



Public Document Pack

Arun District Council
Civic Centre
Maltravers Road
Littlehampton
West Sussex
BN17 5LF

Tel: (01903 737500)
Fax: (01903) 730442
DX: 57406 Littlehampton
Minicom: 01903 732765

e-mail: committees@arun.gov.uk

Committee Manager Carley Lavender (Ext 37547)

30 January 2020

AUDIT & GOVERNANCE COMMITTEE

A meeting of the Audit & Governance Committee will be held in **The Pink Room** at the Arun Civic Centre, Maltravers Road, Littlehampton, BN17 5LF on **Thursday, 13 February 2020 at 6.00 pm** and you are requested to attend.

Members: Councillors Mrs Erskine (Chairman), Mrs Haywood (Vice-Chair), Bennett, Bicknell, Brooks, Chapman, Clayden, Dendle, Ms Thurston and Tilbrook

AGENDA

1. **APOLOGIES FOR ABSENCE**
2. **DECLARATIONS OF INTEREST**

Members and Officers are reminded to make any declarations 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 item or as soon as the interest becomes apparent.

Members and officer should make their declaration by stating:

- a) the application they have the interest in
- b) whether it is a pecuniary, personal and/or prejudicial
- c) the nature of the interest
- d) if it is a prejudicial or pecuniary interest, whether they will be exercising their right to speak to the application

3. MINUTES (Pages 1 - 14)
To approve as a correct record the Minutes of the meeting of the Audit & Governance Committee held on 21 November and the Special Meeting of the Committee held on 19 December 2019.
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. ERNST & YOUNG - AUDIT PLANNING REPORT (Pages 15 - 52)
The Audit Planning report and draft Audit Plan for the year 2019/20, which will be presented by the Council's external auditors Ernst and Young LLP (EY), is attached to this report.

The Committee is asked to note the report.
6. HOUSING BENEFIT SUBSIDY CLAIM 2018/19 CERTIFICATION (Pages 53 - 56)
The Committee is asked to note the report on the outcome of the annual Housing Benefit Subsidy Claim certification for 2018/19.
7. ACCOUNTING POLICIES FOR 2019/20 ACCOUNTS (Pages 57 - 74)
The report allows the Audit and Governance Committee to consider and approve the accounting policies that will be applied to the Statement of Accounts 2019/20 for approval by the Committee in July 2020.
8. CAPITAL STRATEGY (Pages 75 - 84)
The report allows the Audit and Governance Committee to consider and comment on the Council's Capital Strategy 2020/21 to 2022/23 before adoption by Full Council.

The Committee is requested to recommend to Full Council that the Capital Strategy 2020/21 to 2022/23 be approved.
9. TREASURY MANAGEMENT STRATEGY STATEMENT & ANNUAL INVESTMENT STRATEGY (Pages 85 - 132)
The purpose of this report is to present the Treasury Management Strategy Statement and Annual Investment Strategy 2020/2021 and to enable the Audit & Governance Committee to scrutinise the report prior to making comment to Full Council (18 March 2020).

10. UPDATE ON THE STATUS OF THE COUNCIL'S BUSINESS CONTINUITY (BCP) ARRANGEMENTS (Pages 133 - 136)

This information paper provides Members with an overview and update on Business Continuity Planning with the Council.

11. UPDATE ON PROGRESS AGAINST THE RECOMMENDATIONS OF THE PARTNERSHIPS AUDIT (Pages 137 - 148)

This paper sets out progress to date on a register of partnerships for Arun District Council, including an initial list of arrangements which may meet the agreed definition of a partnership and how this work should go forward.

The Committee is requested to note the background and proposed approach to developing an up-to-date partnership register.

12. UPDATED STRATEGIC RISK REGISTER (Pages 149 - 168)

The Council's Strategic Risk Register has been reviewed and revised to reflect changes since it was presented to the Committee at its November 2019 meeting.

The Committee is requested to note and approve the revised Strategic Risk Register.

13. ANNUAL INTERNAL AUDIT PLAN (Pages 169 - 174)

Each year Internal Audit is required to develop an internal audit plan for the following financial year. The Committee is requested to approve the outline annual internal audit plan for 2020/21.

14. PROGRESS AGAINST THE AUDIT PLAN (Pages 175 - 182)

The Committee is required to oversee the provision of an adequate and effective internal audit service. Part of this process is to monitor delivery of progress against the Audit Plan and to receive summaries of reports issued.

Members of the Committee are requested to note the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February 2019 meeting.

15. INFORMATION / ADVISORY DOCUMENTS RECEIVED

For information only - link to the results of the CIPFA Fraud and Corruption Tracker 2019 [exercise](#)

16. WORK PLAN REVIEW 2020/21

(Pages 183 -
190)

The Internal Audit Manager will update the Committee on any changes to the rolling workplan for 2020/21.

Note : Reports are attached for all Members of the Committee only and the press (excluding exempt items). Copies of reports can be obtained on request from the Committee Manager).

Note : Members are reminded that if they have any detailed questions would they please inform the Chairman and/or relevant Director in advance of the meeting.

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](#)

Public Document Pack **Agenda Item 3**

Subject to approval at the next Audit & Governance Committee meeting

226

AUDIT & GOVERNANCE COMMITTEE

21 November 2019 at 6.00 pm

Present: Councillors Mrs Erskine (Chairman), Mrs Haywood (Vice-Chair), Bennett, Bicknell, Brooks, Chapman, Clayden, Dendle, Ms Thurston and Tilbrook

Apologies: None

307. DECLARATIONS OF INTEREST

There were no declarations of interest made.

308. MINUTES

The Minutes of the meeting held on 30 July 2019 were approved by the Committee as a correct record and signed by the Chairman.

309. ANNUAL AUDIT LETTER - ERNST & YOUNG

Jason Jones from Ernst & Young presented the Annual Audit Letter and confirmed that the purpose of the letter was to communicate any key issues arising from Ernst & Young's audit work.

Members were reminded that Ernst & Young had already reported its detailed findings from its 2018/2019 Audit Results Report to the Committee at its last meeting held on 30 July 2019. The letter brought the 2018/19 audit to its conclusion.

The Annual Audit Letter reconfirmed that Ernst & Young had issued an unqualified audit opinion from the 2018/2019 Audit Results Report and an unqualified value for money conclusion in July 2019.

Jason then drew Members' attention to some sections within the report entitled, Purpose and Responsibilities; Value for Money; and Leases some updates were provided to the Committee.

Following some further discussion, the Committee expressed its thanks to Ernst & Young and noted the content of the Annual Audit Letter and Progress Report.

310. TREASURY MANAGEMENT MID-YEAR REPORT

The Senior Accountant presented to the Committee the Treasury Management Mid-Year Review Report for 2019/2020 and advised that this covered activities to 30 September 2019 in detail.

Some updates were provided to the Committee. The Treasury Management Training provided to Members prior to this meeting had outlined the changes happening in treasury management and covered a number of elements from the report.

Two further key points highlighted to Members were:

- The Council's budgeted investment return for 2019-20 was £596,000 (1.24%). The estimated outturn for 2019/20 was £750,00 (1.38%), which showed that the original budget would be exceeded.
- Attention was drawn to the graph on page 43 of the agenda that showed the movement in Public Works Loan Board (PWLB) certainty rates for the first 7 months of the year. On 9 October 2019 the Treasury and PWLB announced an unexpected increase in the margin over gilt yields. As this was unexpected it now means that every local authority needs reassess how to finance any external borrowing needs and the financial viability of capital projects.

The Committee agreed to

RECOMMEND TO FULL COUNCIL – That

- (i) it approves the actual prudential and treasury indicators for 2019/20 contained in the report;
- (ii) it notes the treasury management mid-year review (this report) for 2019/20;
- (iii) it notes the treasury mid-year activity for the period ended 30th September 2019, which has generated interest receipts of £400,050 (1.39%) year to date, against a budget of £596,000 (1.24%) for the full year.

Audit & Governance Committee - 21.11.19

311. UPDATE ON THE PROGRESS OF THE COUNCIL'S PROPERTY INVESTMENT FUND (PIF)

The Property & Estates Manager provided Members with an overview of the report update. He explained that the current property investment strategy had been adopted by Full Council in 2017 and it established a framework for the Property Investment Fund (PIF).

He highlighted to Members the sale of the former Daisyfields camp site adjacent to Cornfield Close in Littlehampton for just under £2.7 million once the section 106 contributions had been deducted. The purchase of the Arcade off the High Street in Bognor Regis, since the purchase the occupancy of the ground floor units had improved, and the Council was continuing to explore options for the upper floors as the original plans for Office space or student accommodation had been deemed unviable.

Members had a full discussion on the update provided, in particular the discussion focused around the level of concern at the repairs backlog that was the driver for the decrease in threshold within the property investment strategy. It was explained that a 5 year plan had been put together to ensure the management of the repairs would be executed well but it would need to be prioritised against available funds. The Property & Estates Manager confirmed the importance of ensuring that the Council looked after its assets and kept them in the conditions that met the compliance expectations, to this end the repairs now needed to be considered as a priority. The Chairman reconfirmed this priority by stating that the reputation of the Council would be significantly impacted if it failed to look after its assets and leases properly. There was an initial reluctance to agree the recommendation that was put before Members in the report as it was felt that this could lead to selling-off Council assets without any subsequent investment, however all agreed after the explanation put forward by the Property and Estates Manager that action needed to be taken now. The Group Head of Corporate Support responded to the request of a full report detailing all repairs needed by advising Members that he would need to take advice on this request, however further details would be seen in the budget report going to Full Council in January 2020. He advised Members to consider the impact of not making this recommendation to Cabinet in relation to the Councils obligations to its tenants and meeting compliance regulations.

It was then agreed that figures were to be provided to Members on the detail of the work required at the next meeting of the Committee and that the Work Programme be updated to reflect this.

The Committee agreed to recommend to Cabinet that they put forward to Full Council that:

- i. The 75% threshold within section 5.1 of the Property Investment Strategy 2017-2022 be changed to 50%.

312. UPDATED STRATEGIC RISK REGISTER

The Committee received a report from the Internal Audit Manager outlining that the Council's Strategic Risk Register (SRR) had been reviewed and updated to reflect changes since its last update in November 2018.

In relation to the current document, the highest (red) risks remained the same as those last year. However, the Local Plan risk was removed by the Director of Place as it had been adopted in 2018 and the Littlehampton Leisure Centre risk was also removed as the building has been commissioned and opened last year.

It should be noted that the SRR is a 'point-in-time' document (although the risks would be on the radar of Corporate Management Team (CMT) and Officers). In order to meet Committee timescales, it was reviewed and updated by the Governance & Risk Group (chaired by the Director of Place) in late September and considered by CMT in October 2019.

Since that time, it would be noted that there has been a Snap General Election called and also an extension to the target date for Brexit. In addition, a report on additional Council strategic targets was presented to Full Council on 13 November 2019. In light of these, it has already been decided to conduct an interim Officer review in January so that a further updated SRR can be brought back to the Committee at its February 2020 meeting. In view of the revised targets proposal, it was also anticipated that the Local Plan would be brought back on to the SRR, along with a new risk on Climate Change. By that time, the outcome of the General Election would be known, and the result will then impact the direction and progress of Brexit.

Members had a full discussion on the SRR, the key points were:

- Item 6a Homelessness as there were a host of issues on this topic it was suggested that should a review of the Local Plan take place, it considered the need to house those in temporary accommodation and to cut waiting lists as a priority.
- Item 17 Elections it was suggested that the Fixed Term Parliament Act was not working and that this risk should be given a higher priority. The Internal Audit Manager agreed to feed this into the January 2020 review.

The Committee then noted and approved the revised Strategic Risk Register.

Audit & Governance Committee - 21.11.19

313. RESULTS OF THE EXTERNAL QUALITY ASSESSMENT (EQA) ON THE COUNCIL'S INTERNAL AUDIT SERVICE

The Chairman invited Councillor Chapman to provide his input as the timeline for the report covered his term in office as Chairman of this Committee. The key points from his statement were:

- The overall assessment of the Audit service of the Council was that it conforms to the standards required
- The Committee should note the response on the remedial actions provided by the Internal Audit Manager
- Progress and timescales to be reported to the Committee and it was imperative that Members were to be fully supportive of the work to be undertaken.
- The continued provision of an effective Internal Audit service within the control of the District would be an underlying critical success factor in future.
- Thanks, was given the producer of the report and the internal team for their continued personal diligence in providing an internal audit service.

