Note 1 - Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2023/24 financial year and its position at the year-end of 31 March 2024. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, and those Regulations require the statements to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, supported by International Financial Reporting Standards (IFRS) unless where IFRS are specifically adapted or interpreted by the Code.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Expenditure and Income

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet, subject to considerations of materiality.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made, subject to considerations of materiality.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in one month or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

iv. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates & Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi. Charges to Revenue for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance for MRP, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Whilst the Council is no longer debt-free, the debt held relates solely to the HRA self-financing settlement, and under current regulations there is no requirement for MRP. However, the Council has an approved loan repayment provision policy which ensures that there will be sufficient funds available to repay the housing debt when it matures.

vii. Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including Government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statue to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionally the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR:

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Council's share of the end of the year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of the likelihood arising from a past event that payments due under statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the taxation and non-specific grant income line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

viii. Employee Benefits

Benefits Payable during Employment:

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement to the Accumulated Absences Account so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits:

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits:

Employees of the Council are members of The Local Government Pensions Scheme, administered by Hampshire County Council on behalf of West Sussex County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

The Local Government Pension Scheme:

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the West Sussex County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices using an appropriate discount rate.

- The assets of the West Sussex County Council Pension Fund attributable to the council are included in the Balance Sheet at their fair value:

    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value.

The change in the net pension's liability is analysed into the following components:

- Service cost comprising:

    - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;

    - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement;

    - net interest on the defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:

    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the West Sussex County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits:

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

ix. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

x. Financial Instruments

Financial Liabilities:

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Trade payables (amounts due to contractors and suppliers) are recognised in the accounts when contractual obligations are incurred in relation to exchange of goods and services, rather than when receipts or payments pass from one party to another. The trade payables are accounted for at amortised cost taken as being equivalent to the carrying amount on initial recognition (i.e. the transaction amount).

The financial guarantees given by the Council are not recognised in the Balance Sheet but are disclosed in note xx.

Financial Assets:

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The main classes of financial asset measured at:

- amortised cost
- fair value through profit of loss (PFPL).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost:

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model:

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increase significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measure at Fair Value through Profit and Loss:

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes party to the contractual provision of the financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Fair value measurements of financial assets:

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with three levels (see xxi Fair Value).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third-party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and

- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Business Improvement Districts

A Business Improvement District (BID) scheme applies to Bognor Regis. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as an agent under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy

The Council has elected to charge a community infrastructure levy (CIL). The levy is charged on new builds (chargeable developments for the Council) with appropriate planning consent. The Council charges and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the developments of the area.

The CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure, however, a proportion of the charges may be used to fund revenue expenditure.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

xiii. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value (see xxi). Properties are not depreciated but are revalued annually by a professionally qualified valuer according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10k) the Capital Receipts Reserve.

xiv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee:

Finance Leases:

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant, or equipment – applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases:

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, which matches the pattern of payments in all cases.

The Council as Lessor:

Finance Leases:

The Council has no leases currently determined as finance leases.

Operating Leases:

Where the Council grants an operating lease over a property, the asset is retained in the Balance Sheet. Rental income is credited to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, which matches the pattern of receipts in all cases.

xv. Support Services

Support Services are identified as a separate heading in the Comprehensive Income and Expenditure Statement except for the proportion allocated to the Housing Revenue Account in line with the Council's local reporting format.

xvi. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition:

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accrual basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. Expenditure on individual items of less than £25k is assessed and where it is clear should not be capitalised, regarded as de minimis and charged to revenue.

Measurement:

Assets are initially measured at cost, comprising:

- purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be their fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost

- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH)

- surplus assets – the current value measurement base is fair value, the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date

- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment:

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation:

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- buildings (other than HRA dwellings) – straight-line allocation over the useful life of the property as estimated by the valuer

- vehicles, plant and equipment – straight-line allocation generally over 5 - 20 years

- infrastructure – straight-line allocation generally over 20 - 40 years

- HRA dwellings – depreciation is based on a calculation of the weighted average remaining useful lives of key components of each dwelling (structure, roof, kitchen, bathroom, boiler and externals).

Where appropriate the individual components of an asset will be depreciated separately. The materiality thresholds for applying componentisation are as follows:

- Assets other than HRA dwellings: Componentisation will only apply to an asset whose depreciable capital value is greater than or equal to £500k.

- HRA dwellings: The basis of depreciation for HRA dwellings serves as a proxy for componentisation as the relevant useful lives are calculated by reference to the weighted average of the useful lives of the key components.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale:

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10k are categorised as capital receipts. A proportion of receipts relating to housing disposals are payable to the Government in accordance with statutory requirements. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council’s underlying need to borrow (the Capital Financing Requirement). A further constraint applies to the use of the additional receipts resulting from the Government's policies for reinvigorating the Right to Buy. In accordance with the terms of an agreement between the Council and the Government these receipts can only be used to fund 40% of the cost of new social housing, the remaining 60% being met from other resources. Failure to meet these conditions will result in the receipts being paid to the Government. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xvii. Provisions, Contingent Liabilities and Contingent Assets

Provisions:

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has an obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from insurance claim), this is only recognised as income for the relevant service area if it virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities:

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets:

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xviii. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xix. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xx. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from His Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxi. Fair Value

The Council measures some of its non-financial assets such as Surplus Assets and Investment Properties and some of its Financial Instruments such as Property Funds and Public Works Loan Board (PWLB) loans at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability

The Council's external valuers measure the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming the market participates act in their economic best interest. When measuring the fair value of a non-financial asset, a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use is taken into account.

Valuation techniques are used that are appropriate in the circumstances and for which sufficient data is available, where possible maximising the use of relevant observable inputs and minimising the use of unobservable inputs. These inputs are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

- Level 3 – unobservable inputs for the asset or liability.

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REPORT TO:	**Audit and Governance Committee – 19 February 2024**
SUBJECT:	**Treasury Management Strategy Statement and Annual Investment Strategy 2024/25**
LEAD OFFICER:	**Antony Baden - Group Head of Finance and Section 151 Officer**
LEAD MEMBER:	Councillor James Walsh
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT/CORPORATE VISION:

The Council's Treasury Management Strategy Statement and Annual Investment Strategy for the 2024/25 financial year supports and promotes all the Council's corporate priorities.

DIRECTORATE POLICY CONTEXT:

The Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS)**,** including the Minimum Revenue Provision (MRP) policy statement, influences the activities of all Directorates across the Council.

It is one of the most important reports considered by Audit and Governance Committee for the financial year (2024-25). It is forward looking and includes:

- the capital plans (including prudential indicators),
- the Minimum Revenue Provision policy statement, which sets out how capital expenditure funded from borrowing is charged to the revenue budget over time,
- the Treasury Management Strategy, which explains how the Council's investments and borrowings are to be organised, (including treasury indicators), and,
- the Annual Investment strategy (the parameters on how investments are to be managed).

FINANCIAL SUMMARY:

The financial implications are explained throughout the report.

1. PURPOSE OF REPORT

1.1. The purpose of this report is to present the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) for 2024/2025 and to enable the Audit and Governance Committee to scrutinise the report prior to taking it to Full Council on 13 March 2024.

2. RECOMMENDATIONS

Audit and Governance Committee is requested to recommend Full Council to:

2.1. Approve and adopt the Treasury Management Strategy Statement for 2024/25.

2.2. Approve and adopt the Annual Investment Strategy for 2024/25.

2.3. Approve the Prudential Indicators within the TMSS and AIS for 2024/25.

2.4. Approve an operational boundary borrowing limit of £78M for 2024/25 as shown in Appendix 2.

2.5. Approve an Authorised Borrowing Limit of £83M for 2024/25 as shown in Appendix 2.

3. EXECUTIVE SUMMARY

3.1. The report has been prepared to ensure that the content complies with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2021.

3.2. Section 12 of the Local Government Act 2003 Act provides local authorities with the power to invest for any purpose relevant to its functions, or for the purposes of the prudent management of its finances. Broadly speaking, this means that its cash resources must be invested under the 'SLY' principles of Security, Liquidity and then Yield.

4. DETAIL

4.1. CIPFA defines treasury management as follows:

"*The management of the local authority's borrowing, investments and cash flows, including 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."*

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

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

4.4. The details of the TMSS, AIS and Prudential Indicators are included in Appendices 1 to 8. Appendix 9 contains the Council's Treasury Management scheme of delegation and Appendix 10 outlines the role of the section 151 officer. Appendix 11 has been included to illustrate the issues facing the Council with regards to the IFRS 9 override.

5. CONSULTATION

5.1. Consultation has been undertaken with the Council's Treasury Advisors – Link Group, Link Treasury Services Limited.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. The Treasury Management Strategy is a mandatory requirement under the Local Government Act 2003 and therefore the only option available is to accept the recommendations.

7. COMMENTS BY THE GROUP HEAD OF FINANCE SUPPORT/SECTION 151 OFFICER

7.1. The Council is required to ensure that cash raised during the year will meet expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments in line with the Council's low risk appetite, providing adequate liquidity before considering investment return.

7.2. Another key function of the treasury management service is to manage the funding of the Council's Capital Programme. It determines borrowing needs in respect of longer-term cash flow planning so that the Council can deliver its capital plans. This involves arranging long and short-term loans as well as the use of cash flow surpluses. It can also involve restructuring existing debt if this reduces costs or risk exposure to interest rate increases.

7.3. The Treasury Management function looks to optimize interest income and reduce debt interest payments whilst ensuring that the Council has enough liquidity to meet all its spending commitments. Since cash balances generally consist of reserves and balances, it is paramount that investments are placed as securely as possible as any losses would have an adverse impact on the revenue budget.

7.4. The financial implications of both strategies are detailed throughout this report and in the Appendices.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The main risks in treasury management are financial ones. These are identified in the Council's Treasury Management Practices and the main risks in these activities are:

- liquidity;
- markets or investment;
- inflation;
- credit and counterparty;
- legal and regulatory

8.2. The consequences of ignoring these are poor treasury management practices, diminished interest returns, loss of capital invested and poor funds liquidity. The Council's strategies mitigate against most of these risks.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the Council including securing effective arrangements for treasury management. There are no specific legal implications arising from this report.

10. HUMAN RESOURCES IMPACT

10.1. No direct implications.

11. HEALTH & SAFETY IMPACT

11.1. No direct implications.

12. PROPERTY & ESTATES IMPACT

12.1. No direct implications.

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. No direct implications.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. To support the Council's 2030 carbon neutral target there should be consideration to transitioning current (and future) investments into more sustainable investment options.

14.2. Current Investments with CCLA (diversified fund and property fund) and Standard Chartered (Sustainable deposits) all have positive ESG factors.

14.3. Further options will be explored and considered.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. None.

16. HUMAN RIGHTS IMPACT

16.1. None.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. None.

CONTACT OFFICER:
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Job Title: Senior Accountant (Treasury)
Contact Number: 01903 737861

BACKGROUND DOCUMENTS*:*

- The Local Government Act 2003 (The Local Government Act 2003)
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA, December 2021) [unable to include document due to copyright]
- The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2021) [unable to include document due to copyright]
- MHCLG - Guidance_on_local_government_investments.pdf (publishing.service.gov.uk)
- Link Asset Services Ltd TMSS Template 2024/25. [unable to include document due to copyright]

Treasury Management Strategy Statement and Annual Investment Strategy 2024/25

1.1 Background

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

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

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

CIPFA defines treasury management as:

> "*The management of the local authority's borrowing, investments and cash flows, including 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."*

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

Treasury management investments represent the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers, i.e., they are the residual cash left in the Council's bank account resulting from the day to day activities. These are invested under the SLY principles (Security, Liquidity and then Yield).

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

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

The aim of the strategy is to ensure that all the Council's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement, and non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under Security, Liquidity, Yield (SLY). This report will be considered at Policy and Finance Committee on 7 March 2024 for approval by Full Council on 13 March 2024.

1.2.2 Treasury Management Reporting

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

1) **Prudential and treasury indicators and treasury strategy** (TMSS - this report) - The first and most important report is forward looking (2024-2025) and covers:

   - the capital plans (including prudential indicators)
   - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time)
   - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
   - an Annual Investment Strategy (the parameters on how investments are to be managed)
   - it also includes the third quarterly progress report to 31 December 2023.

2) **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. This reports on the period up to 30 September 2024.

3) **An annual treasury report** – This is a backward looking review document (2023-2024) providing details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Audit and Governance Committee and will be presented at the following meetings;

1) TMSS – February 2024 meeting
2) Mid-year – November 2024 meeting
3) The annual report for 2023-24 – July 2024 meeting

In addition to the three major reports detailed above, from 2023/24 quarterly reporting to the end of June is also required. However, additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee and will be received at the September meeting (the report will comprise updated Treasury/Prudential Indicators).

1.3 Treasury Management Strategy for 2024/25

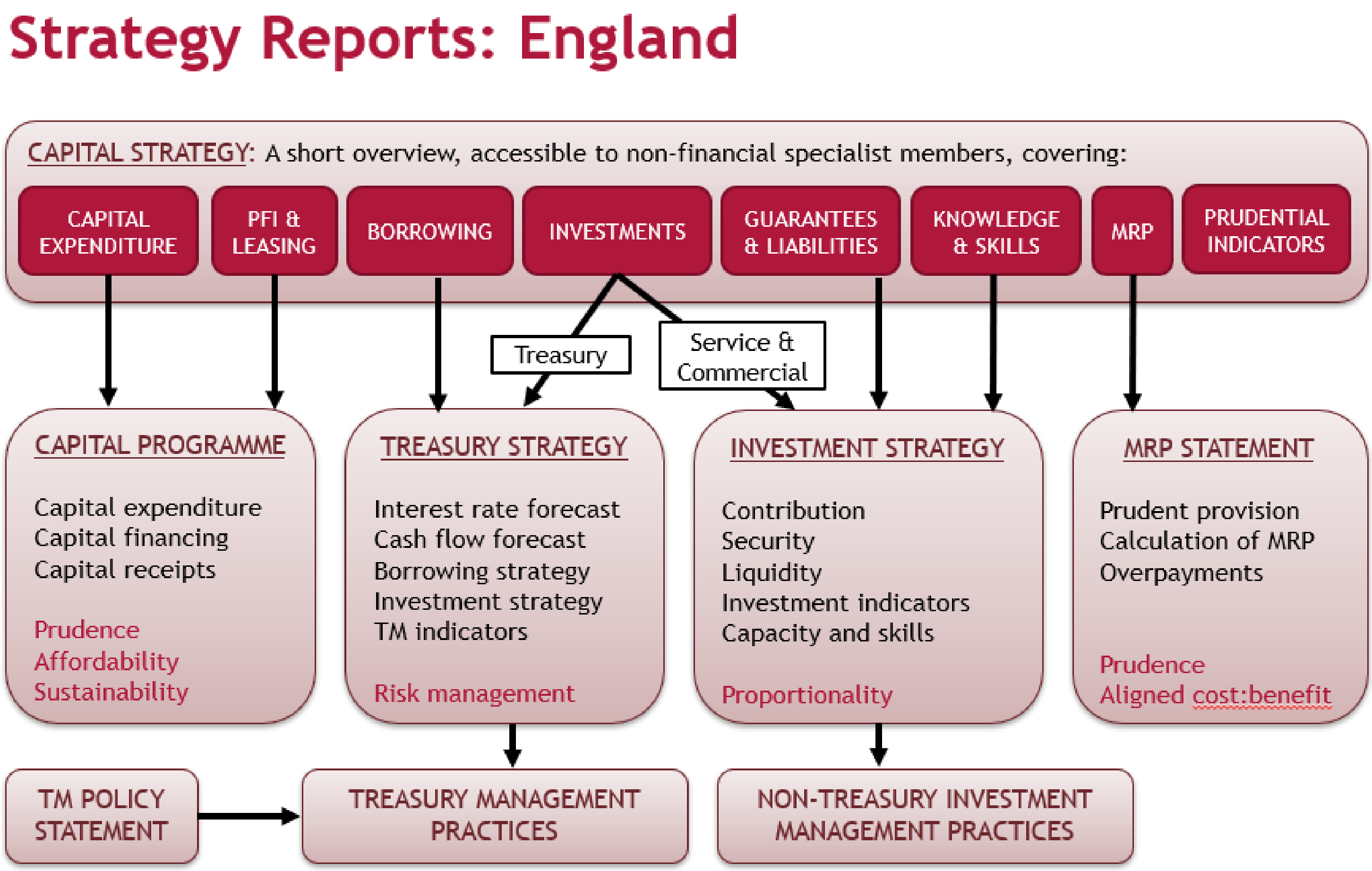
The strategy for 2024/25 covers two main areas:

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

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

These elements cover the requirements of the Local Government Act 2003, DLUHC (Department for Levelling Up, Housing and Communities) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

The diagram below shows how capital expenditure affects the Treasury Management Strategy



1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making”.

As a minimum, the following will be carried out to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning sessions for treasury management officers and Council members.

- Request treasury management officers and Council members to undertake self-assessment against the required competencies:
- CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.
- Have communication with officers and Council members, encouraging them to highlight training needs on an ongoing basis.

All members were invited (22 members attended) to a Treasury Management training session held on 4 July 2023 presented by Link Group (Arun's treasury advisors) to:

- Gain an appreciation of what Treasury Management involves and how it is undertaken
- Understand the role of Officers and Members in Treasury Management decisions
- Understand the risks and opportunities in Treasury Management and how they should be managed
- Develop the skills and knowledge required to take Treasury Management decisions
- Review current integrated treasury management strategy
- Gain an understanding of the Council's balance sheet position including its asset base
- Gain a broad appreciation of the impact of the COVID-19 pandemic and subsequent inflation pressures on the economic outlook and Treasury Management decision-making
- Gain a high-level understanding of ESG factors potentially impacting future investment decisions

The training needs of treasury management officers are periodically reviewed, and officers attend courses provided by appropriate trainers such as Link and CIPFA.

A formal record of the training received by officers and members central to the Treasury function is maintained by the Senior Accountant responsible for the treasury function in compliance with the revised 2021 CIPFA Treasury Management Code.

1.5 Treasury management consultants

The Council uses Link Group, Treasury Services Limited as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of external providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

The scope of investments within the Council's operations includes both conventional treasury investments, (the placing of residual cash from the Council's functions) and 1 commercial type investment (East Preston Depot).

Any further commercial type investments will require specialist advisers in relation to this activity.

2 <u>The Capital Prudential Indicators 2024/25 to 2026/27</u> (Appendix 2)

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

2.1 Capital Expenditure and Financing

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The Council's capital expenditure is considered as part of the budget setting process and a report for approval is going to Full Council on 21 February 2024.

Currently Arun's only borrowing relates to the HRA self-financing settlement. However, the Council has a significant capital programme including sheltered accommodation, HRA improvements and developments, Bognor Regis Arcade, and the Levelling Up project, plus smaller projects.

Much of this programme will be funded from capital grants and it is expected that additional borrowing will be required for both the GF and HRA, the timing of which is yet to be determined and will depend on the PWLB interest rates and internal resources available.