The Internal Audit Manager advised Members that he fully supported the recommendations in the report.

The Committee agreed to note the contents of the report and agreed the action plan.

314. UPDATE ON THE STATUS OF THE COUNCIL'S BUSINESS CONTINUITY PLANNING (BCP) ARRANGEMENTS

An interim report update was provided in the Agenda pack and was noted by the Committee with a full officer report planned for February 2020 meeting.

315. UPDATES TO THE COUNCIL'S ANTI-FRAUD, CORRUPTION & BRIBERY POLICY

The Internal Audit Manager introduced his report and provided Members with a detailed overview the key points. These were:

- Legislative changes
- Changes to the Council's structure
- Updates to the Council's constitution and Officer Code of Conduct

The Committee RECOMMEND to Full Council

That the Council's Anti-Fraud, Corruption and Bribery Policy be adopted.

316. UPDATES TO THE COUNCIL'S CORPORATE POLICY & PROCEDURE DOCUMENT ON THE REGULATION OF INVESTIGATORY POWERS ACT 2000 (AS AMENDED, INCLUDING THE INVESTIGATORY POWERS ACT 2016)

The Internal Audit Manager provided Members with an overview of his report and highlighted the following key points:

- The change from the Office of Surveillance Commissioners (OSC) to the investigatory Powers Commissioners Office (IPCO)
- The implementation of the Investigatory Powers Act (IPA) 2016, removing communications data from RIPA and having a separate processing and authorisation procedures
- Changes to the Council's structure

He also stated that Members should note that the Council had not made use of any powers under RIPA since 2010. A report and or update on any usage would be provided to the Committee annually.

Members commended the Internal Audit Manager for his work on this item.

The Committee RECOMMEND to Full Council, That:

- (1) the Council's corporate policy & procedure document on the RIPA 2000 (as amended, including the Investigatory Powers Act 2016) be adopted
- (2) if there are any minor changes resulting from the IPCO inspection in December 2019 authorisation be given to the Internal Audit Manager in consultation with the Chairman to make these minor changes.

317. UPDATE ON THE WORK OF INTERNAL AUDIT

The Committee received and noted the contents of the report provided.

318. SUMMARY OF FINDINGS FROM REPORTS ISSUED FEBRUARY - OCTOBER 2019

The Committee received and noted the summary of findings from reports issued February to October 2019.

319. INFORMATION / ADVISORY DOCUMENTS RECEIVED

There were no updates on this item.

Subject to approval at the next Audit & Governance Committee meeting

232

Audit & Governance Committee - 21.11.19

320. WORK PLAN REVIEW 2019/20

The Committee received and noted its rolling Work Programme.

(The meeting concluded at 8.00 pm)

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AUDIT & GOVERNANCE COMMITTEE

19 December 2019 at 6.00 pm

Present: Councillors Mrs Erskine (Chairman), Mrs Haywood (Vice-Chair), Bennett, Bicknell, B Blanchard-Cooper (Substitute for Tilbrook), Brooks, Chapman, Clayden, Dendle and Ms Thurston

Councillors Bower, Mrs Cooper, Cooper, Coster, Dixon, Edwards, Gunner and Roberts were also in attendance for all or part of the meeting.

Apologies: Councillor Tilbrook

348. WELCOME

The Chairman welcomed Members, officers and members of the public to the meeting and explained that the Committee had an important task in considering the proposal from the Governance Working Party on the conclusions of its governance review prior to any final recommendation being presented at the Full Council meeting on 15 January 2020.

She confirmed to all in attendance that whilst she was a member of the Governance Working Party and had been involved in their discussions to date, at this meeting she was here with an open mind to act as Chairman of this Committee to ensure everyone had an opportunity to have their say and come to a view that could be fed back to the Working Party.

She clarified that the Committee's role at the meeting was to act as a consultee as requested by Full Council on 18 September 2019 and that it would involve Members providing an independent assurance that the review undertaken to date had been adequate to inform fellow councillors ahead of their decision making on the issue.

The Committee's views would be fed back to the Governance Working Party at its next meeting on 6 January 2020.

349. DECLARATIONS OF INTEREST

No declarations of interest were made.

350. MINUTES

The minutes of the meeting held on 21 November 2019 were approved by the Committee as a correct record and signed by the Chairman.

351. REVIEW OF GOVERNANCE ARRANGEMENTS - CONSULTATION PHASE

The Monitoring Officer referred the Committee to the report before them and highlighted the importance of the review process that they had been asked to undertake. In addition to the report and background documents, the Monitoring Officer referred to the additional document, circulated separately to the agenda, which had provided an analysis of each governance option and costings for any potential change. She then explained that the next stage in the process required this Committee to consider if the review had been sufficiently robust.

The observations made by Members in considering the report are summarised below;

- As the Constitution would require updating based on an implemented change to a Committee system, Members were keen to establish if there would be sufficient time to ensure that these changes could be made against the timeline of April/May 2020. The Monitoring Officer explained that the Working Party had accepted that there would not be any changes to individual Councillor or Officer delegation and on that basis, she believed that she would be able to conclude the update on the key parts of the Constitution. However, there would be more work required to be completed throughout the rest of the constitution and that was why in the strategic targets there was £10,000 allocated for consultee help and support to get this work done.
- Several concerns were raised over the budget costings in the additional report. The Monitoring Officer advised Members that these had been based on what could be quantified at this stage in the review process.
- Significant concern was raised in relation to Working Party not having taken the opportunity to meet with another Council who had implemented a governance change. It was felt this was a missed opportunity.
- A question was asked regarding the lack of consultation with former Cabinet Members by the Working Party as it was felt that these Members would be able to provide key advice and information based on their experience of how a Cabinet system worked in practice. It was explained that all Members of the Council and the Senior Management Team had been sent a questionnaire to complete and of the 54 councillors only 30 responses were received. It was confirmed that the Working Party did include two former Cabinet Members, however, they had not been asked to provide their experience of a Cabinet system. A request was made for previous Cabinet Members to be invited to inform the review. The Committee was advised that this would need to be agreed by the Chairman of the Working Party and the Monitoring Officer agreed to raise this with him.

The Chairman asked the Committee if they would be happy to hear comments from Members who were in attendance in the Public Gallery. Councillors Bower,

Edwards, Dixon, Chapman, Roberts, Gunner, Coster and Cooper were all then invited to speak. Comments made were:

- This review was being undertaken by a new Council with a large number of newer Members who have little or no experience of being on a District Council, stating that it was very different to working on a Town or Parish Council.
- Concern that any of the proposals that were being considered would drive a significant amount of constitutional change and that this would detract or stop from other required constitution updates from taking place due to the significant work load.
- Concerns about the budget costings and what if a change was agreed and it then turned out that the financial impact was significantly higher than currently predicted.
- A belief that the Cabinet structure did not work in favour of backbenchers and a Committee system was therefore favoured.
- Support for the hybrid structure
- A view that the review was being rushed through and should have included more research on the approaches taken in other councils
- Whether the review process had been sufficiently clear about what the Council was trying to achieve and whether Councillors would be comfortable with making any decision based on the information they had in front of them at this moment.
- The benefits of the current structure whereby when Cabinet Member decisions are made, one person is accountable for those and the public can also see this clearly, allowing them to also hold that individual to account. The view was under a Committee System this would not be seen so clearly and that the Working Party had not considered the impact of this fully.
- A view that a Committee structure would achieve greater inclusivity for all Members; whilst the Hybrid proposal was seen to be making the process unnecessarily complicated and Members would not engage with well.
- Was the motivation for a change clear and asked if was really felt that the current structure was broken and needed to be changed?
- Support for the hybrid structure
- A view that the review as being rushed through and should have included more research on the approaches taken in other councils
- Whether the review process had been sufficiently clear about what the Council was trying to achieve and whether Councillors would be comfortable with making any decision based on the information they had in front of them at this moment.
- The benefits of the current structure whereby when Cabinet Member decisions are made, one person is accountable for those and the public can also see this clearly, allowing them to also hold that individual to account. The view was under a Committee System this would not be seen so clearly and that the Working Party had not considered the impact of this fully.

Audit & Governance Committee - 19.12.19

- A view that a Committee structure would achieve greater inclusivity for all Members; whilst the Hybrid proposal was seen to be making the process unnecessarily complicated and Members would not engage with well.
- Was the motivation for a change clear and asked if it was really felt that the current structure was broken and needed to be changed.

In returning the debate to Committee Members, the Chairman did remind Members that any change to its governance arrangements would also need a corresponding culture change, reflecting the manner in which Members would want the Council to work in the future.

From listening to the views of speakers, there was concern from some Members of the Committee at the pace of this review, and a feeling that further clarification was required for each proposal to ensure that Members understood exactly what was contained within each option and how each proposal would function. A Seminar was suggested as the best way to achieve this.

The Chairman reminded the Committee at this point that it was their job to decide if the Working Party review had been robust enough and whether Members were fully informed to be able to make a recommendation to Full Council.

A question was asked why the Working Party had not made a Members Seminar a priority at the start of the review, the view of one Member was that this decision, along with the decision to reject meeting with an individual who had implemented a governance change elsewhere, meant that the review had not been robust enough.

In moving to vote on the proposal before the Committee, Councillor Brooks stated he had an amended proposal he would like to put forward and asked that a recorded vote take place. He proposed

“That the proposal as presented by the Governance Working Party is not supported and that full council on 15 January 2020 be presented with two options for a governance structure namely

- A) No change – the status quo
- B) Change to a committee structure

This alternative proposal was seconded by Councillor Mrs Haywood.

Discussion on the alternative proposal took place amongst Members of the Committee. Members felt that removing options from the original proposal was not the right thing to do as it was not transparent. The decision to be made was either that the Working Party were ready to make a recommendation to Full Council on 15 January 2020 or they were not ready.

On putting this alternative proposal to the vote, it was declared LOST.

Those voting for the proposal were Councillors Bennett, B Blanchard-Cooper, Brooks and Mrs Haywood (4). Those voting against were Councillors Bicknell, Chapman, Clayden, Dendle and Ms Thurston (5). Councillor Mrs Erskine (1) abstained from voting.

The Monitoring Officer then advised the Committee that a further alternative proposal could be put forward at this time or a vote could now be taken on the original proposal.

Councillor Dendle proposed a further alternative proposal that:

“The Working Party’s proposals are not supported at this stage and any decision on a change to governance be deferred to enable a Members Seminar to be held with more information to be provided on the options, including evidence from a Council operating a hybrid model.”

Councillor Clayden seconded the proposal.

A request was received that the voting on this proposal be recorded.

On putting this proposal to the vote, it was declared CARRIED. Therefore, the Committee

RECOMMEND to the Governance Working Party;

That Working Party’s proposals are not supported at this stage and any decision on a change to governance be deferred to enable a Members seminar to be held with more information provided on the options including evidence from a Council operating a Hybrid model.

Those voting for the proposal were Councillors Bennett, Bicknell, B Blanchard-Cooper, Brooks, Chapman, Clayden, Dendle, Mrs Haywood and Ms Thurston (9). Councillor Mrs Erskine (1) abstained from voting.

The Chairman expressed her thanks to the Members of the Working Party, the Audit and Governance Committee and the Officers for all the hard work that had been put into this process to date and the meeting tonight. The view of this Committee would now be fed back to the Governance Working Party on 6 January 2020.

(The meeting concluded at 7.55 pm)

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE COMMITTEE ON 13 FEBRUARY 2020

PART A : REPORT

SUBJECT: Audit Planning Report Year ended 31 March 2020

REPORT AUTHOR: Carolin Martlew, Financial Services Manager
DATE: January 2020
EXTN: 37568
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The Audit planning report and draft Audit Plan for the year 2019/20, which will be presented by the Council's external auditors Ernst and Young LLP (EY), is attached to this report.

RECOMMENDATIONS:

The committee is requested to note the audit planning report.

<p>1. BACKGROUND:</p> <p>The Council's external auditors EY are required to bring to the attention of the Audit and Governance Committee the Audit Plan for 2019/20 which sets out how they intend to carry out their responsibilities as the auditor.</p>																	
<p>2. PROPOSAL(S):</p> <p>The purpose of the Audit Plan is to set out how EY intends to carry out the audit for 2019/20 and to enable discussion around the key risks identified in the report.</p>																	
<p>3. OPTIONS:</p> <p>The identification of other matters that may influence the external audit of the Financial Statements for the year ended 31 March 2020.</p>																	
<p>4. CONSULTATION:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;"></th> <th style="width: 15%; text-align: center;">YES</th> <th style="width: 15%; text-align: center;">NO</th> </tr> </thead> <tbody> <tr> <td>Has consultation been undertaken with:</td> <td></td> <td></td> </tr> <tr> <td>Relevant Town/Parish Council</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Relevant District Ward Councillors</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Other groups/persons (please specify)</td> <td></td> <td style="text-align: center;">✓</td> </tr> </tbody> </table>				YES	NO	Has consultation been undertaken with:			Relevant Town/Parish Council		✓	Relevant District Ward Councillors		✓	Other groups/persons (please specify)		✓
	YES	NO															
Has consultation been undertaken with:																	
Relevant Town/Parish Council		✓															
Relevant District Ward Councillors		✓															
Other groups/persons (please specify)		✓															
<p>5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)</p>																	
	YES	NO															

Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		
6. IMPLICATIONS:		
To enable the Committee to meet the Council's statutory obligations in preparing for the audit of the Financial Statements for the year ended 31 March 2020.		

7. REASON FOR THE DECISION:

To ensure that members of the Committee are fully informed about of the key issues raised in the Audit Plan 2019/20.

8. BACKGROUND PAPERS:

None

A high-angle, close-up photograph of several people's hands and arms gathered around a white table. They are looking at and pointing to various documents and papers spread across the surface. A smartphone is visible on the table. The scene is brightly lit, suggesting an office or meeting environment.

Arun District Council Audit planning report Year ended 31 March 2020

January 2020



Members of the Audit and Governance Committee

Arun District Council
Civic Centre
Maltravers Road
Littlehampton
BN17 5LF

21 January 2020

Dear Audit and Governance Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 13 February 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee and management of Arun District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee, and management of Arun District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of Arun District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2019/20 audit strategy



Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus.	Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus.	As identified in ISA240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. We identify and respond to this risk on every engagement.
Pension Liability Valuation	Inherent risk	No change in risk or focus.	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council. The Council's pension fund asset is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus.	The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
New Accounting Standards	Inherent risk	New risk identified this year.	IFRS 16 (Leases) applies to the Authority from 1 April 2020 and requires preparation during this financial year including disclosures in the 19/20 accounts. We will draw on our experience of the implementation of the new standard in the corporate sector and share learnings regarding changes and developments.

Overview of our 2019/20 audit strategy

Materiality



Audit scope

Page 22

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Arun District Council give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.



Page 23

02 Audit risks



Our response to significant risks

We have set out the significant risks identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
<p data-bbox="120 443 488 504">Inappropriate capitalisation of revenue expenditure</p> <p data-bbox="100 699 138 858" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 24</p> <p data-bbox="120 804 472 834">Financial statement impact</p> <p data-bbox="109 858 539 1078">Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. We are focussing our testing on capital additions (£16.7m in 2018/19).</p>	<p data-bbox="580 459 1167 715">Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p data-bbox="580 735 1160 957">We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.</p> <p data-bbox="580 978 1133 1067">The manipulation of capitalising expenditure could occur through management override of controls.</p>	<p data-bbox="1207 459 1536 489">Our approach will focus on:</p> <ul data-bbox="1207 499 2114 695" style="list-style-type: none"> • Journals testing – we will use our testing of journals to identify transactions moved from revenue to capital. • For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.

Our response to significant risks (continued)

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We identify and respond to this fraud risk on every audit engagement.

What will we do?

We will undertake our standard procedures to address fraud risk, which include:

- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £27,456k.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What will we do?

We will:

- Liaise with the auditors of West Sussex Pension Fund to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council.
- Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

We will:

- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE.
- Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated; and
- Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p><u>IFRS 16 Leases</u></p> <p>This new accounting standard is applicable for local authority accounts from 1 April 2020. Based on our understanding of the Council and experience of auditing corporate entities who have already adopted these standards, IFRS 16 is likely to require significant consideration from the Council as it potentially has 12 operating leases that would need to be brought onto the balance sheet.</p> <p>During 2019/20 the Council will need to undertake an impact assessment to ensure it can meet the new requirements for 2020/21 and the expected impact will require disclosure in the current year. We will draw on our experience of the implementation of the new standard in the corporate sector and share learning with the finance team on IFRS 16 and other accounting changes and developments.</p>	<p>We will:</p> <ul style="list-style-type: none">• Liaise early with the finance team to understand the Council's approach to compliance with the new standard;• Assess the Council's implementation arrangements, including its assessment of the expected impact of the standard on the Council and what checks management has performed to ensure completeness; and• Check the additional disclosure requirements have been included in the financial statements. <p>We will also agree with management in advance any resultant additional audit work we need to carry out and the implication on fees.</p>



03

Value for Money Risks





Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

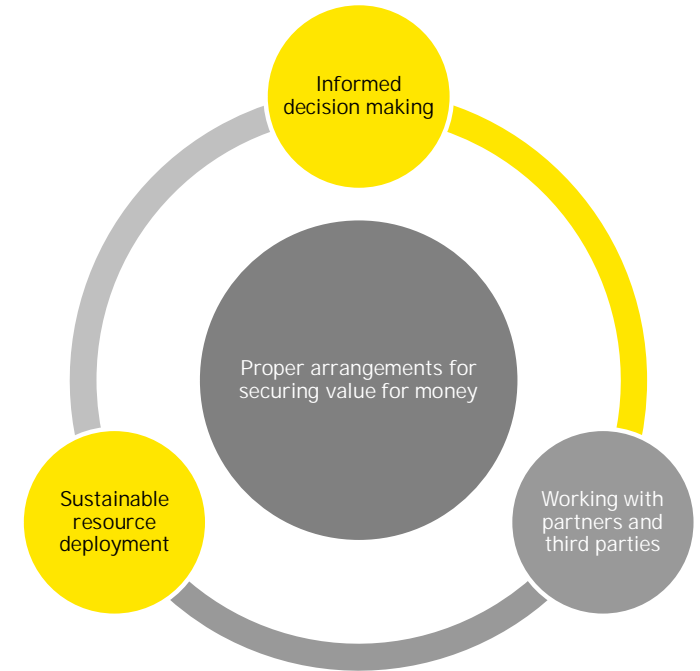
When considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. At the time of planning, this has resulted in no significant risks relevant to our value for money conclusion.





04

Audit materiality

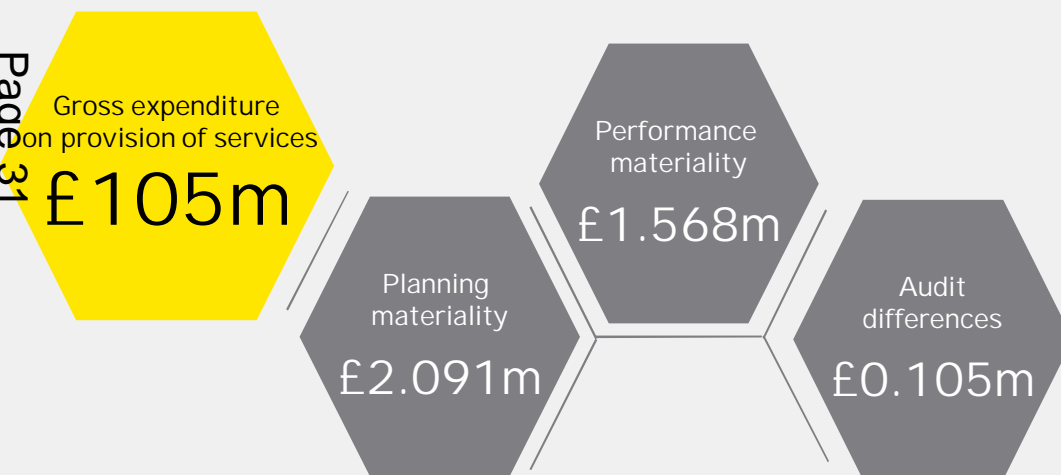


Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £2.091m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

Page 31



We request that the Audit and Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.568m which represents 75% of planning materiality

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Governance Committee, or are important from a qualitative perspective.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2019/20 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Governance Committee.

Internal audit:

We will regularly meet with the Chief Internal Auditor, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Our Audit Process and Strategy (continued)

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers and internal quality assurance arrangements.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- Page 35
- good quality draft financial statements and supporting working papers by the agreed deadline;
 - appropriate Council staff to be available throughout the agreed audit period; and
 - complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Council we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2018/19 financial year.
- Work with the Council to improve the use of EY Client Portal, this will:
 - Streamline our audit requests through a reduction of emails and improved means of communication;
 - Provide on-demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.



06

Audit team



Audit team

Audit team structure:

Kevin Suter
Associate Partner*

Jason Jones
Manager

Kelly Peachey
Senior

Specialists (as required)

- EY Real Estates
- Actuaries

* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The area where either EY or third party specialists provide input for the current year audit is:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY Actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Audit and Governance Committee and we will discuss them with the Audit and Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
	November		
Planning:	December		
Risk assessment and setting of scopes. Walkthrough of key systems and processes	January		
	February	Audit and Governance Committee	Audit Planning Report
Testing of routine processes and controls Interim audit testing	March		
	April		
	May		
	June		
Year end audit Audit Completion procedures	July	Audit and Governance Committee	Audit Results Report Audit opinions and completion certificates
	August		
	Autumn	Audit and Governance Committee	Annual Audit Letter

Page 40



Page 41

08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p> <p>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Written confirmation that all covered persons are independent;</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we have not undertaken any non-audit work. We plan to undertake the Housing Benefit Assurance Process, and the fee is less than the 70% limit.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. From 2018-19, the Council is responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance has now been published and the Council has appointed EY as its reporting accountant from 2018-19 for a period of five years, subject to the agreement of an engagement letter.

The specific testing of individual benefit claims and associated subsidy calculations undertaken in respect of this Agreed Upon Procedure (AUP) engagement is distinct and separate to any work we have or will undertake on the financial systems of the Authority. The results of the AUP testing is not reflected in the amounts included/disclosed in the financial statements.

In respect of the checking of benefit system parameters, this work is common across our external audit procedures and this AUP engagement. However, our external audit is concluded prior to this AUP engagement. Therefore the external audit conclusion is therefore not reliant upon the conclusion of our AUP engagement.

No advice will be given in relation to accounting treatment. The report we provide will be prepared or given solely for the purposes of the agreed upon procedures engagement described above and will not be used or relied upon for any other purposes.

Relationships, services and related threats and safeguards

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2019 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2019>



09

Appendices



Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2019/20	Scale fee 2019/20	Final Fee 2018/19
	£	£	£
Total Fee - Code work (1)	43,969	43,969	44,745
Total audit	43,969	43,969	44,745
Other non-audit services not covered above (Housing Benefits)	10,379	10,379	TBC
Total other non-audit services	10,379	10,379	TBC
Total fees	54,348	54,348	TBC

All fees exclude VAT

Note:

(1) Our 2019/20 Code work includes additional planned procedures highlighted in section two of this report to address the new accounting requirements of IFRS 16 Leases. As at the date of our planning report the Council's preliminary assessment of the impact of this new standard is that 12 assets to the value of c.£1.5m will need to be recognised in the asset register and we expect to perform some additional procedures on accuracy and completeness of this assessment. Any scale fee variation will be agreed with management and also subject to agreement by the PSAA.

(2) Our 2018/19 Housing Benefit Certification final fee is yet to be determined but will be based on additional work required to review and capture extended testing undertaken due to errors identified during our initial testing and the impact on our report. The proposed additional fee is subject to agreement with management.

The agreed fee presented is based on the following assumptions:


- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.