The need to borrow is reviewed annually as part of the Treasury Management Strategy and budget setting process and will be dependent on the HRA Business Plan and the capital programme (both GF and HRA).

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

Capital Expenditure	Actual 2022/23 £'000	Budget 2023/24 £'000	Estimated outturn (Q3 forecast) 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
Non HRA	7,024	14,457	10,721	24,020	6,466	2,735
HRA	6,442	16,007	9,598	15,151	7,107	5,516
Total	**13,466**	**30,465**	**20,319**	**39,171**	**13,573**	**8,251**
Financed by:						
Capital receipts (1-4-1)	1,589	3,212	3,275	552	0	0
Capital grants (inc S106)	2,693	10,245	6,971	16,440	1,580	1,580
Capital reserves	1,823	2,931	2,931	5,901	5,683	5,516
Revenue	1,344	1,715	1,694	0	0	0
	7,449	**18,102**	**14,871**	**22,893**	**7,263**	**7,096**
Net financing need for the year	**6,017**	**12,363**	**5,448**	**16,277**	**6,310**	**1,155**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PPP lease provider and so the Council is not required to separately borrow for these schemes.

The Council does not have any PFI schemes within the CFR but does have finance leases. The Council is asked to approve the CFR projections in Appendix 2 also shown below:

CFR	Actual 2022/23 £,000	Current Budget 2023/24 £,000	Estimated Outturn (Q3 forecast) 2023/24	Estimate 2024/25 £,000	Estimate 2025/26 £,000	Estimate 2026/27 £,000
	Capital Financing Requirement					
Non HRA	(19)	996	744	6,451	9,925	11,012
HRA	52,876	61,132	54,469	60,538	66,263	64,123
Total CFR	**52,858**	**62,128**	**55,212**	**66,989**	**76,188**	**75,135**
Movement in CFR	**4,768**	**9,270**	**2,355**	**11,776**	**9,199**	**(1,053)**

	Movement in CFR represented by					
HRA unfinanced / Internally financed	6,369	9,709	3,046	7,877	8,065	0
GF unfinanced / Internally financed	293	2,576	2,324	7,330	4,886	1,155
Less MRP Leases	(529)	(1,650)	(1,650)	(1,715)	(1,508)	(168)
Less VRP	(1,365)	(1,365)	(1,365)	(1,716)	(2,244)	(2,040)
Movement in CFR	**4,768**	**9,270**	**2,355**	**11,776**	**9,199**	**(1,053)**

2.3 Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

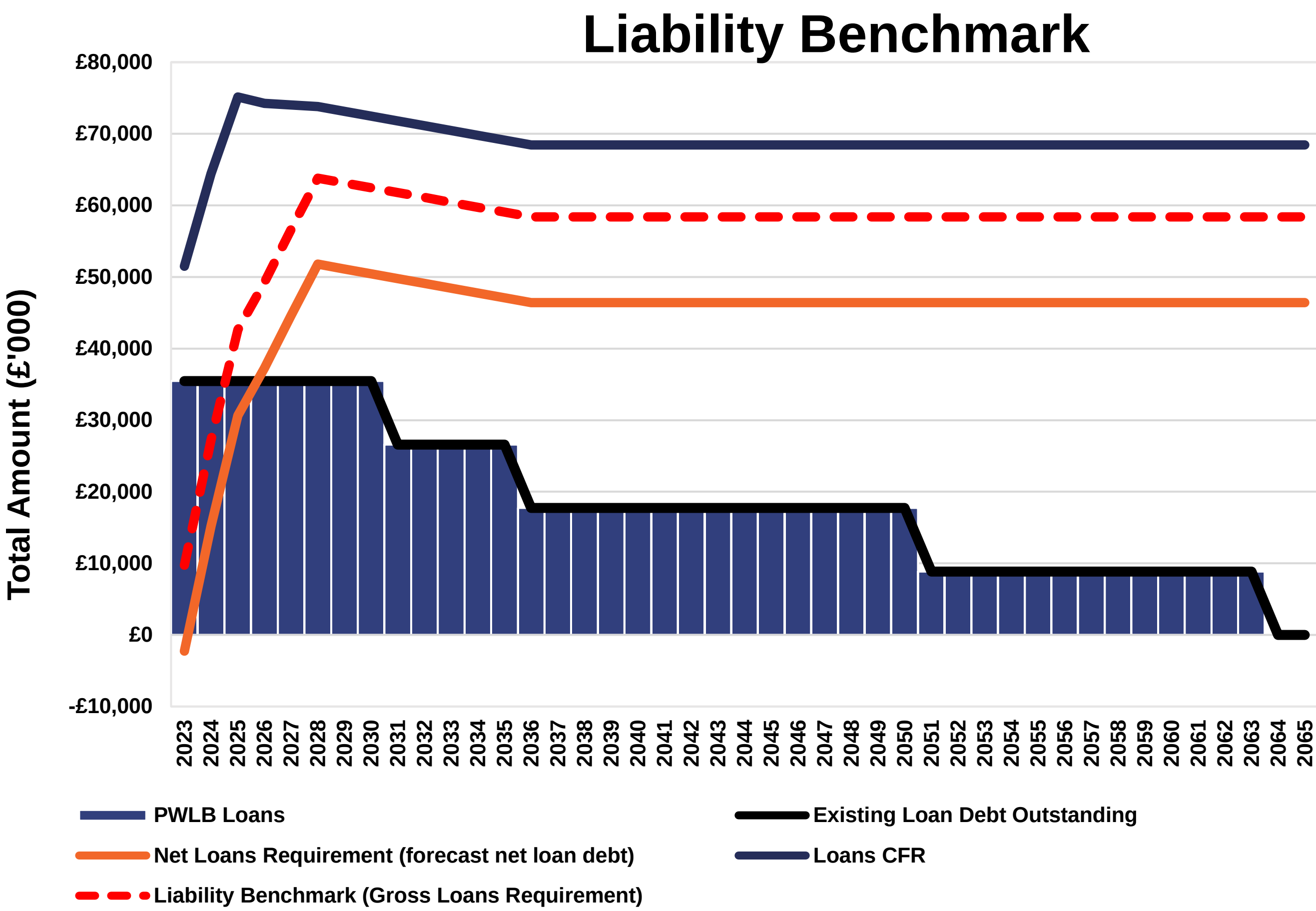
There are four components to the LB: -

1. **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.

2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

3. **Net loans requirement**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.



The above chart shows the liability benchmark for the Council for the year ended 2023 through to the year ended March 2065. An explanation of what this is showing is highlighted below:

- The Blue line (at the top) represents the Loans CFR, (based on only approved prudential borrowing and planned MRP). The gap between this and the liability benchmark line represents in part the treasury management investments held by the Council which are required for management of liquidity and cashflow.
- The Black line represents the existing load debt outstanding and tracks the existing debt balance.
- The Liability Benchmark compares the Council's actual existing borrowing against a Liability Benchmark that has been calculated to show the lowest risk level of borrowing. The Liability Benchmark is good because it's lower than the CFR line.

2.4 Core funds and expected investment balances

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

Year End Resources £m	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Usable Revenue Reserves	25.80	21.24	17.05	14.77	9.74
Housing Revenue Account Balance	1.52	0.55	1.08	1.36	1.90
Housing Major Repairs Reserve	3.88	4.39	2.91	4.20	5.68
Capital Receipts	1.71	3.22	0.55	0.00	0.00
Capital Grants unapplied	1.67	0.00	0.00	0.00	0.00
Total core funds	**34.58**	**29.40**	**21.59**	**20.33**	**17.32**
Other cashflow sums	9.32	17.14	16.31	13.78	15.32
Expected investments	**43.90**	**46.54**	**37.90**	**34.11**	**32.64**

2.5 Minimum revenue provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Council can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires Full Council approval in advance of each financial year. For expenditure incurred after the 1 April 2008 the Council is recommended to approve the following MRP Statement (detailed policy in appendix 3):

- **Asset life method (straight line)** – MRP will be based on the estimated life of the assets.

The Council does not currently have any General Fund debt liability and therefore is not statutorily required to make Minimum Revenue Provision (MRP). All external debt is currently for the Housing Revenue Account (HRA) and while MRP is not required for the HRA, a provision is set aside to repay these loans when they become due – voluntary provision.
There are plans however for further borrowing (both HRA and General Fund) and to potentially externalise the current internal borrowing and therefore MRP will be required.

Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational.

The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

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

MRP in respect of assets acquired under Finance Leases will be charged at an amount equal to the principal element of the annual repayment.

MRP Overpayments

Under the MRP guidance, charges made in excess of the statutory MRP can be made. These are known as voluntary revenue provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

2.6 Affordability Prudential Indicators

This report covers the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an **indication** of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator contained in Appendix 2.

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.

	Actual 2022/23 %	Estimate 2023/24 %	Estimate 2024/25 %	Estimate 2025/26 %	Estimate 2026/27 %
Non-HRA	(5.45)%	*(6.51)%	(6.22)%	(4.67)%	(4.00)%
HRA	16.60%	18.19%	16.96%	15.39%	14.40%

**The increase in 2023-24 is due to the Bank of England rate rise but is expected to reduce again in 2024-2026.*

3 Borrowing

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

3.1 Current Portfolio Position

The Council's Treasury Investment and debt portfolio position at 31 March 2023 and 31 December 2023 are summarised below;

	actual 31.3.23 £000	actual 31.3.23 %	current 31.12.23 £000	current 31.12.23 %
Treasury investments:				
Diversified Funds	2,000	5%	2,000	3%
Property Funds	5,000	11%	5,000	9%
In-house:				
Banks	32,740	75%	39,250	68%
Building societies - unrated	0	0%	0	0%
Building societies - rated	2,000	5%	1,000	2%
Local authorities	0	0%	4,000	7%
DMADF (H.M.Treasury)	0	0%	0	0%
Money Market Funds	2,190	5%	6,640	11%
Total treasury investments	**43,930**	**100%**	**57,890**	**100%**
Treasury external borrowing:				
PWLB	-35,460	97%	-35,460	97%
Finance leases	-1,034	3%	-1,034	3%
Total external borrowing	**-36,494**	**100%**	**-36,494**	**100%**
Net treasury investments / (borrowing)	**7,436**		**21,396**	

The investments held at 31st December 2023 are shown in Appendix 4.

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

£m	2022/23 Actual	2023/24 Estimated outturn	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Debt at 1 April	**36.78**	**39.46**	**39.49**	**43.66**	**47.95**
Expected change in Debt	(1.37)	1.68	5.88	5.80	(2.04)
Re-payments (HRA debt)	0.00	0	0.00	0.00	0.00
Expected change in long-term liabilities (OLTL)	4.04	(1.65)	(1.72)	(1.51)	(0.17)
Actual gross debt at 31 March	**39.46**	**39.49**	**43.66**	**47.95**	**45.74**
Capital Financing requirement – HRA	52.88	54.47	60.54	66.26	64.12
Capital Financing requirement - GF	(0.02)	0.74	6.45	9.93	11.01
The Capital Financing Requirement	**52.86**	**55.21**	**66.99**	**76.19**	**75.13**
Under / (over) borrowing	13.40	15.72	23.33	28.24	29.39

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council's only external borrowing relates to the HRA Self-Financing settlement which was initially £70.9m on 28/3/2012 now £35.46m. Prior to this borrowing being undertaken, the Council had a negative CFR of £2.6m which has arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision. As a result, Arun's gross debt is not expected to exceed its CFR in 2024-25.

The Group Head of Finance reports that the Council complied with the prudential indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

3.2.1 The Operational Boundary.

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

The Council is requested to approve an operational boundary of £78M in Appendix 2 (2024/25).

3.2.2 **The Authorised Limit for external debt.**

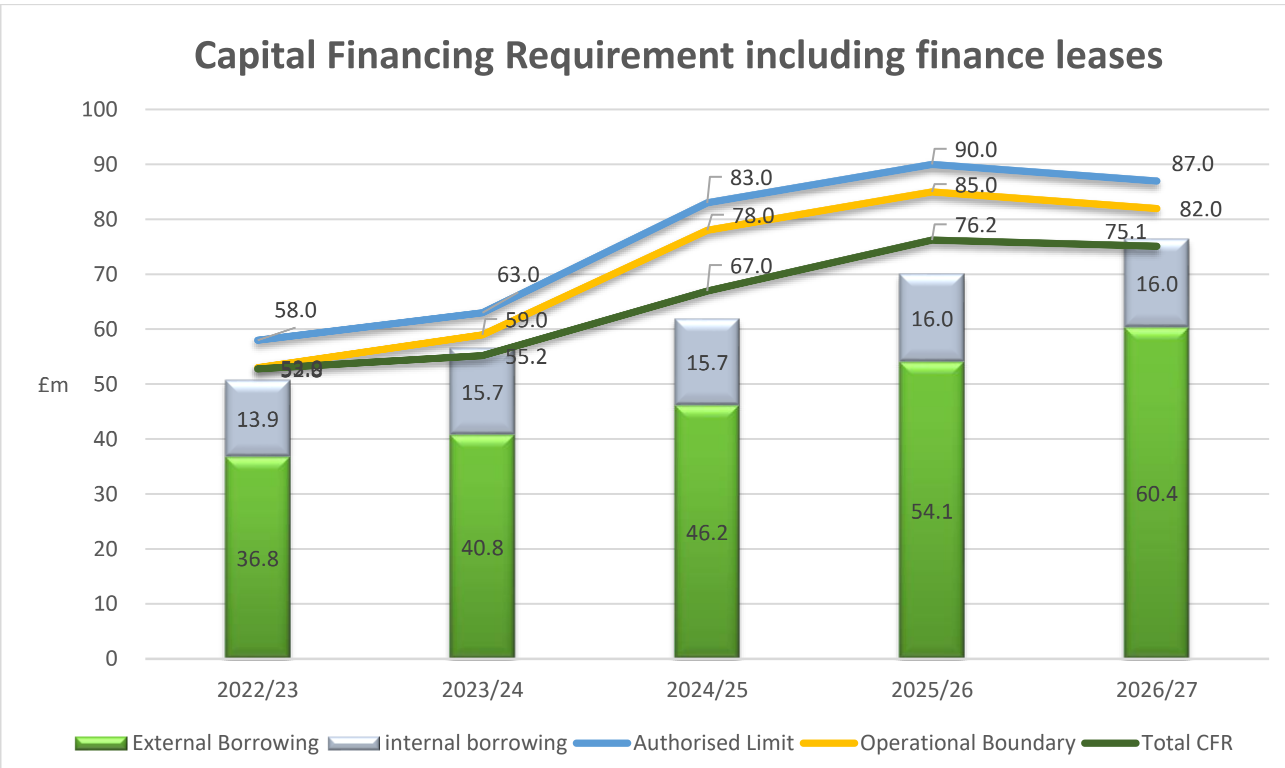
This is a key prudential indicator and represents a control on the maximum level of borrowing.

This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

The Council is asked to approve an Authorised Limit of £83M appendix 2 (2024/25).

3.2.3 The chart below shows the Council's projection of CFR and borrowing forecast.



The bars in the chart above show the forecasted external debt and includes potential future borrowing and internal borrowing. The Authorised Limit and Operational Boundary factor in new potential borrowing which allows for expenditure on sheltered accommodation, HRA improvements and developments, Bognor Regis Arcade, and the levelling Up project, plus smaller projects.

3.3 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 08 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps, followed by their commentary.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Link Group's central forecast for interest rates was updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).

Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

PWLB RATES

The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is even.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the tightening in Bank Rate to 5.25%, the **Bank of England allows inflationary pressures to remain elevated** for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

3.4 Borrowing Strategy

3.4.1 The Council has a significant capital programme in 2024-2025 but reducing over the subsequent years. The 2024-25 programme consists of expenditure largely relating to the Levelling Up project, Alexandra theatre, Bognor Regis arcade, Alexandra Theatre, sheltered accommodation, Stock developments and housing improvements, Housing IT system, and smaller schemes.

The Council is currently maintaining an under borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Group Head of Finance will monitor interest rates in financial markets and information provided by the Council's Treasury advisors to adopt a pragmatic approach to changing circumstances:

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

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

The level of expenditure expected within the HRA will almost certainly require additional borrowing which is reflected in the HRA 30-year financial model which will form an integral part of the Business Plan. The HRA business plan will include a programme of new build/stock acquisition, in addition to ongoing maintenance programmes. There are also plans to borrow for General Fund purposes. The timing of any new borrowing has not been identified at the time of writing, but all borrowing and its sources will be assessed for viability and affordability before any action is taken.

Given the expected under borrowing position of the Council, the borrowing strategy will give consideration to the most appropriate source of funding from the following list:

- Internal borrowing, by running down cash balances and foregoing interest earned, as this is the cheapest form of borrowing:
- Weighing the short term advantage of internal borrowing against potential long term borrowing costs:
- PWLB loans up to 50 years (Certainty Rate is available to the Council at 0.2% below the normal terms):
- Local authorities (primarily shorter dated maturities):
- Other forms of borrowing where appropriate e.g., Municipal Bonds Agency or Bonds (Green or Local climate) where these offer better value than the PWLB.

Any decisions will be reported to the Audit and Governance Committee at the next available opportunity.

There may be an occasional need to borrow for liquidity purposes especially as the Council no longer has an overdraft facility. The facility was removed as banking costs made it very expensive and rather than incurring any costs for the facility, the treasury team will maintain approximately £200k in the Lloyds liquidity accounts (bank account or call account) on a daily basis. Both are available until the close of business each day.

3.4.2 Maturity structure of borrowing

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

The Council is asked to approve the treasury indicators and limits in Appendix 2 also shown below:

Maturity structure of fixed interest rate borrowing 2024/25			
	Actual at 31/12/23	**Lower**	**Upper**
Under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

The Council currently has no variable rate borrowing.

3.5 Policy of Borrowing in Advance of Need

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

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

3.6 Debt Rescheduling

The only loans that the Council currently hold are those taken to fund the housing reform payment.

Rescheduling of current borrowing may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

If rescheduling is to be undertaken, it will be reported to Full Council at the earliest meeting following its action.

3.7 New financial Institutions as a source of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may also still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency who may from time to time offer options to borrow more cheaply than from the PWLB, and therefore will be considered.

This is a more complicated source of finance than the PWLB for two reasons. Firstly, borrowing authorities will be required to provide bond investors with a guarantee to refund their investment if the agency is unable to for any reason. Secondly, there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Full Council.

- “Green Bonds” or “Local Climate Bonds”

Green Bond borrowing is usually only available for significant amounts and takes time to arrange due to a due diligence process to safeguard the Council. Local Climate Bonds may offer another alternative for funding carbon reduction projects.

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4 Annual Investment Policy and Strategy

4.1 Investment Policy – Management of risk

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

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

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return) (SLY). 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 maintain a degree of liquidity to cover cash flow needs, but to also consider "laddering" investments for periods up to 2 years with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

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

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

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

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

4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 6 under the categories of 'specified' and 'non-specified' investments.

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

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

5. **Lending limits**, amounts and maturity, for each counterparty category will be set as shown in Appendix 6.

6. This Council will set a limit for the amount of its investments which are invested for **longer than 365 days**, (Appendix 2).

7. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (Appendix 8). The UK is excluded from this limit because it will be necessary to invest in UK banks and other institutions even if the sovereign rating is cut, but this will be done with caution.

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

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

10. The Council may invest in investments that are termed **"alternative investments".** These include, but are not limited to, things such as renewable energy bonds (Solar farms). These are asset backed bonds, offering good returns, and will enable the Council to enter new markets, thus furthering the diversification of our investment portfolio with secured investments and enhancing yield. Any investments entered into of this type will be subject to a full due diligence review prior to investment. (Category 7, Appendix 6)

11. The Council may invest in **Open Ended Investment Companies (OEICs)** such as diversified funds (currently the CCLA property fund and diversified fund) subject to some form of due diligence. These funds diversify the risk and offer enhanced returns (Category 10 & 11, Appendix 6)

12. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Council will consider the implications of investment instruments (such as 10 and 11) which could

result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. A temporary override was put in place to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023. In December 2022, a further extension to the over-ride to 31 March 25 was agreed by Government.

Consequently, any fluctuations in the value of the Councils' investments in the Property or diversified Fund will not be taken through the General Fund for the override period. Appendix 11 gives more details of the potential impact if the override was not in place at 31 December 2023.

The Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

The Council does not strictly adhere to the advisor's suggested lending list and durations, but does take account of the advice offered before making any investment decisions. The Council will take advantage of any attractive rates available from counterparties of high creditworthiness for longer periods while interest rates remain at these increased levels.

4.2 Investment Policy – Environmental, Social and Governance (ESG) and Ethical considerations

Environmental, Social and Governance (ESG) issues are increasingly significant for investors and investment managers. The Council will consider ESG factors when placing any investment with current or new counterparties. Where matters for concern are identified for any specific counterparty, alternative counterparties will be considered.

A process for ongoing monitoring is being explored and a methodology will be documented in the treasury management practices once established (TMP1).

To comply with treasury management guidance, the Council's investments will prioritise security, liquidity and yield in that order. The Ethical consideration thereby becomes a fourth consideration in the decision-making process.

Current Investments with CCLA (diversified fund and property fund) and Standard Chartered (Sustainable deposits) all have positive ESG factors.

4.3 Creditworthiness policy

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

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

Credit rating information (from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's) is supplied by Link Group, our treasury advisors, on all active counterparties. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing.

The Council achieves a high credit quality by using a minimum rating criteria (where rated). It does not use the approach suggested by CIPFA of using the lowest common denominator method of selecting counterparties. The Council applies a majority rule where a counterparty would be removed immediately from the lending list if 2 or more rating agencies downgrade the counterparty below the minimum criteria. The Council's minimum criteria, time and monetary limits for each counterparty can be seen in Appendix 7.

Use of additional information other than credit ratings.
Additional requirements under the Code require the Council to supplement credit rating information. Whilst the Council's rating criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional market information will be applied before making any specific investment decision from the agreed pool of counterparties.

These credit ratings are supplemented with:

- watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

Credit ratings and CDS spreads of the Council's approved counterparty list are monitored on a real time basis. Using Link's rating service, the Council is alerted to any changes to ratings of all three agencies electronically.

The Council's officers recognise that this external service and ratings should not be the sole determinant of the quality of an institution. In addition, it is important to continually assess and monitor the market data, market information and the economic and political environments in which they operate to help support its decision-making process.

The current list of approved counterparties is included in Appendix 7. Lloyds being the incumbent bank, has no limit however the Council will only invest up to the category limit that it falls in, for term deposits (currently category 2- £9M).

Creditworthiness
Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks.

CDS prices
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

4.4 Limits

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

- **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £30M (24/25) of the total treasury management investment portfolio.
- **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 8. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

The exception to this policy is the UK, which is currently rated AA- by 2 of the rating agencies. If the UK's credit rating should fall below the minimum criteria set above, investment will continue to be made in UK financial institutions if after careful consideration it is deemed appropriate to do so.

No more than 25% will be placed with any individual non-UK country or 50% total non-UK at any time.

Sector limits. The Council does not currently use sector limits e.g., banks v. building societies due to the limited number of quality counterparties available. The Council has a limit of between £4M and £10M (see Appendix 6 and 7 for investment categories) which can be invested with a single counterparty (or group) depending on the credit quality of the counterparty.

Building Societies. The Council includes building societies with assets greater than £10 billion (category 4). It recognises that this may carry a lower credit rating than the Council's other counterparties, therefore the lending limits are set at £4m for each counterparty in this category. (Nationwide is the exception as it fits into category 3 with a limit of £6m.)

Every effort will be made to spread the maturity profile (laddering) of investments to compensate for the lack of sector or country spreads (due to limited counterparties).

4.5 Investment Strategy

In-house funds.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed. For cashflow balances, the Council will seek to use Money Market Funds (MMF's), call accounts, notice accounts and short dated deposits to benefit from the compounding of interest.

Investment returns expectations.

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to have peaked at 5.25% and then gradually come down to 3%.

The average level of funds available for investment purposes is currently £48M (as at 31 December 2023). These funds are partially cash-flow derived and there is a core balance of approximately £30M which is available for investments over a year (maximum 5 years or 25 years for property funds). The core balance is comprised of funds that are available due to a number of factors including the setting aside of funds to repay the HRA loans for when they become repayable, the Earmarked Reserves, Capital Receipt, Capital grants unapplied, General Fund and HRA balances which were £20.8m, £1.71m, £1.67, £5m and £5.4m at 31 March 2023 respectively (as shown in table 2.4).

The Council's budgeted rate of return for 2024/25 is 3.89% based on a return of 5.36% for funds that are already invested; 4.5% for the property fund (£5M), 3.6% for the diversified fund (£2m), 4.0% for the remaining core balances; and 4.69% for short term cash flow derived balances. The total investment income budget for 2024/25 is £1.57m (compared to £1.54m in 2023/24).

The Council currently uses three types of Pooled Funds; property funds, diversified funds and MMFs. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns particulary in the case of the property fund.

MMFs are used for short term daily surpluses of cash as they provide instant liquidity with high quality counterparties. Current rates are around 5.3%.

The MMFs are "triple A" rated, liquid, and are currently all LVNAV (Low Volatility net asset value). This is a change from the previous constant net asset value (CNAV) as a result of the MMF reform where typically for every pound of principal invested you got a pound back. It is not guaranteed, but LVNAV offers better protection than using the VNAV (Variable net asset value) MMFs.

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

The Council is asked to approve the treasury indicator and limits in appendix 2 (shown below):

Upper limit for principal sums invested for longer than 365 days			
£m	**2024/25**	**2025/26**	**2026/27**
Principal sums invested for longer than 365 days	£30m	£26m	£24m
Current investments as at 31/12/23 in excess of 1 year	£9m	£7m	£7m

The Council has the following spanning the financial year and there are no forward commitments (deals) for the financial year 2024/25;

- £5m invested in the CCLA property fund
- £2m invested in the CCLA diversified fund
- £1m invested with Goldman Sachs for 2 years (maturity – 6 January 2025).
- £1m invested with Close Brothers for 2 years (maturity – 6 November 2025).

Changes of investment strategy from previous year

- This report includes additions to the counterparty lending list (appendix 7), namely State Street Global Advisors Money Market Fund (MMF).

- The “List of Authorised Counterparties” (Appendix 7) has had 3 category limits reduced as below:

    - Category 1 has reduced from a limit of £12m to £10m
    - Category 2 has reduced from a limit of £11m to £9m and
    - Category 3 has reduced from a limit of £8m to £6m

  This is because the average level of funds available to invest has reduced and it will encourage better diversification and spreading of any “risk of default”.

4.6 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of O/N SONIA (Sterling Overnight Index Average) compounded rate.

The SONIA is a risk-free rate for sterling markets administered by the Bank of England. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and institutional investors.

These benchmarks are simple guides to minimal risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change.

The Council has also subscribed to Link's Investment Benchmarking Club to review the investment performance and risk of the portfolios. Reports are received quarterly.

4.7 End of year investment report

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

4.8 External Fund Managers

The Council invests in externally managed pooled funds managed by CCLA (Churches, Charities and Local Authorities). £7m is currently invested split between: -

- £5m in a property fund and
- £2m in a diversified fund

The treasury officers receive regular reports and notifications of quarterly dividends payable on both funds.

A representative of CCLA gave a presentation at the members training evening on 18 July 2023 on the performance of the funds held with CCLA and 25 members attended.

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4.9 Scheme of delegation

Please see Appendix 9.

4.10 Role of the section 151 officer

Please see Appendix 10.