If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Required communications with the Audit Committee




We have detailed the communications that we must provide to the Audit and Governance Committee

 Our Reporting to you




Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report

Page 47

Required communications with the Audit Committee (continued)




			 Our Reporting to you	
Required communications	 What is reported?	 When and where		
Page 48	Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report	
	Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report	
	Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report	
	Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report	

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Planning Report</p> <p>Audit Results Report</p>	
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit results report</p>	
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of 	<p>Audit results report</p>	
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	<p>Audit results report</p>	

Appendix B

Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report	
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report Audit results report	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the financial statements. Reading other information contained in the financial statements, the Audit and Governance Committee reporting appropriately addresses matters communicated by us to the Audit and Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 13 FEBRUARY 2020

PART A : REPORT

SUBJECT: Housing Benefit Subsidy Claim 2018/19 Certification

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: January 2020

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The Council's annual Housing Benefit Subsidy Claim is required to be certified in support of the claim submitted to the Department for Works & Pensions.

The Council has engaged Ernst & Young LLP (E&Y) to undertake this work for a 5-year period following the expiry of the previous national agreement via Public Sector Audit Appointments Ltd (PSAA). This report summarises the key points reported by E&Y.

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note the report summarising the key points of the certification

1. BACKGROUND:

The Council is required to submit a certified claim to the DWP on an annual basis in respect of the Housing Benefit Subsidy that it has paid out. E&Y have been engaged to perform the certification work for a 5-year period. The output from this is a Housing Benefit (Subsidy) Assurance Process (HBAP) report to the Council and the DWP.

In previous years a summarised certification report has also been provided for the Committee by E&Y, but this is no longer a requirement. An officer report summarising the results of the certification work has therefore been prepared for noting by the Committee.

2. PROPOSAL(S):

It is proposed that the Committee notes the summary report on the certification of the Council's Housing Benefit Subsidy Claim 2018/19 provided

3. OPTIONS:

To note the summary report or not

4. CONSULTATION:

Key points confirmed with Revenues & Benefits Manager

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS:		

7. REASON FOR THE DECISION:
The Committee notes the summary report on the certification of the Council's Housing Benefit Subsidy Claim 2018/19

8. BACKGROUND PAPERS:
N/A

Certification of the Housing Benefits Subsidy Claim 2018/19

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Until 2017/18, the duty to make arrangements for the certification of the Council's housing benefits subsidy claim and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

From the 2018/19 year, the Council has been required to make its own arrangements for future certification work, requiring a tri-partite agreement between the Council, the Department for Work & pensions (DWP) and an approved reporting accountant. The Council has engaged Ernst & Young LLP (E&Y) to undertake this work for the years ending 31 March 2019 to 31 March 2023.

The reporting accountant is required to follow a methodology of specific test requirements on a defined sample basis determined by the DWP and does not undertake an audit of the claim. E&Y completed their certification work to meet the submission deadline of 30 November 2019 and submitted their report to the Council.

The following key points have been taken from their report in order to brief Members:-

Scope of work	Results
Value of claim presented for certification	£45,778,895 Adjusted to £45,777,200
Amended / Not Amended	Amended
Qualification Letter	Yes
Fee – 2018-19	£10,379 (subject to additional fees for 40+ testing required)
Fee – 2017-18	£10,100

Local government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work & pensions (DWP) towards the cost of benefits paid.

A standard methodology is followed for testing each benefit type, typically an initial sample of 20 cases. The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ or extended testing may also be carried out as a result of errors that have been identified in the review of previous years' claims.

Ernst & Young's initial sampling identified the following:-

Error(s)	Results
One case was identified where child care costs were calculated incorrectly resulting in an overpayment of benefit	Additional work was undertaken on the (very small) whole population and an adjustment was made to the claim form
One case was identified where incorrect War Disablement Pension (WDP) was used resulting in an overpayment of benefit	Additional work was undertaken on the (very small) whole population and an adjustment was made to the claim form
One case was identified where WDP was incorrectly entered resulting in an overpayment of benefit	

As a result of the above errors identified the claim was adjusted by £1695.

Additional testing was also undertaken on the calculation of earned income. Although no cases were identified in the initial testing an additional sample of 40 cases was tested, as errors were identified with this area in the testing of the 2017/18 claim.

Error(s)	Results
Seven cases were identified with small errors resulting in over or underpayment	The errors were extrapolated across the relevant cell population

As a result, an extrapolated understatement figure of £15,470 has been reported to the DWP who will decide upon any action to be taken. (NB – even if this is adjusted it is within the allowable local authority error threshold applied and the Council will not 'lose' this money)

Conclusion

Although the testing has identified a small number of errors resulting in a qualification letter and a small adjustment to the claim submitted to the DWP, the values involved are extremely small in relation to the total amounts handled by the Council and Benefits staff should be commended for the results.

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE ON 13 FEBRUARY 2020

PART A: REPORT

SUBJECT: Approval of Accounting Policies 2019/20

REPORT AUTHOR: Carolin Martlew, Financial Services Manager

DATE: 14/01/2020

EXTN: 37568

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The report allows the Audit and Governance Committee to consider and approve the accounting policies that will be applied to the Statement of Accounts 2019/20 for approval by the committee in July 2020.

RECOMMENDATIONS:

The Committee is requested to approve the accounting policies that will be applied to the Statement of Accounts 2019/20.

1. BACKGROUND:

- 1.1 It is the responsibility of the charged with governance (the Audit and Governance Committee) to consider and agree the accounting policies to be applied to the Statement of Accounts for the year ended 31 March 2020.
- 1.2 The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2020.

2. PROPOSAL(S):

- 2.1 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 included in Appendix 1.
- 2.2 It should be noted that it is recommended practice for Council's to only adopt Accounting Policies that are relevant to their Statement of Accounts. If during the preparation of the Accounts and external audit issues arise that require additions to the adopted policies the committee will be updated of any subsequent changes.

3. OPTIONS:		
Accounting policies are a statutory requirement and therefore the Committee is requested to approve the accounting policies that will be applied to the Statement of Accounts 2019/20.		
4. CONSULTATION:		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial	✓	
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS:		
The Accounting Policies will be applied to the Statement of Accounts 2019/20		

7. REASON FOR THE DECISION:
To ensure that the Statement of Accounts is prepared using proper accounting practices as required by the Local Government Act 2003.

8. BACKGROUND PAPERS:
The code of Practice on Local Authority on Local Authority Accounting in the United Kingdom 2019/20 Accounts (CIPFA)
Prudential Code (CIPFA)
LAAP Bulletin: Closure of the 2019/20 Accounts and Related Matters (CIPFA)

Note 1 - Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. 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 2019/20, supported by International Financial Reporting Standards (IFRS). 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 fixed 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 statute 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 Financing and Investment Income and Expenditure 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 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 39.

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 or 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 increased 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.

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 a principal 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.

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 (e.g. software licences) 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 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 30% of the cost of new social housing, the remaining 70% 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 is 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 Her 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 participants 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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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE ON 13 FEBRUARY 2020

PART A: REPORT

SUBJECT: Capital Strategy 2020/21 to 2022/23

REPORT AUTHOR: Carolin Martlew, Financial Services Manager
DATE: January 2020
EXTN: 37568
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The report allows the Audit and Governance Committee to consider and comment on the Council's Capital Strategy 2020/21 to 2022/23 before adoption by Full Council.

RECOMMENDATIONS:

The Committee is requested to recommend to **Full Council** that the Capital Strategy 2020/21 to 2022/23 be approved.

1. BACKGROUND:

- 1.1 This strategy forms the framework for capital investment decisions over the next three years and will inform the detailed annual capital budgets over this period. It is closely linked to the Treasury Management Strategy, the Investment Strategy and the Borrowing Strategy.
- 1.2 The strategy aims to balance capital expenditure needs and expectations (e.g. replacement of business critical IT systems) with the scarcity of available resources.

2. PROPOSAL(S):

- 2.1 The Treasury Management Code allows authorities to delegate the detailed management of Treasury Management, including the Capital Strategy, to a sub-committee and this responsibility is now delegated to the Audit and Governance Committee. This delegation will facilitate more active discussion of the Capital Strategy and its implementation though overall responsibility will at all times remain with the full Council.
- 2.2 Capital Strategy 2020/21 to 2022/23 for consideration is included in Appendix 1.

3. OPTIONS:		
To endorse the Capital Strategy 2020/21 to 2022/23.		
4. CONSULTATION:		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial	✓	
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS:		
The Capital Strategy will inform capital expenditure decisions.		

7. REASON FOR THE DECISION:
To ensure that the capital strategy 2020/21 to 2022/23 is considered before approval by Full Council.

8. BACKGROUND PAPERS:
Prudential Code (CIPFA)

ARUN DISTRICT COUNCIL

CAPITAL STRATEGY – 2020/21 to 2022/23

1.0 INTRODUCTION

1.1 Overview

This strategy forms the framework for capital investment decisions over the next three years and will inform the detailed annual capital budgets over this period. It is closely linked to the Treasury Management Strategy, the Property and Investment Strategy and the Asset Management Strategy. The strategy aims to balance capital expenditure needs and expectations (e.g. replacement of business-critical IT systems) with the scarcity of available resources.

1.2 Member approval and review

The Treasury Management Code allows authorities to delegate the detailed management of Treasury Management, including the Capital Strategy, to a sub-committee and this responsibility is now delegated to the Audit and Governance Committee. This delegation will facilitate more active discussion of the Capital Strategy and its implementation though overall responsibility will at all times remain with the full Council.

1.3 Strategic Direction of the Council

A key driver of the Capital Strategy is the Council's Vision programme – “working together for a better future”. This programme provides strategic direction to help the Council become more effective and sustainable and to enable it to meet the demands of the future. The strands of the Vision programme are:

- Offering a better customer experience
- Strengthening external relationships
- Providing more digital online services
- Becoming smaller and more effective

1.4 Strategic Council Targets for the Period 2019-2023

The Capital Strategy will also be informed by the additional Strategic Council Targets for the period 2019-2023, agreed by Council on 16 November 2019, which are:

- Environment and Climate Change
- Equality and Diversity
- Local Plan
- Regeneration
- Governance

In agreeing to these targets, the Council noted the associated financial impact and sought to establish financial viability through future Medium-Term Financial Strategies.

1.5 Capital Expenditure

Capital expenditure, defined in accordance with the Council's approved accounting policies and procedures, can be funded in a variety of ways:

- Grants
- Section 106 Contributions
- Capital receipts
- Direct Revenue Contributions
- Borrowing

The method of funding for any scheme will depend on several factors and this is covered in more detail below. It should be noted that the Council has extremely limited resources for the funding of capital expenditure, with the capital receipts balance having reduced significantly over recent years due to the planned use of these receipts for the delivery of the Littlehampton Wave project (Littlehampton's new sports and leisure facility) and for the Housing Revenue Account acquisition/new build programme.

1.6 Whole life costing for capital schemes

Whole life costing can be defined as "the systematic consideration of all relevant costs and revenues associated with the acquisition and ownership of an asset." In practical terms this means that any appraisal of a proposed capital project will need to consider not just the initial capital costs, but all costs and income streams associated with the project that are likely to occur in future years, including possible replacement or disposal costs. This is vital to ensure that the Council is not committing itself to future liabilities that are unsustainable.

1.7 Scheme Evaluation and Risk

Any appraisal of proposed new capital schemes should include a full evaluation of risk, having regard to the whole life costing methodology set out above.

1.8 Monitoring of approved capital schemes

For approved capital schemes it is the responsibility of the relevant budget holder to manage costs and to provide explanations for any variations from the approved budget. Budget monitoring statements are presented to Corporate Management Team on a monthly basis and to Cabinet quarterly.

1.9 Separate capital programmes for the Housing Revenue Account and the General Fund

The capital programmes for the Housing Revenue Account (HRA) and the General Fund are considered in detail below. The HRA is a statutorily ring-fenced account covering income and expenditure relating to the Council's rented stock and the General Fund covers all other Council services. The ring-fence means that the HRA and the General Fund are separate entities, each having their own budget and financial model. For these reasons the HRA and General Fund capital programmes are considered separately.