Prudential and treasury indicators

APPENDIX 2

1. PRUDENTIAL INDICATORS	2022/23	2023/24	2023/24	2024/25	2025/26	2026/27
Extract from budget and rent setting report	**Actual**	**Budget**	**Q3 Forecast**	**Original**	**Original**	**Original**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure						
Non – HRA	7,024	14,457	10,721	24,020	6,466	2,735
HRA	6,442	16,007	9,598	15,151	7,107	5,516
TOTAL	**13,466**	**30,465**	**20,319**	**39,171**	**13,573**	**8,251**
Ratio of financing costs to net revenue stream						
Non – HRA	(5.45)%	(6.51)%	(8.88)%	(6.22)%	(4.67)%	(4.00)%
HRA	16.60%	18.19%	19.06%	16.96%	15.39%	14.40%
Capital Financing Requirement as at 31 March						
Non – HRA	(19)	996	744	6,451	9,925	11,012
HRA	52,876	61,132	54,469	60,538	66,263	64,123
TOTAL	**52,858**	**62,128**	**55,212**	**66,989**	**76,188**	**75,135**
Annual change in Cap. Financing Requirement						
Non – HRA	4,423	1,015	763	5,707	3,474	1,087
HRA	345	8,256	1,592	6,069	5,725	(2,140)
TOTAL	**4,768**	**9,270**	**2,355**	**11,776**	**9,199**	**(1,053)**

2. TREASURY MANAGEMENT INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Probable outturn	Original	Original	Original
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
Borrowing	53,000	59,000	75,000	93,000	94,000
Other long term liabilities	5,000	4,000	8,000	6,000	4,000
TOTAL	**58,000**	**63,000**	**83,000**	**99,000**	**98,000**
Operational Boundary for external debt					
Borrowing	48,000	55,000	70,000	88,000	89,000
other long term liabilities	5,000	4,000	8,000	6,000	4,000
TOTAL	**53,000**	**59,000**	**78,000**	**94,000**	**93,000**
Actual external debt	35,460	35,460	35,460	35,460	35,460
Upper limit for total principal sums invested for over 365 days (£m)	**24,000**	**36,000**	**30,000**	**26,000**	**24,000**

The operational Boundary and Authorised Limit for external debt have been increase over the next 3 years due to expected expenditure on the following:

- Sheltered accommodation
- Housing new build programme & Improvements
- Bognor Regis Arcade
- Levelling up Project
- General Fund programme (smaller projects)

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/12/23	lower limit	upper limit
under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

APPENDIX 3

Minimum Revenue Provision Policy

1. Introduction

1.1 DLUHC guidance on Minimum Revenue Provision (fourth edition issued in 2018) is currently out for consultation. It places a duty on local authorities to make a prudent provision for debt redemption. Where the Council finances capital expenditure by debt it must set aside resources to repay that debt in later years. The amount charged to revenue for the repayment of this debt is known as the Minimum Revenue Provision (MRP). The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by Council taxpayers.

1.2. From 2007/08 onwards there has been no statutory minimum and the requirement is simply for local authorities to make a prudent level of provision, and the government has instead issued statutory guidance, which local authorities are required to 'have regard to' when setting a prudent level of MRP. The guidance gives local authorities more freedom to determine what would be a prudent level of MRP.

1.3. The DLUHC guidance requires the Council to approve an annual MRP statement and recommends 4 options for calculating a prudent amount of MRP, for approval by Full Council in advance of the year to which it applies. Any subsequent revisions to that policy should also be approved by Full Council.

2. Details of DLUHC Guidance on MRP

2.1. The statutory guidance issued by DLUHC sets out the broad aims of a prudent MRP Policy as being "to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of the grant." It then identifies four options for calculating MRP and recommends the circumstances in which each option should be used, but states that other approaches are not ruled out.

2.2. The four MRP options available are:

- **Option 1**: Regulatory Method - is the previous statutory method, which is calculated as 4% of the Council's General Fund Capital Financing Requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

- **Option 2**: CFR Method - Option 2 differs from Option 1 only in that the smoothing factors are removed. Option 2 has been included by DLUHC to provide a simpler calculation for those Councils for whom it would have a minimal impact, but the draft guidance does not expect it to be used by Councils for whom it would significantly increase MRP.

- **Option 3**: Asset Life Method – MRP is charged over the expected useful life of the asset either in equal instalments or using an annuity method whereby the MRP increases in later years.

- **Option 4**: Depreciation Method - MRP is charged over the expected life of the asset in accordance with depreciation accounting. This would mean that the rate at which the MRP is charged could increase (or, more rarely, decrease) from year to year.

  The guidance clearly states this does not preclude other prudent methods to provide for the repayment of debt principal.

2.3 Under the statutory guidance, it is recommended that local authorities use Options 3 or 4 for all prudential borrowing and for all borrowing to fund capitalised expenditure (such as capital grants to other bodies and capital expenditure on IT developments). Authorities may use any of the four options for MRP for their remaining borrowing to fund capital expenditure.

2.4. For balance sheet liabilities relating to finance leases and PFI schemes, the guidance recommends that one prudent approach would be for local authorities to make an MRP charge equal to the element of the annual rental which goes to write down the balance sheet liability. This would have the effect that the total impact on the bottom line would be equal to the actual rentals paid for the year. However the guidance also mentions that Option 3 could be used for this type of debt.

2.5 The guidance also allows authorities to take an MRP Holiday where assets do not become operational for perhaps 2 or 3 years or longer. It proposes that MRP would not be charged until the year following the one in which the asset became operational.

3. Details of Statute - Part 4 Section 23 b of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003

3.1 In deciding on the appropriate level of MRP to charge and the most appropriate method of financing the capital programme, the Council needs to have regard to the wider legislation regarding the use of capital receipts.

3.2 Statute gives local authorities the option to apply capital receipts to fund the payment of any liabilities relating to finance leases and PFI schemes. This is a reflection of the fact that such schemes are being treated in accounting terms as the acquisition of fixed assets, and the liability represents the amount being paid towards the purchase of the asset itself, rather than interest or service charges payable.

3.3 Local authorities may also use capital receipts to repay any borrowing that was incurred to fund capital expenditure in previous years.

4. MRP Policy

It is recommended the Council adopt the following MRP policy:

- MRP will be charged utilising **option 3** for assets which have been funded from prudential borrowing.
- MRP will only be charged in the year following the asset becoming operational.
- If capital receipts are utilised to repay debt in year, the value of MRP chargeable will be reduced by the value of the receipts utilised.
- Whether an annuity or equal instalment method is adopted for option 3 will be dependent on the most financially beneficial method as determined by the Group Head of Finance.
- For PFI and Finance lease liabilities an MRP charge will be made to match the value of any liabilities that have not been funded from capital receipts.
- The Group Head of Finance will determine annually the most prudent use of Capital Receipts, taking into account forecasts for future expenditure and the generation of further receipts.
- There is no requirement for the HRA to make debt repayments but it has opted to make voluntary repayments relating to debt inherited due to HRA self-financing settlement and provision has been made within the business plan to show that it can pay down the remaining debt over the life of the business plan.
- Any major revisions to this policy will be presented to Full Council for approval.

Appendix 4

Reference no.	Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate
863	Standard Chartered Bank - Sustainable Deposits	05/01/2023	05/01/2024	£1,000,000.00	4.650
897	Lloyds Bank	13/12/2023	10/01/2024	£1,000,000.00	5.380
867	Goldman Sachs International	27/04/2023	26/01/2024	£1,000,000.00	4.900
879	Development Bank of Singapore (DBS)	12/07/2023	05/02/2024	£1,000,000.00	6.010
880	Development Bank of Singapore (DBS)	07/08/2023	07/02/2024	£1,000,000.00	5.750
881	Close Brothers Limited	10/08/2023	12/02/2024	£1,000,000.00	5.800
883	National Westminster Bank PLC	07/09/2023	12/02/2024	£1,000,000.00	5.690
874	National Westminster Bank PLC (RFB)	14/06/2023	14/02/2024	£1,000,000.00	4.970
886	Goldman Sachs International	28/09/2023	28/02/2024	£1,000,000.00	5.560
887	Standard Chartered Bank - Sustainable Deposits	28/09/2023	28/02/2024	£2,000,000.00	5.440
895	Lancashire County Council	04/12/2023	04/03/2024	£3,000,000.00	5.650
871	Goldman Sachs International	15/05/2023	05/03/2024	£2,000,000.00	5.030
882	Goldman Sachs International	01/09/2023	05/03/2024	£1,000,000.00	5.850
885	Standard Chartered Bank - Sustainable Deposits	27/09/2023	05/03/2024	£1,000,000.00	5.450
877	Standard Chartered Bank - Sustainable Deposits	10/07/2023	06/03/2024	£1,000,000.00	6.150
873	Goldman Sachs International	07/06/2023	07/03/2024	£1,000,000.00	5.200
891	Goldman Sachs International	26/10/2023	26/03/2024	£1,000,000.00	5.470
878	Standard Chartered Bank - Sustainable Deposits	10/07/2023	05/04/2024	£1,000,000.00	6.260
884	Goldman Sachs International	15/09/2023	05/04/2024	£1,000,000.00	5.780
866	Close Brothers Limited	14/04/2023	17/04/2024	£4,000,000.00	5.300
872	Close Brothers Limited	19/05/2023	17/05/2024	£1,000,000.00	5.540
896	Lancashire County Council	13/12/2023	13/06/2024	£1,000,000.00	5.750
876	Nationwide Building Society	15/06/2023	14/06/2024	£1,000,000.00	5.120
890	DBS Bank Ltd	25/10/2023	25/07/2024	£1,000,000.00	5.620
892	Goldman Sachs International	01/11/2023	01/08/2024	£1,000,000.00	5.620
894	DBS Bank Ltd	15/11/2023	15/08/2024	£1,000,000.00	5.500
888	Standard Chartered Bank - Sustainable Deposits	18/10/2023	17/10/2024	£1,000,000.00	5.820
889	Goldman Sachs International	20/10/2023	18/10/2024	£1,000,000.00	5.750
865	Goldman Sachs International	05/01/2023	06/01/2025	£1,000,000.00	5.310
893	Close Brothers Limited	06/11/2023	06/11/2025	£1,000,000.00	5.350
44447	Lloyds Bank			£7,250,000.00	5.140
100500	CCLA (Churches, Charities and LA's) (MMF)			£10,000.00	5.3013
110000	Federated Investors LLP (MMF)			£4,000,000.00	5.3764
99999	Fidelity Fund Management Ltd (MMF)			£2,620,000.00	5.2853
130000	Deutsche Bank (MMF)			£10,000.00	5.2502
140000	CCLA (Churches, Charities and LA's) LAPF			£5,000,000.00	*4.92
140500	CCLA (Churches, Charities and LA's) DIF			£2,000,000.00	*3.25
				£57,890,000.00	