2.0 HOUSING REVENUE ACCOUNT (HRA) PROGRAMME

2.1 Acquisition of new dwellings

The HRA capital programme for 2020/21 to 2022/23 will be driven by the updated HRA Business Plan, approved by Council in March 2019. One of the key priorities of this plan is the provision of a significant number of new dwellings (250 to 275) over the 10-year life of the plan, the acquisition/building of these dwellings to be funded from a mix of "1 for 1" Right to Buy receipts* and borrowing.

*The receipts retained by agreement with the Government subject to these receipts being used for the provision of new social housing.

These receipts can be used to fund up to 30% of the cost of acquisition/new build schemes. Several acquisition/new build schemes have been completed and there is a pipeline of new schemes, some of which are currently progressing.

2.2 Other capital expenditure

The updated HRA Business Plan reflects the detailed information provided by the recently completed stock condition survey. This has led to a substantial increase in the levels of investment required in the existing housing stock. Additional capital expenditure will be required for regenerating the sheltered stock.

2.3 Affordability and borrowing

The HRA capital programme will need to be regularly reviewed to assess affordability. Consideration will need to be given to the loan servicing costs of any new borrowing to ensure that these costs, together with the costs associated with existing (self-financing) debt can be sustained. This is particularly important in the light of the significant reduction in the number of right-to-buy disposals. The "1 for 1" Right to Buy receipts being used to part-

fund current acquisition/new build schemes are not being replaced by new receipts and there will, therefore, be insufficient receipts to support future schemes. The Council will thus be required to fund up to 100%, rather than just 70%, of these future schemes resulting in additional loan servicing charges.

3.0 GENERAL FUND PROGRAMME

3.1 Core annual programme

The Council has a core annual programme comprising asset management (all non HRA assets), Information Technology and Disabled Facilities Grants (DFG's). DFG's pay for essential adaptations to help people with disabilities stay in their own homes. The DFG programme is entirely funded by Government Grant whereas the asset management and Information Technology programmes are generally funded by revenue contributions.

3.2 Asset management

A recent review of the condition of the Council's General Fund assets revealed that they require significant funding to ensure that they are maintained at an acceptable standard. This will require supplementing the current core programme and using capital receipts and/or S.106 contributions.

3.3 Property Investment Fund

A property investment fund has been established with the aim of acquiring properties to generate a return for the Council. Property acquisitions are funded by earmarking a proportion of the Council's capital receipts from land and property disposals. Acquisitions can only be made once a full business case has been completed and the risks fully understood and evaluated. Further details are set out in the Arun District Council Property Investment Strategy 2017–2022.

3.4 Other Schemes

In addition to the core annual programme other schemes will be considered subject to the criteria set out below. However, the key issue here is the uncertainty with regard to future funding levels. The Council's Medium-Term Financial Strategy (MTFS) assumed that £2m would be available in 2020/21 and £1m for each of the following two years. The MTFS recognised that this level of funding would not cover everything and that it was essential that capital investment was carefully prioritised.

3.5 Prioritising new schemes

In common with other local authorities Arun is facing a challenging financial climate and it is, therefore, essential that systems are in place to ensure that

scarce resources are allocated in the most effective possible way. New schemes will be assessed against the following criteria:

- Link to the Council's strategic direction (the Council's Vision programme)
- Availability of specific external funding
- Demonstration of a sound business case
- Whole life cost implications (see 1.6 above)
- Value for money

High priority will be given to the replacement of business-critical IT systems and to the maintenance requirements of the Council's assets.

3.6 Affordability and available resources

In addition to considering the merits of individual schemes the Council will need to assess the overall affordability of any new programme, having regard to the availability of resources, existing financial commitments and the projected level of balances forecast in the medium-term financial strategy. As outlined in 1.5 above, possible sources of funding for capital schemes are:

- Grants
- Section 106 contributions
- Capital receipts
- Direct Revenue contributions
- Borrowing

3.7 Specific resource issues

Grants and Section 106 contributions are generally used to fund specific capital schemes linked to the conditions imposed by the relevant grant or section 106 contribution. There is little, if any, latitude in the way grant funding can be applied.

Capital receipts are derived from the sale of the Council's assets, including council houses sold under the Right to Buy. It is the Council's policy to use these receipts (except for "1 for 1" Right to Buy receipts which can only be used for the provision of new social housing) to support the General Fund capital programme. A specified proportion of these receipts will be earmarked for the Property Investment Fund (see 3.3 above).

Revenue contributions are a flexible source of funding, but they put an immediate strain on the General Fund balance and can therefore only be used to a limited extent. Borrowing spreads, the cost over a number of years but loan servicing costs and the overall level of debt exposure both need to be considered and demonstrated in a business case.

4.0 LINKS TO OTHER COUNCIL STRATEGIES

4.1 Treasury Management Strategy

The capital strategy is closely linked to the Treasury Management Strategy and it is essential that any investment decisions are informed by both strategies. In particular, the assessment of affordability outlined in 3.6 above will need to have regard to the relevant elements of the Treasury Management Strategy including:

- The incremental impact of capital investment on council tax and housing rent levels
- The borrowing strategy
- The authorised limit for external debt

4.2 Property Investment Strategy

This Strategy sets out the policies relating to the Property Investment Fund (see 3.3 above).

4.3 Asset Management Strategy

As outlined in 3.1 above, there is a core annual programme to cover capitalised repairs and improvements for all the Council's non HRA assets. The asset management strategy establishes the priorities for this programme having regard to the condition of the various assets and their respective priorities in terms of delivering Council services or generating rental income. The core annual programme will need to be supplemented in the light of the recent review of the Council's General Fund assets.

PROVISIONAL CAPITAL PROGRAMME - 2020/21 to 2022/23

Appendix 1

	2020/21 £'000	2021/22 £'000	2022/23 £'000
General Fund			
Core annual programme :			
Asset management	858	744	744
Disabled Facilities Grants	1,500	1,500	1,500
Other schemes :			
Littlehampton Public Realm	200	0	0
Littlehampton Cemetery Chapel Roof	250	0	0
Fitzleet car park	250	266	49
Public Conveniences	150	150	165
West Beach Roadway	150	0	0
Car Park Resurfacing	190	165	150
Asset management - additional responsive repairs	0	190	102
Play Areas	100	0	0
Essential IT infrastructure	580	120	315
Future Essential Schemes/Projects	0	109	219
<i>Total General Fund</i>	4,228	3,244	3,244
HRA			
Acquisition/new build programme *	9,341	0	0
Improvements	3,995	4,545	4,995
<i>Total HRA</i>	13,336	4,545	4,995
Total Programme	17,564	7,789	8,239

* A budget of £15m was approved in 2018/19 for the HRA acquisition/new build programme. The programme is now progressing with a number of schemes under way and more schemes in the pipeline. The new budget of £9.341m, together with the unspent balance of the £15m already approved, will allow the necessary amount

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ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE ON 13 February 2020

PART A: REPORT

SUBJECT: Treasury Management Strategy Statement and Annual Investment Strategy 2020/21

REPORT AUTHOR: Sian Southerton – Senior Accountant (Treasury)
DATE: January 2020
EXTN: 37861
PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The purpose of this report is to present the Treasury Management Strategy Statement and Annual Investment Strategy 2020/2021 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council (18 March 2020).

RECOMMENDATIONS:

The Committee is requested to recommend Full Council to:

- (i) approve the Treasury Management Strategy for 2020/21;
- (ii) approve the Annual Investment Strategy for 2020/21; and
- (iii) approve the Prudential Indicators for 2020/21, 2021/2022 and 2022/23 as contained in appendix 1 and the body of the report.

BACKGROUND:

1 Introduction

1.1 Background

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

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

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

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

CIPFA defines treasury management as:

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

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA 2017 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 this capital strategy is to ensure that all elected members on the Full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

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. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit and Governance Committee.

- **Prudential and Treasury Indicators and Treasury Strategy** (this report) - The first and most important report is forward looking and covers:
 - the capital plans (including prudential indicators) (2.0);
 - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time) (2.4);
 - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators (3.0); and
 - an investment strategy (the parameters on how investments are to be managed) (4.0).
- **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. The Audit and Governance Committee will receive a mid-year report at its November meeting prior to approval by Full Council.
- **An Annual Treasury Report** – This is a backward looking review document providing details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy which the Audit and Governance Committee will receive at its July meeting prior to approval by Full Council.

1.3 Treasury Management Strategy for 2020/21

The strategy for 2020/21 covers two main areas:

Capital issues

- the capital plans and the 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, the CIPFA Treasury Management Code, the CIPFA Prudential Code, MHCLG Investment Guidance and the MHCLG Minimum Revenue Provision (MRP) Guidance.

A Voluntary Repayment Provision (VRP) is sufficient as Arun's debt is all HRA. However, there is a possibility that the Council may wish to borrow for General Fund purposes at some point in the future.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members responsible for scrutiny. Accordingly, all members were invited to attend a workshop presented by Link Asset Services (Treasury advisors) explaining the roles and responsibilities of elected members and giving them an economic update. The latest session was held on 21st November 2019.

The training needs of treasury management officers are reviewed periodically and senior officers attend seminars at least once a year.

1.5 Treasury management consultants

The Council uses Link Asset Services, 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 external service 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 now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and 2 commercial type investments, such as investment properties (East Preston Depot and currently the Bognor Regis Arcade). Any further commercial type investments will require specialist advisers in relation to this activity.

2 The Capital Prudential Indicators 2020/21 to 2022/23 (Appendix 1)

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

2.1 Capital Expenditure.

This prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. 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 19th February 2020.

Currently Arun's only borrowing relates to the HRA self-financing settlement. However, the Council has a significant capital programme including HRA acquisition/new build and smaller projects such as work to carparks, public convenience's and cemeteries. Much of this programme will be funded from capital receipts and revenue resources but it is likely that additional borrowing will be required at some point in the near future, however the source has not yet been identified.

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.

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 2018/19 £,000	Current Estimate 2019/20 £,000	Estimate 2020/21 £,000	Estimate 2021/22 £,000	Estimate 2022/23 £,000
Non HRA	13,764	3,520	4,228	3,244	3,244
HRA	4,125	10,423	13,336	4,545	4,995
HRA settlement	-	-	-	-	-
Total	17,889	13,943	17,564	7,789	8,239
Financed by:					
Capital receipts (1-4-1)	3,398	1,500	0	0	0
Capital grants	2,193	1,500	1,500	1,500	1,500
Capital reserves	1,613	5,393	3,965	4,515	4,965
Revenue	7,026	2,050	2,858	1,774	1,774
	14,230	10,443	8,323	7,789	8,239
Net financing need for the year	3,659	3,500	9,421	0	0

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, 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 borrowing need in line with each assets life, and so charges the economic consumption of capital assets as they are used.

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

The Council is asked to approve the CFR projections in Appendix 1 also shown below:

CFR at 31 March	Actual 2018/19 £,000	Current Estimate 2019/20 £,000	Estimate 2020/21 £,000	Estimate 2021/22 £,000	Estimate 2022/23 £,000
Capital Financing Requirement					
General Fund	(1,876)	(4,009)	(4,223)	(4,442)	(4,642)
HRA	53,594	52,481	51,674	49,212	47,869
Total CFR	51,718	48,472	47,451	44,770	43,227
Movement in CFR	(89)	(3,245)	(1,021)	(2,681)	(1,543)

Movement in CFR represented by					
Leasing arrangements (GF)	0	0	0	0	0
HRA unfinanced	3,660	0	0	0	0
Increase in new borrowings	0	2,431	2,818	1,257	239
Repayments	0	-1,923	0	0	0
Less MRP/VRP	(3,749)	(3,754)	(3,839)	(3,938)	(1,782)
Movement in CFR	(89)	(3,245)	(1,021)	(2,681)	(1,543)

2.3 Core funds and expected investment balances

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

Year End Resources £m	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Fund balance	15.47	12.71	10.18	4.45	0
Earmarked Reserves	15.40	7.28	4.98	4.98	4.98
Capital Receipts	2.79	2.72	1.60	1.30	1.44
Other	2.87	1.4	1.4	1.4	1.4
Total core funds	36.53	24.11	18.16	11.94	7.96
Under/over borrowing	16.47	24.89	20.84	15.06	12.04
Expected investments	53.00	49.00	39.00	27.00	20.00

2.4 Minimum revenue provision (MRP) policy statement

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

MHCLG regulations have been issued which require the Full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the MRP Statement in Appendix 2 written as part of the 2018/19 Strategy with no revisions at this time. The policy will need to be reviewed at such time as the need to borrow has been agreed. There may also be further HRA borrowing relating to the current acquisition/new build programme.

The Council does not currently have any General Fund external debt and therefore is not statutorily required to make Minimum Revenue Provision (MRP) in respect of its CFR, but there is a requirement for a charge for depreciation to be made.

It is considered prudent to make VRP in respect of the PWLB maturity loans funding the HRA self-financing settlement payment. The table shows the VRP reducing the CFR. The VRP is incorporated in the HRA Business Plan and in the 2020/21 HRA budget. If borrowing is taken out for general fund in 2020/21, the MRP policy will need to be reviewed.

MRP Overpayments

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 there were no VRP overpayments.

2.5 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 1.

Ratio of financing costs to net revenue stream.

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

	Actual 2018/19 %	Current Estimate 2019/20 %	Estimate 2020/21 %	Estimate 2021/22 %	Estimate 2022/23 %
Non-HRA	-2.62	-2.32	-2.17	-2.17	-2.17
HRA	33.11	32.97	32.84	33.19	31.24

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 2019 and 31 December 2019 summarised below;

TREASURY PORTFOLIO				
	actual	actual	current	current
	31.3.19	31.3.19	31.12.19	31.12.19
	£000	%	£000	%
Treasury investments				
Banks	37,000	70%	54,000	74%
building societies – unrated	1,000	2%	3,000	4%
building societies – rated	0	0%	0	0%
local authorities	2,000	4%	2,000	3%
DMADF (H.M.Treasury)	0	0%	0	0%
money market funds	8,000	15%	9,030	12%
certificates of deposit	0	0%	0	0%
Total managed in house	48,000	91%	68,030	93%
bond funds	0	0%	0	0%
property funds	5,000	9%	5,000	7%
Total managed externally	5,000	9%	5,000	7%
Total treasury investments	53,000	100%	73,030	100%
Treasury external borrowing				
local authorities	0	0%	0	0%
PWLB	53,180	100%	53,180	100%
LOBOs	0	0%	0	0%
Total external borrowing	53,180	100%	53,180	100%
Net treasury investments / (borrowing)	(180)	0	19,850	0

The investments held at 31st December 2019 are shown in Appendix 3.

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 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 is technically in an over borrowed position as the only borrowing relates to the HRA Self-Financing settlement (£70.9m now £53.18m). 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 consequence of these factors, the Council's gross debt currently exceeds its CFR, however £8.86m will be repaid on the 28 March 2020 reducing the external borrowing to £44.32m.

The Group Head of Corporate Support 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 £58M in Appendix 1 (2020/21).

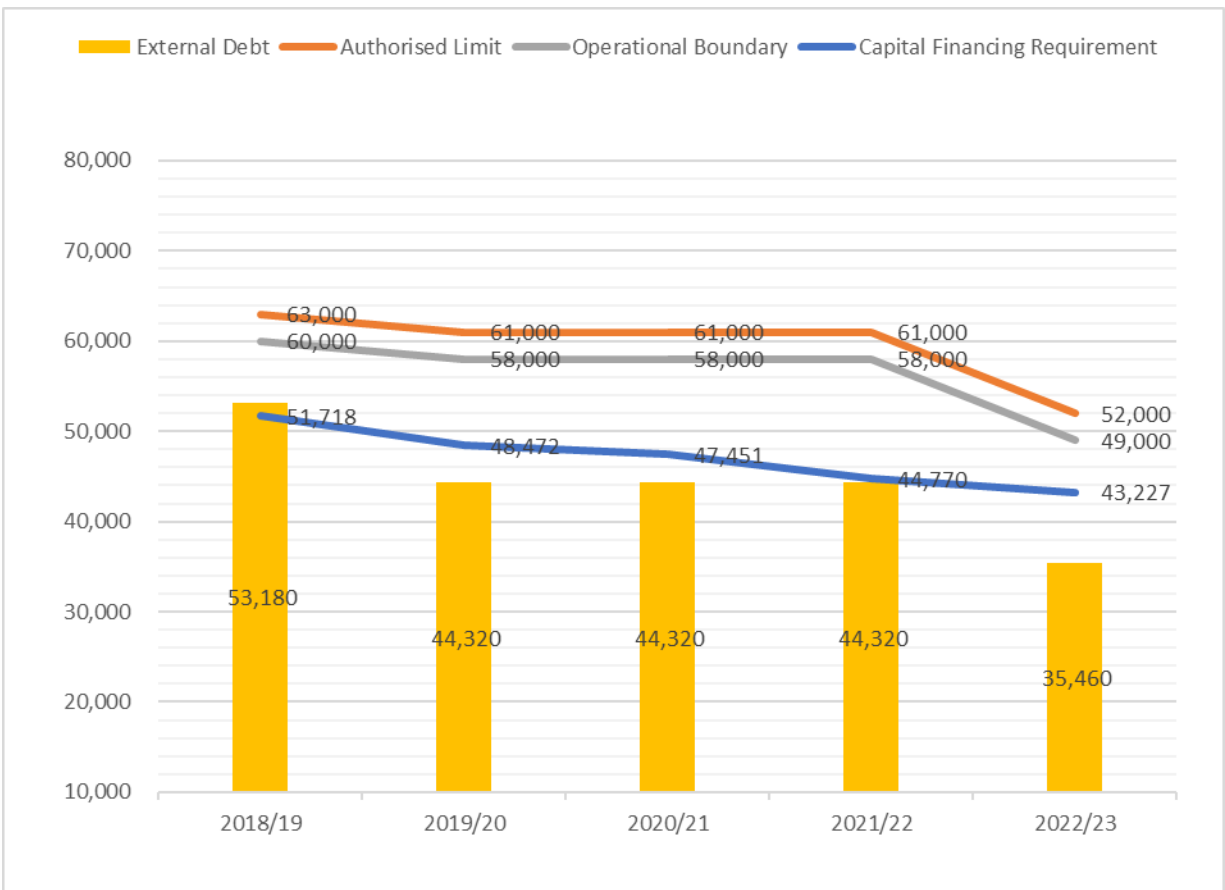
3.2.2 The Authorised Limit for external debt.

This is a key prudential indicator 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.

- i. 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.
- ii. The Council is asked to approve an Authorised Limit of £61M (appendix 1 2020/21).

3.2.3 The chart below shows the Councils projection of CFR and borrowing.



The bars in the chart above show the actual external debt (£53M-35M) and does not include any potential future borrowing. The Authorised limit and operational boundary do factor in £9m potential borrowing. The debt repayment on 28 March 2020 has been accounted for but there will be a further debt repayment on 28 March 2022 (reducing the borrowing from £44M to £35M at this date)

3.3 Prospects for Interest Rates

3.3.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix 4 draws together two views of the forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Link Asset Services central view.

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

3.3.2 The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Bond yields / PWLB rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields.

Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.

- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management.
- While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

3.4 Borrowing Strategy

3.4.1 The Council has a significant capital programme including HRA acquisition/new build and many smaller projects such as work to carparks, public convenience's and cemeteries.

The level of expenditure within the HRA will almost certainly require additional borrowing. This will be 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 and decent homes programme.

The source of any of this potential borrowing has not been identified at the time of writing. There may also be a requirement to borrow for other new projects / opportunities, but this would need to be dependent on a viable business case which fully justifies the investment.

The Council's borrowing strategy will give consideration to new borrowing in the following order or priority;

- Internal borrowing;

By running down cash balances and foregoing interest earned at historically low rates, as this is the cheapest form of borrowing, however, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years;

- External borrowing;

- the PWLB Certainty Rate is available to the Council at 0.2% below the normal terms or;
- borrowing from the money markets, most probably other local authorities since the 100bp increase (PWLB), depending on market conditions at the time.

There may however 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

now maintain an approx. £200k balance in the account daily (earning interest at the bank of England base rate -10bp, currently 0.65%) to cover any potential issues.

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

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 1 also shown below:

Maturity structure of fixed interest rate borrowing 2020/21			
	Actual at 31/03/20	Lower	Upper
Under 12 months	0%	0%	40%
12 months and within 24 months	20%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	20%	0%	60%
10 years and above	60%	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.

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 in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Should there be any rescheduling, it will be reported to Full Council at the earliest meeting following its action.

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

Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

4 Annual Investment Strategy

4.1 Investment Policy – management of risk

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

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

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

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

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

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This 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;** (these are considered low risk assets where the possibility of loss of principal or investment income is small) are those with a high level of credit quality and subject to a maturity limit of one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18month deposit would still be non-specified even if it has only 11 months left until maturity. A maximum of **30%** will be in aggregate in non-specified investments.
5. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (Appendix 1).
6. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (Appendix 8).
7. All investments will be denominated in **sterling**.
8. 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 8, Appendix 6)
9. It is recommended that the Council may invest in diversified funds subject to due diligence. For example, CCLA, where £5M is invested in a property fund and up to £4M in a money market fund, offers a diversified fund, providing a return of approx. 3%. These funds would diversify the risk from the property fund. (Currently there are 37 authorities investing in this fund and £180M). (Category 12, Appendix 6). More details

on the CCLA diversified Investment fund are included in Appendix 11.

10. As a result of the change in accounting standards for 2019/20 under **IFRS 9**, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1 April 18.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. 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 attractive rates available from counterparties of high creditworthiness for longer periods while interest rates remain low and the forecast for a rate hike is not till March 2021 (25bp).

4.2 Creditworthiness policy

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

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

The 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 as some rating agencies are more aggressive in giving low ratings than others. 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 can be seen in Appendix 7.

Additional requirements under the Code require the Council to supplement credit rating information, which the Council achieves using the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising

credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's.

The credit ratings of counterparties are supplemented with the following overlays:

- credit 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.

All credit ratings are monitored weekly and the Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

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 £11M in term deposits with them.

UK banks – ring fencing

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

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

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

4.3 Other limits

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

Non-specified investment limit. The Council has determined that it will limit the maximum total exposure to non-specified investments as being £18M (20/21) of the total investment portfolio.

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 7. 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 all 3 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.

The code recommends that Councils take country limits into consideration in order to spread risk. In practice most investments tend to be made in the UK due to the restricted number of quality counterparties available to the Council and it is not proposed to set country limits at this time.

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 £12M (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.

Every effort will be made to spread the maturity profile of investments to compensate for the lack of sector or country spreads (due to limited counterparties).

4.4 Investment Strategy

The Council does not utilise external fund managers, but reserves the option to do so in the future should this be deemed to be appropriate. Should consideration be given to exercising this option in the future, the relevant Committee will be advised of the reason for doing so.

The Council's funds are therefore all managed in-house although £5M is invested in a property fund run by CCLA (Churches, Charities and Local Authorities). The average level of funds available for investment purposes is currently £62M (as at 31 December 2019). These funds are partially cash-flow derived and there is a core balance of approximately

£49M 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 (£3.5M) for when they become repayable, the Earmarked Reserves, Capital Receipt, General Fund and HRA balances which were £15.40M, £2.79M, £9.95M and £8.39M at 31 March 2019 respectively.

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

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

The Council has the following spanning the financial year and there are no forward commitments (deals) for the financial year 2020/21;

- £5m invested in the CCLA property fund
- £1m invested in Lloyds Bank

Investment returns expectations.

On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

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

2019/20	0.75%
2020/21	1.00%
2021/22	1.00%
2022/23	1.50%
2023/24	1.50%
2024/25	1.75%
Later years	2.25%

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening

global economic picture.

- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal is agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

The Council's budgeted rate of return for 2020/21 is 1.26% based on 1.17% on funds that are already invested; 4.20% for the property fund (£5M); 0.89% for the remaining core balances; and 0.70% for short term cash flow derived balances. The total investment income budget for 2020/21 is £550,000. The budget is based on investments up to one year particularly in category's 4 & 7 and longer investments in Category 1, 2, 3 and 6. (Category 1 being the highest rated banks and 6 being part nationalised banks). Category 5; the Councils Bank (Lloyds) is a mixture of the above but also notice accounts (32 Day Notice and 95 Day Notice) enabling the Council to achieve slightly enhanced rates compared to Money Market Funds (MMFs).