* rates at 31-12-23

MMF- Money Market Fund
LAPF - Local Authority Property Fund
DIF-Diversified Income Fund

Interest Rate Forecast 2023- 2026

APPENDIX 5

PWLB forecasts shown below have taken into account the 20 basis point certainty rate reduction effective as of the 19th November 2012.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

	specified	non-specified	Minimum Credit Criteria Fitch (and equivalent) / Minimum Criteria	Maximum Investment per Institution	Max. maturity period
Term deposits – Local Authorities **(category 1)**	✓	✓	--	£10M	5 years
Term deposits – banks and building societies **(category 1)**	✓	✓	Short-term F1+ Long-term AA-	£10M	5 years
Term deposits – banks and building societies **(category 2)**	✓	✓	Short-term F1 Long-term A+	£9M	3 years
Term deposits – banks and building societies **(category 3)**	✓	✓	Short-term F1 Long-term A-	£6M	2 years
Term deposits – building societies **(Category 4)**	✓	✓	Assets in Excess of £10 billion	£4M	1 year
Council's bank (for term deposits use appropriate category 1 to 3) **(category 5)**	✓	✓	n/a	No limit *Although category limit for term deposits*	As category 1 to 3
Callable deposits	✓	✓	As category 1,2,3,4, and 5	As category 1,2,3,4 and 5	As category 1,2,3,4 and 5
Forward deposits	✓	✓	As category 1,2,3,4 and 5	As category 1,2,3,4 and 5	As category 1,2,3,4 and 5

Debt Management Agency Deposit Facility (DMADF) – UK Government **(category 8)**	✓	✓	--	No limit	Liquid (max is set by DMO - Debt Management Office of HM Treasury)
Bonds Issued by multilateral development banks **(category 9)**		✓	Long term AAA	£4M	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)					
Money Market Funds (CNAV, LVNAV & VNAV) Government Liquidity Fund **(Category 6)**	✓	✓	AAA	£4M	liquid
Alternative Investments • Ultra-Short dated Bond Funds **(Category 7)**	✓ ✓	✓	--	£4M	liquid
Property Funds approved by HM Treasury and operated by managers regulated by the Financial Conduct Authority (FCA), such as the Local Authorities' Property Fund **(Category 10)**		✓	--	£6M	These funds do not have a defined maturity date
Multi-Asset Funds – such as the Local Authorities' Diversified Fund **(Category 11)**		✓	--	£6M	These funds do not have a defined maturity date

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £10 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

Australia & New Zealand banking Group Ltd (ANZ - AUS)
Bank of Nova Scotia (CAN)
Development Bank of Singapore Ltd (DBS-SING)
Handelsbanken Plc (UK)
National Australia Bank (AUS)
Oversea-Chinese Banking Corp Ltd (OCBC-SING)
JP Morgan Chase (USA)
United Overseas Bank Ltd (UOB - SING)

Category 2 - Limit of £9 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria			
	Fitch	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Barclays Bank plc (RFB & NRFB) (UK)
Bank of Scotland PLC (RFB) (Lloyds Banking Group-UK)
Goldman Sachs International Bank (UK)
HSBC Bank plc (RFB &NRFB) (UK)
National Bank of Canada (CAN)
National Westminster Bank PLC (RFB) (UK)
Natwest Markets Plc (NRFB) (UK)
Santander (UK)
Standard Charted Bank (UK)
The Royal Bank of Scotland PLC (RFB) (UK)

Category 3 - Limit of £6 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A-**	**F1**
	Moody	**A3**	**P-2**
	S&P	**A-**	**A-1**

Nationwide Building Society (UK)
Close Brothers (UK)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
Leeds Building Society (UK)
Principality Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

Category 5 - Council's Bank
NO LIMIT - appropriate category 1 to 3 (Max of £9M term deposit)

Lloyds Bank Plc (RFB) (Cat 2 for Term deposit limit)
Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2 for Term deposit limit)

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)

	Fitch	NAV
Category 6 - Money Market Funds (MMF's)		
(CNAV, LVNAV, VNAV & Enhanced MMF's		
Limit of £4million for each institution		
Aberdeen Standard (GBP)	AAA	LVNAV
CCLA Public sector deposit fund (PSDF)	AAA	LVNAV
Deutsche Banking Group	AAA	LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)	AAA	LVNAV
State Street Global Advisors	AAA	LVNAV
Northern Trust	AAA	

Category 7 - Alternative Investments - No defined maturity date
Maximum investment £4 million

Ultra-Short dated Bond Funds

Category 8 - Debt Management Agency Deposit Facility (DMADF)
NO LIMIT (UK Govt)

Debt management Office (DMO)

Category 9 - Bonds issued by multilateral development banks - 5 Years
Maximum investment £4 million AAA

Category 10 – Property Funds - No defined maturity date
Maximum investment £6 million

CCLA - Property Fund

Category 11 - Multi-Asset Funds - No defined maturity date
Maximum investment £6 million

CCLA - Diversified Income Fund

Approved countries for investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest of 2 or more rating agencies).

AAA

- Australia
- Canada (Fitch AA+)
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.S.A.

AA

- France (Fitch AA-)

AA-

- Belgium (S&P AA)
- **U.K.** (S&P AA)

Consideration will be given to other factors, including Ethical, Environmental, Social and Governance standards when considering investments in Non-Uk destination.
As such, countries with an appropriate sovereign rating will not be used where matters identified do not align with the respective Council's values.

As detailed in 4.1 (7) it has been determined that the UK will remain an approved country for investments regardless of its sovereign rating if after careful consideration, it is deemed appropriate to do so.

APPENDIX 9

Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual Treasury Management Strategy Statement and Annual Investment Strategy;
- approval of MRP Statement.

(ii) Policy and Finance Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit and Governance Committee (responsibility for scrutiny)

Receiving and reviewing the following and making recommendations to Full Council (the responsible body).

- the Treasury Management Strategy Statement (TMSS) and regular monitoring reports on compliance with the Treasury Management Strategy, practices and procedures.

APPENDIX 10

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council
- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

APPENDIX 11

Removal of IFRS 9 Override - Impact Assessment

1.0 Background

IFRS 9, (International Financial Reporting Standard 9), is an accounting standard issued by the International Accounting Standards Board to address the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting. It enhances the financial reporting of financial instruments, fostering a more consistent and relevant representation of an entity's financial position and performance.

Local authorities have expressed concerns to Department for Levelling Up, Housing, and Communities (DLUHC) regarding the impact of IFRS 9, particularly on pooled investment funds. This transition to the new IFRS 9 requirements for collective investment vehicles has raised nationwide implications and added complexity and prompting scrutiny of its potential effects on the statutory duty to set a balanced budget. Currently, an override is in effect, exempting the Council's financial statement preparation from IFRS 9.

Following a consultation by DLUHC in Autumn 2022, the override was extended for an additional two years. As a result, IFRS 9 is anticipated to be applicable to the Councils' financial statements from April 2025.

2.0 Changes in Accounting for Pooled Investment Funds

2.1 The Council currently has investments in the CCLA Local Authorities Property Fund (LAPF) and the CCLA Diversified Income Fund (DIF). As the override comes to an end, these funds will adhere to the standard accounting provisions, potentially resulting in their categorisation as financial assets at fair value through the revenue account. This reclassification signifies that fluctuations in the fair value of these pooled investment funds will directly affect the revenue account of the Council. In simple terms, a decrease in value during the fiscal year will be treated as expenditure, while an increase in value will be regarded as income.

2.2 The tables below give some further information on the current position of the funds, and information on the income over the life of the holding so that a full assessment of the performance of these investments can be made.

Local Authorities Property Fund Holding				
Initial Investment	**31/12/2023 Valuation**	**Movement**	**Dividends To 31/12/2023**	**Net Gain (over the life of the investment)**
£5,000,000	£4,663,691,000	(£336,309.00)	£1,619,397.82	£1,283,088.82
Diversified Income Fund				
Initial Investment	**31/12/2023 Valuation**	**Movement (£)**	**Dividends To 31/12/2023**	**Net Gain (over the life of the investment)**
£2,000,000	£1,974,042	(£25,958)	£192,389.67	£166,431.67

2.3 If IFRS 9 was applied to these investments as at 31st December 2023 the result would be a realisation of a loss (akin to an expense in the revenue account) of £365,256 which has the potential to have a significant impact on the Councils' budget as the capital loss to date will need to be realised in full in financial statements for the year ended 31st March 2026. Moving forward this movement should only be year on year and assuming relatively stable fund values can be managed via a reserves provision.

3.0 Action Points

The option remains for the Government to review the adoption of IFRS 9 or to review the expiry of the current override but recent comments by Ministers indicates that this is not the intention. With careful consideration to the Councils' revenue position, officers will explore options to manage the risks associated with this change in regulation. This will include, but not be limited to, discussion with CCLA as the fund manager, Ernst & Young as the external auditor and Link Group (treasury management advisors).

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Arun District Council

REPORT TO:	**Audit & Governance Committee – 19 February 2024**
SUBJECT:	**Use of Regulation of Investigatory Powers Act (RIPA) Annual Report 2023**
LEAD OFFICER:	**Daniel Bainbridge, Group Head of Law & Governance**
LEAD MEMBER:	**Councillor James Walsh**
WARDS:	**All**

CORPORATE PRIORITY / POLICY CONTEXT / CORPORATE VISION: The correct governance and operational decision-making in relation to the use of this legislation supports the effective delivery of all services and priorities.

DIRECTORATE POLICY CONTEXT: Responsibility for the oversight of the RIPA process sits within the Group Head of Law & Governance in the Organisational Excellent directorate.

FINANCIAL SUMMARY: There are no financial implications associated with this report.

1. PURPOSE OF REPORT

1.1 To report to the Committee on the Council's use of regulatory powers under the Regulation of Investigatory Powers Act 2000 ('RIPA') in 2023/24.

2. RECOMMENDATIONS

It is recommended that the Audit & Governance Committee considers and notes the Council's use of and compliance with RIPA.

3. EXECUTIVE SUMMARY

3.1 The Regulation of Investigatory Powers Act 2000 (RIPA) governs the acquisition and disclosure of communications data and the use of covert surveillance by local authorities.

3.2 The Council has the ability to use powers under RIPA to support its core functions for the purpose of the prevention and detection of crime where an offence may be punishable by a custodial sentence of 6 months or more. There are three processes available to local authorities under RIPA: the acquisition and disclosure of communications data; directed surveillance; and covert human intelligence sources ('CHIS').

3.3 The Act sets out the procedures that the Council must follow if it wishes to use directed surveillance techniques or acquire communications data in order to support core function activities. The information obtained as a result of such operations can later be relied upon in court proceedings provided the Act is complied with.

3.4 The Home Office Code for Covert Surveillance and Property Interference recommends that elected Members, whilst not involved in making decisions or specific authorisations for the local authority to use its powers under the Act, should review the Council's use of the legislation and provide approval to its policies.

4. DETAIL

4.1 RIPA governs the acquisition and disclosure of communications data and the use of covert surveillance by local authorities. The Council can only use powers under RIPA to support its core functions for the purpose of prevention and detection of crime.

4.2 There are different thresholds that need to be met before any surveillance can be undertaken. In the case of Directed Surveillance or the use of Covert Human Intelligence Sources an offence has to be punishable by a custodial sentence of 6 months or more. In the case of Communications Data an offence has to be punishable by a custodial sentence of 12 months or more (e.g. offences relating to counterfeit goods which carry a maximum penalty of 10 years in prison).

4.3 Where the above criteria are met, local authorities can make an application for the acquisition and disclosure of communications data (such as telephone billing information or subscriber details) or directed surveillance (covert surveillance of individuals in public places); and the use of a CHIS (such as the deployment of undercover officers).

4.4 The Act and its Codes of Practice set out the procedures that local authorities must follow when undertaking surveillance. These include approval by Authorised Council Officers for Directed Surveillance / CHIS applications to show that the proposed use of the powers is "necessary and proportionate".

4.5 The Council is required to have a Senior Responsible Officer (SRO) to maintain oversight of the RIPA arrangements, procedures and operations. The Group Head of Law & Governance performs this function and is responsible for the integrity of the Council's process for managing the requirements under RIPA.

4.6 The Investigatory Powers Commissioner's Office (IPCO) is responsible for the judicial oversight of the use of covert surveillance by public authorities throughout the United Kingdom.

4.7 The Investigatory Powers Act 2016 introduced the Office for Communications Data Authorisation (OCDA) which is now responsible for independently authorising all applications for communications data. This has removed the requirement for local authorities to seek judicial approval for communications data. In addition, the legislation has broadened the range of communications data available including access to location data.

4.8 The acquisition of communications data is undertaken through the National Antifraud Network (NAFN). NAFN acts as the single point of contact for local authorities and ensures the application is RIPA/ IPA compliant. It is NAFN that are audited by the commissioners.

Use of Directed Surveillance or Cover Human Intelligence Sources

4.9 For the period from 1 January 2023 to 31 December 2023:

Applications made for a Directed Surveillance authorisation	0
Directed Surveillance authorisations granted	0
Directed Surveillance authorisations cancelled	0
Directed Surveillance authorisations extant at the end of the year	0

There were no reported instances of the Council having misused its powers under RIPA.

Use of Acquisition & Disclosure of Communications Data

4.10 No applications were made for the disclosure of communications data in the period from 1 January 2023 to 31 December 2023.

Inspection by IPCO

4.11 The Council was subject to an inspection by the Investigatory Powers Commissioner's Office on 13 March 2023. The Commissioner's report provided a positive conclusion and comments regarding the Council's policy and procedures, and made a number of recommendations for changes to the Council's RIPA Policy and guidance in order to ensure they are up to date. That will be the subject of a separate report to this Committee in the next municipal year.

RIPA Training

4.12 It is recommended good practice to provide RIPA training to all relevant officers periodically. Training was delivered to relevant operational and senior officers in September and October 2022 and the IPCO report noted this and confirmed that this met the Commissioner's requirements in terms of regular refresher training. Further refresher training will be scheduled for 2025.

5. CONSULTATION

5.1 Consultation was not required in relation to this report.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1 As set out above, it is recommended good practice for a regular report to be provided to elected members and therefore a ‘do nothing’ alternative is not considered appropriate in those circumstances.

7. COMMENTS BY THE GROUP HEAD OF FINANCE/SECTION 151 OFFICER

7.1 There are no direct legal implications arising from this report.

8. RISK ASSESSMENT CONSIDERATIONS

8.1 The annual reporting of RIPA/IPA use to elected members ensures compliance with relevant Codes of Good Practice.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1 The legislative background is set out within the body of this report.

10. HUMAN RESOURCES IMPACT

10.1 There are no human resources implications.

11. HEALTH & SAFETY IMPACT

11.1 There are no such implications associated with this report.

12. PROPERTY & ESTATES IMPACT

12.1 There are no such implications associated with this report.

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1 There are no such implications associated with this report.

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1 There are no such implications associated with this report.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1 There are no such implications associated with this report.

16. HUMAN RIGHTS IMPACT

16.1 There are no such implications associated with this report.

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1 There are no such implications associated with this report.

CONTACT OFFICER:
Name: Daniel Bainbridge
Job Title: Group Head of Law & Governance
Contact Number: 01903 737607

BACKGROUND DOCUMENTS*:* None

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AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2023/2024

Date of Meeting: 19 February 2024		
Subject	**Lead Officer / Member**	**Comments**
Statement of Accounts		
Accounting Policies 2023/24	Group Head of Finance	If CIPFA advise of any changed requirements, then an update will be provided at the next meeting
Treasury Management		
Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (13 Mar 2024)
Internal Audit		
Internal Audit Charter	Southern Internal Audit Partnership	
Annual Internal Audit Plan 2024/25	Southern Internal Audit Partnership	
Progress Against the Audit Plan	Southern Internal Audit Partnership	
Governance Framework		
Updates to Corporate Risk Register	Finance & Risk Manager	
Other Items		
Independent Remuneration Panel – Recommendations Following Review of the Members' Allowances Scheme	Committee Services Manager	
Annual update on the Council's use of powers under the Regulation of Investigatory Powers Act 2000 (RIPA)	Group Head of Law & Governance	
Work Programme		
To agree the rolling work programme for 2024/25		

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31 March each year

AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2023/2024

Date of Meeting: xx July 2024 (TBC)		
Subject	**Lead Officer / Member**	**Comments**
Statement of Accounts		
Annual Statement of Accounts 2022/23 and Letter of Representation	Group Head of Finance	**TBC**
Draft Annual Governance Statement 2023/24	Group Head of Finance	Draft version to be considered by Committee (final version will be presented with the Annual Accounts)
External Audit		
Auditor's Annual Report	Ernst & Young	Covering the audit of the 2021/22 Accounts **TBC**
Audit Planning Update	Ernst & Young	Covering the audit of the 2022/23 Accounts and 2023/24 Accounts **TBC**
Audit Results Report	Ernst & Young	Covering the audit of the 2022/23 Accounts **TBC**
Governance Framework		
Updates to Corporate Risk Register	Finance & Risk Manager	
Treasury Management		
Treasury Management Annual Report 2023/24	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council
Internal Audit		
Annual Internal Audit Report & Opinion 2023-2024	Southern Internal Audit Partnership	
Other Items		
Progress update on housing tenancy fraud	Neighbourhood Services Manager	Annual update as requested by the Committee
Counter-Fraud Report 2023/24	Group Head of Finance	TBC
Regulation of Investigatory Powers Act (RIPA) Policy and Guidance	Group Head of Law & Governance	
Work Programme		
To agree the rolling work programme for 2024/25		

AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2023/2024

Date of Meeting: xx September 2024 (TBC)		
Subject	**Lead Officer / Member**	**Comments**
External Audit		
Response to E&Y on annual assurance letter regarding governance arrangements	Committee Chair	Letter to be sent to external audit
Internal Audit		
Progress Against the Audit Plan	Southern Internal Audit Partnership	
Treasury Management		
Treasury Management Interim Report	Senior Accountant (Treasury Management)	
Governance Framework		
Updated Risk Management Framework	Finance & Risk Manager	
Updates to Corporate Risk Register	Finance & Risk Manager	
Work Programme		
To agree the rolling work programme for 2024/25		

Date of Meeting: xx November 2024 (TBC)		
Subject	**Lead Officer / Member**	**Comments**
Treasury Management		
Treasury Management Mid-Year Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council
Internal Audit		
Progress Against the Audit Plan	Southern Internal Audit Partnership	
Governance Framework		
Updates to Corporate Risk Register	Finance & Risk Manager	
Other Items		
Annual update on the Council's use of powers under the Regulation of Investigatory Powers Act 2000 (RIPA)	Group Head of Law & Governance	

Review Of The Partnerships Register	Group Head of Organisational Excellence	
Work Programme		
To agree the rolling work programme for 2024/25		Updates, etc.

<u>Other items to be considered in Work Programme:-</u>

Independent Members' Remuneration Panel

- **Recruitment / appointments**
- **Proposals for / progress of review**
- **Report on review / proposals for change to be passed by A&GC to Full Council**

Relevant policy reviews, updates, etc.