The Council currently uses two types of Pooled Funds, Property 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. In this strategy it will also add diversified funds that will offer returns around 3%, diversifying from Property fund. MMFs are used for short term of daily surplus of cash as they provide instant liquidity with high quality counterparties at a return comparable to (if not better than) other fixed deposits of short term duration. (0.65%-0.75%)

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.

LVNAV MMFs are permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the fund does not deviate from the dealing NAV by more than 20 basis points.

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 indicators and limits in appendix 1 (shown below):

Maximum principal sums invested > 365 days			
£m	2020/21	2021/22	2022/23
Principal sums invested > 365 days	18	15	10

For its cash flow generated balances, the Council will seek to utilise its interest bearing bank account, notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day LIBID un compounded.

4.6 End of year investment report

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

4.7 Scheme of delegation

Please see Appendix 9.

4.8 Role of the section 151 officer

Please see Appendix 10.

Contact: Sian Southerton ext 37861 sian.southerton@arun.gov.uk

2. PROPOSAL(S):		
To approve all 3 recommendations.		
3. OPTIONS:		
The Treasury Management Strategy is legislative and under the Local Government act 2003 and therefore the only option is follow the proposal.		
4. CONSULTATION:		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		√
Relevant District Ward Councillors		√
Other groups/persons (please specify)	√ Treasury Advisors	
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)		
Financial	√	
Legal		√
Human Rights/Equality Impact Assessment		√
Community Safety including Section 17 of Crime & Disorder Act		√
Sustainability		√
Asset Management/Property/Land		√
Technology		√
Other (please explain)		
6. IMPLICATIONS:		
Approval will enable the Council to comply with legislation and provide a Treasury Service		

7. REASON FOR THE DECISION:
Statutory and the limits set, safeguard the Council against financial losses.

8. BACKGROUND PAPERS:
<ul style="list-style-type: none"> • The Local Government Act 2003 (www.legislation.gov.uk/ukpga/2003/26/content) • CIPFA'S Treasury Management in the Public Services: Code of Practice (2017) (<i>Link not available as copyright</i>) • The Prudential Code for Capital Finance in Local Authorities (2017) Cipfa Treasury Management Guidance notes (2018) (<i>Link not available as copyright</i>) • MHCLG's Guidance on Local Government Investments ("the Guidance")

Prudential and treasury indicators

APPENDIX 1

1. PRUDENTIAL INDICATORS	2018/19	2019/20	2020/21	2021/22	2022/23
Extract from budget and rent setting report	Actual	Probable outturn	Original	Original	Original
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure					
Non – HRA	13,764	3,520	4,228	3,244	3,244
HRA	4,125	10,423	13,336	4,545	4,995
TOTAL	17,889	13,943	17,564	7,789	8,239
Ratio of financing costs to net revenue stream					
Non – HRA	-2.62%	-2.32	-2.17	-2.17	-2.17
HRA	33.11%	32.97	32.84	33.19	31.24
Capital Financing Requirement as at 31 March					
Non – HRA	-1,876	-4,009	-4,223	-4,442	-4,642
HRA	53,594	52,481	51,674	49,212	47,869
TOTAL	51,718	48,472	47,451	44,770	43,227
Annual change in Cap. Financing Requirement					
Non – HRA	1,718	-2,133	-214	-219	-200
HRA	-1,807	-1,113	-807	-2,462	-1,343
TOTAL	-89	-3,246	-1,021	-2,681	-1,543

2. TREASURY MANAGEMENT INDICATORS	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Probable outturn	Original	Original	Original
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
Borrowing	63,000	61,000	60,000	60,000	51,000
Other long term liabilities	0	0	1,000	1,000	1,000
TOTAL	63,000	61,000	61,000	61,000	52,000
Operational Boundary for external debt					
Borrowing	60,000	58,000	57,000	57,000	48,000
other long term liabilities	0	0	1,000	1,000	1,000
TOTAL	60,000	58,000	58,000	58,000	49,000
Actual external debt	53,180	**44,320	*44,320	**44,320	35,460
Upper limit for total principal sums invested for over 365 days (£m)	22	18	18	15	10
-	-	-	-	-	-

*2020/21 potentially up to £9m of borrowing, therefore Authorised limit and Operational boundary increased by the £9m to allow for this

** £8.86m of debt being repaid (28 March 2020 (shown in 19/20) & 2022 (not shown yet in 21/22)

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/20	lower limit	upper limit
under 12 months	0%	0%	40%
12 months and within 24 months	20%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	20%	0%	60%
10 years and above	60%	0%	100%

Minimum Revenue Provision Policy

1. Introduction

- 1.1 CLG's Guidance on Minimum Revenue Provision (issued in 2012 but currently out for consultation) 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 tax payers.
- 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 CLG guidance requires the authority 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 DCLG Guidance on MRP

- 2.1 The statutory guidance issued by DCLG 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 DCLG 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 a 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. 2018/19 MRP Policy**

For 2018/19 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 Chief Financial Officer
- 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 Chief Finance Officer 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.

INVESTMENTS at 31st December 2019

Appendix 3

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	723	DBS	08/07/2019	08/01/2020	£2,000,000.00	0.8200
Fixed Term Deposit	712	Goldman Sachs	12/04/2019	13/01/2020	£1,000,000.00	0.9900
Fixed Term Deposit	706	Close Brothers	04/03/2019	03/03/2020	£1,000,000.00	1.2500
Fixed Term Deposit	707	Qatar National Bank	06/03/2019	04/03/2020	£1,000,000.00	1.4200
Fixed Term Deposit	713	Yorkshire Building Society	24/04/2019	05/03/2020	£1,000,000.00	0.9800
Fixed Term Deposit	714	Goldman Sachs	01/05/2019	09/03/2020	£3,000,000.00	1.0200
Fixed Term Deposit	708	Close Brothers	18/03/2019	16/03/2020	£1,000,000.00	1.2500
Fixed Term Deposit	709	Qatar National Bank	27/03/2019	25/03/2020	£1,000,000.00	1.3900
Fixed Term Deposit	718	Goldman Sachs	19/06/2019	27/03/2020	£1,000,000.00	0.9650
Fixed Term Deposit	715	Goldman Sachs	07/05/2019	30/03/2020	£2,000,000.00	1.0100
Fixed Term Deposit	733	DBS	08/10/2019	06/04/2020	£2,000,000.00	0.8600
Fixed Term Deposit	734	Qatar National Bank	14/10/2019	06/04/2020	£2,000,000.00	1.1100
Fixed Term Deposit	737	DBS	31/10/2019	06/04/2020	£2,000,000.00	0.8700
Fixed Term Deposit	740	Qatar National Bank	05/12/2019	06/04/2020	£1,000,000.00	1.0300
Fixed Term Deposit	728	Goldman Sachs	16/08/2019	06/04/2020	£1,000,000.00	0.9150
Fixed Term Deposit	729	Santander UK Plc	16/08/2019	06/04/2020	£1,000,000.00	0.9800
Fixed Term Deposit	742	DBS	23/12/2019	06/04/2020	£1,000,000.00	0.8300
Fixed Term Deposit	711	Qatar National Bank	12/04/2019	09/04/2020	£1,000,000.00	1.2900
Fixed Term Deposit	710	Close Brothers	10/04/2019	14/04/2020	£1,000,000.00	1.2500
Fixed Term Deposit	735	DBS	28/10/2019	28/04/2020	£2,000,000.00	0.8600
Fixed Term Deposit	727	Skipton	01/08/2019	01/05/2020	£1,000,000.00	0.9200
Fixed Term Deposit	717	Qatar National Bank	04/06/2019	02/06/2020	£1,000,000.00	1.2700
Fixed Term Deposit	716	Lloyds	04/06/2019	04/06/2020	£2,000,000.00	1.2500
Fixed Term Deposit	719	Goldman Sachs	21/06/2019	19/06/2020	£1,000,000.00	0.9950
Fixed Term Deposit	721	Lloyds	26/06/2019	26/06/2020	£1,000,000.00	1.2500
Fixed Term Deposit	722	Lloyds	08/07/2019	06/07/2020	£2,000,000.00	1.2500
Fixed Term Deposit	725	Skipton	26/07/2019	24/07/2020	£1,000,000.00	0.9500
Fixed Term Deposit	724	Lloyds	26/07/2019	27/07/2020	£1,000,000.00	1.2500
Fixed Term Deposit	726	Lloyds	01/08/2019	30/07/2020	£1,000,000.00	1.2500
Fixed Term Deposit	731	Qatar National Bank	30/08/2018	01/09/2020	£2,000,000.00	1.2300
Fixed Term Deposit	732	Close Brothers	04/09/2019	04/09/2020	£1,000,000.00	1.1000
Fixed Term Deposit	738	Goldman	07/11/2019	05/11/2020	£2,000,000.00	1.0150
Fixed Term Deposit	739	Qatar National Bank	19/11/2019	17/11/2020	£2,000,000.00	1.2800
Fixed Term Deposit	741	Close Brothers	20/12/2019	18/12/2020	£1,000,000.00	1.2000
Fixed Term Deposit	736	Liverpool CC	20/12/2019	18/12/2020	£2,000,000.00	1.0000
Fixed Term Deposit	743	DBS	27/12/2019	31/03/2020	£3,000,000.00	0.8200
Fixed Term Deposit	730	Lloyds	16/08/2019	06/04/2021	£1,000,000.00	1.1200
Notice Account	44445	Lloyds Bank PLC - 95DN			£6,000,000.00	1.10
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	4.30
Money Market Fund	110000	Federated			£4,000,000.00	0.73
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.73
Money Market Fund	1300000	Aberdeen Std			£1,030,000.00	0.68
					£73,030,000.00	

Interest Rate Forecast 2020- 2023

APPENDIX 4

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

Bank Rate																
	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%	
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	-	-	-	-	-	-	-	-	-	
5yr PWLB Rate																
	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	
Link Asset Services	2.37%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%	
Capital Economics	2.37%	2.30%	2.40%	2.50%	2.50%	2.60%	-	-	-	-	-	-	-	-	-	
10yr PWLB Rate																
	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	
Link Asset Services	2.57%	2.60%	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	
Capital Economics	2.57%	2.60%	2.60%	2.70%	2.80%	2.80%	-	-	-	-	-	-	-	-	-	
25yr PWLB Rate																
	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	
Link Asset Services	3.12%	3.20%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	
Capital Economics	3.12%	3.00%	3.10%	3.20%	3.20%	3.30%	-	-	-	-	-	-	-	-	-	
50yr PWLB Rate																
	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	
Link Asset Services	2.94%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	
Capital Economics	2.94%	3.00%	3.00%	3.10%	3.20%	3.20%	-	-	-	-	-	-	-	-	-	

5.3 ECONOMIC BACKGROUND

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the **general election** on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another **quarterly Inflation Report**, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The **MPC meeting of 19 December** repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and

households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a **fiscal boost** by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the **labour market**, growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. **Growth** in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures

were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a ‘midterm adjustment’ but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to **start buying Treasuries again**, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy \$60bn, whereas it had been reducing its balance sheet by \$50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This **trade war** is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to

leave interest rates at their present levels “at least through the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a **third round of TLTROs**; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a **resumption of quantitative easing purchases of debt for an unlimited period**. At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by ‘growth friendly’ fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of **forming coalition governments** with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and

growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. **Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.**

The trade war between the US and China is a major concern to **financial markets** due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in **government bond yields** in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are **predicated on an assumption of an agreement being reached on Brexit between the UK and the EU.** On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and

timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an **orderly non-agreement exit in December 2020**, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a **disorderly Brexit**, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

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

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.

- **German minority government.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.
- **Other minority EU governments.** Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was **potential for a rerun of the 2008 financial crisis**, but this time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on **some \$19trn of corporate debt in major western economies**, if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is \$15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

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

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Specified and Non-Specified Investments

APPENDIX 6

	specified	non-specified	Minimum Credit Criteria Fitch (and equivalent) / Minimum Criteria	Maximum Investment per Institution	Max. maturity period
Term deposits – Local Authorities (category 1)	✓	✓	--	£12M	5 years
Term deposits – banks and building societies (category 1)	✓	✓	Short-term F1+ Long-term AA-	£12M	5 years
Term deposits – banks and building societies (category 2)	✓	✓	Short-term F1 Long-term A+	£11M	3 years
Term deposits – banks and building societies (category 3)	✓	✓	Short-term F1 Long-term A-	£8M	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 <i>Although category limit for term deposits</i>	As category 1 to 3
Term deposits – UK part nationalised banks (category 6)	✓	✓	Short-term F3 Long term BBB-	£11M	3 years
Callable deposits	✓	✓	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6
Forward deposits	✓	✓	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6	As category 1,2,3,4,5 and 6
Alternative Investments – Asset Backed Bonds (Category 8)		✓	--	£4M	25 years
Debt Management Agency Deposit Facility (category 9)	✓	✓	--	No limit	Liquid

Bonds Issued by multilateral development banks (category 10)		✓	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 7)	✓		AAA	£4M	liquid
Multi-Asset Funds (Category 12 – diversified funds)		✓	--	£6M	10 - 15 years
Property funds (Category 11)		✓	--	£6M	25 years

Part nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high creditworthiness. In particular, as they are no longer separate institutions in their own right, however, these institutions have effectively taken on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. It is therefore proposed to continue to keep the category of UK part nationalised banks for both specified and unspecified investments (category 6).

APPENDIX 7

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years

		<u>Long Term</u>	<u>Short Term</u>
Min Criteria	Fitch Moody S&P	AA- Aa3 AA-	F1+ P-1 A-1+
All Local Authorities			
DBS Bank Ltd (SING)			
HSBC Bank plc (UK)			
Oversea-Chinese Banking Corp Ltd (SING)			
Svenska Handelsbanken (SW)			
United Overseas Bank Ltd (SING)			
First Abu Dhabi Bank (U.A.E)			

Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

		<u>Long Term</u>	<u>Short Term</u>
Min Criteria	Fitch Moody S&P	A+ A1 A+	F1 P-2 A-1
Goldman Sachs International Bank (UK)			
Bank of Nova Scotia (CAN)			
Standard Chartered Bank (UK)			
Qatar National Bank (Qatar)			
National Westminster Bank PLC (RFB) (UK)			
Royal Bank of Scotland PLC (RFB) (UK)			

Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years

		<u>Long Term</u>	<u>Short Term</u>
Min Criteria	Fitch Moody S&P	A- A3 A-	F1 P-2 A-1
Barclays Bank plc (RFB & NRFB) (UK)			
Nationwide Building Society (UK)			
Santander (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)
 Skipton Building Society (UK)
 Yorkshire Building Society (UK)

Category 5 - Council's Bank

NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Bank Plc (RFB)
 Lloyds Bank Corporate Markets Plc (NRFB)
 Bank of Scotland PLC (RFB)

Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years

banks effectively nationalised by UK government

		<u>Long Term</u>	<u>Short Term</u>
Min Criteria	Fitch Moody S&P	BBB- Baa3 BBB-	F3 P-3 A-3

National Westminster Bank plc (RFB) (UK)

Royal Bank of Scotland plc (RFB) (UK)

Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)

- Money Market Funds (MMF's), (CNAV, LVNAV, VNAV) & Enh: Fitch NAV
- Government Liquidity Funds

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
Northern Trust	AAA	

Category 8 - Alternative Investments (Asset Backed Bonds) - 25 Years

Maximum investment £4 million

Category 9 - Debt Management Office

Debt management Account - NO LIMIT (UK Govt)

Category 10 - Bonds issued by multilateral development banks - 5 Years

Maximum investment £4 million

AAA

Category 11 – Property Funds - 25 Years

Maximum investment £6 million

CCLA

Category 12 - Multi-Asset Funds - 15 Years

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, and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Based on a majority rule of available ratings.

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.S.A. (S&P AA+)

AA+

- Finland

AA

- Abu Dhabi (UAE)
- France
- Hong Kong
- U.K.

AA-

- Belgium (S&P AA)
- Qatar

Treasury management scheme of delegation

- (i) Full Council
 - approval of annual strategy
 - budget consideration and approval approval of the division of responsibilities;
 - approving the selection of external service providers and agreeing terms of appointment.
 - receiving and reviewing monitoring and outturn reports on treasury management

- (ii) Cabinet Member for Corporate Governance
 - approval of amendments to the annual treasury management strategy once approved by Full Council between its review in consultation with the Group Head of Corporate Support.

- (iii) Audit and Governance Committee (responsibility for scrutiny)
 - reviewing the treasury management policy and procedures and making recommendations to Full Council (the responsible body).
 - Scrutiny of annual strategy prior to adoption by Full Council
 - Scrutiny of monitoring and outturn reports
 - receiving and reviewing reports on treasury management policies, practices and activities

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 authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority 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 an authority
- ensuring that the authority 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.

CCLA – Diversified Income FundPerformance**CCLA AUTHORISED CONTRACTUAL SCHEME****Prices & Dividend Yields**

End of	Dec-19	Nov-19	Oct-19	Sep-19	Aug-19	Jul-19	Jun-19	May-19	Apr-19	Mar-19	Feb-19	Jan-19
Diversified Income Fund												
Fund Size £m	179.77	177.50	177.09	172.23	168.02	165.75	155.50	154.31	148.06	143.91	136.56	130.80
Class 1 Price £	1.6302	1.6232	1.6091	1.6104	1.6176	1.6149	1.5968	1.5938	1.5807	1.5574	1.5432	1.5339
Dividend on XD Date £	0.0119			0.0119			0.0148			0.0123		
Dividend - Last 12 Months £	0.0508	0.0511	0.0511	0.0511	0.0512	0.0512	0.0512	0.0505	0.0505	0.0505	0.0502	0.0502
Dividend Yield on Price %	3.12	3.15	3.18	3.18	3.16	3.17	3.21	3.17	3.19	3.24	3.25	3.27
Class 2 Price £	1.5700	1.5634	1.5498	1.5511	1.5581	1.5554	1.5380	1.5354	1.5226	1.5002	1.4866	1.4777
Dividend on XD Date £	0.0115			0.0115			0.0145			0.0119		
Dividend - Last 12 Months £	0.0494	0.0496	0.0496	0.0496	0.0499	0.0499	0.0499	0.0488	0.0488	0.0488	0.0485	0.0485
Dividend Yield on Price %	3.15	3.17	3.20	3.20	3.20	3.21	3.24	3.18	3.21	3.25	3.26	3.28
Class 3 Price £	1.5793	1.5725	1.5589	1.5601	1.5671	1.5644	1.5470	1.5443	1.5313	1.5088	1.4950	1.4860
Dividend on XD Date £	0.0114			0.0115			0.0145			0.0118		
Dividend - Last 12 Months £	0.0491	0.0494	0.0494	0.0494	0.0496	0.0496	0.0496	0.0484	0.0484	0.0484	0.0481	0.0481
Dividend Yield on Price %*	3.11	3.14	3.17	3.17	3.17	3.17	3.21	3.14	3.16	3.21	3.22	3.24

Class 1 launch date: 02 December 2016

Class 2 launch date: 24 March 2017

Class 3 launch date: 01 December 2017

The units of the ACS and the income from them can fall as well as rise and an investor may not get back the amount originally invested. Past performance is no guarantee of future returns. The units are intended only for long-term investment and are not suitable for money liable to be spent in the near future. Units are realisable daily.

Source: CCLA

Background

The fund was set up at the back of 2016 and would only be suitable for long-term investment purposes. The fund is an Advanced Collective Scheme which is understood to meet UCITs, (Collective Investment in Transferable Securities), so would be deemed revenue in structure.

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Diversified Income Fund Unit Class 2 - For local authorities and public sector organisations

Fact Sheet – 30 September 2019

Investment objective

To provide a balanced return from income and capital growth over time from a portfolio structured to control relative risk.

Investment policy

The portfolio will be actively managed and may invest in a wide range of potential assets. The control of relative risk will be an important influence on structure and strategy.

Suitability

The Fund is suitable for long term investors seeking a balanced return of income and capital growth for whom control of relative risk is important.

Who can invest?

Any local authority and public sector investor in England, Wales, Scotland and Northern Ireland. Investors should note that there is a minimum investment in the Fund of £1million.

Responsible investment policy

Information about the ethical and responsible policies to be followed by the Diversified Income Fund is available from the Investment Manager’s website www.ccla.co.uk.

Income

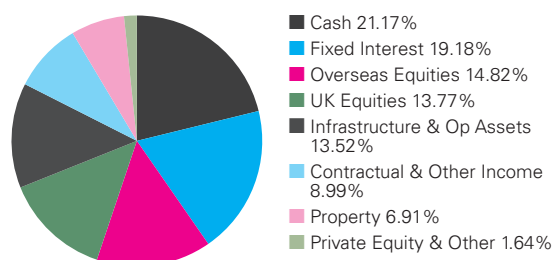
The Fund distributes income on a quarterly basis. As at 30 September 2019 the dividend yield on price was 3.20%. This is based on the last 12 months' dividend of 4.96p.

Fund update

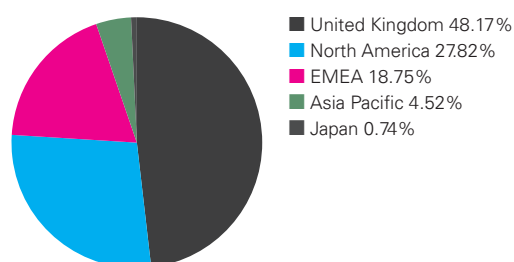
The Fund has a diversified portfolio which is actively managed at both the asset and individual holding level. In the quarter to the end of September, there were no substantial changes to strategy or to overall structure.

In the bond portfolio we sold the holdings in the US Government bonds, part of the proceeds was re-invested in UK government issues. Overall, the structure of the fixed interest sectors remains defensive with a duration below that of the benchmark and holdings only in top-quality bonds. In the equity section we added new holdings including Telus, a Canadian telecoms company and Merck, a leading pharmaceutical group. Sales included Greggs and Beiersdorf, both after very strong performances. Overall cash balances rose reflecting a slightly more defensive stance. Equity stock selection supported returns, but the low weighting to bonds and the defensive nature of the bond holdings at a time of a strong sector rally, was unhelpful. The property holdings also declined as Brexit concerns and the problem of the retail sector weighted on sentiment.

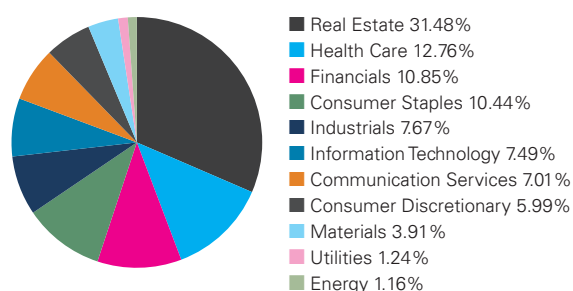
Asset allocation at 30 September 2019



Equity portfolio geographical breakdown at 30 September 2019



Equity portfolio sector breakdown at 30 September 2019



Discrete year total return performance (gross)

12 months to 30 September	2019
Diversified Income Fund - Unit Class 2	+7.16%
Comparator	+9.19%

Comparator – composite: from 24.03.17 MSCI UK IMI 20%, MSCI North America 6.67%, MSCI Europe ex UK 6.67%, MSCI Pacific 6.67%, Markit iBoxx £ Gilts 30% & Market iBoxx £ Non-Gilts 30%. Source: CCLA. Past performance is not a reliable indicator of future results.

Most overweight companies relative to equity indices at 30 September 2019

Target Healthcare REIT	5.14%	Cembra Money Bank	1.62%
Verizon Communications	1.97%	Pfizer	1.58%
Heineken	1.88%	Sonic Healthcare	1.55%
Stryker Corp	1.85%	Merck & Co.	1.54%
Roche Holding	1.79%	Medtronic	1.48%

Key facts

Fund size	£172m
Number of holdings	186
Price	£1.55
Fund launch date	2 December 2016
Unit Class 2 launch date	24 March 2017
Minimum initial investment	£1m
Minimum subsequent investment	£25,000
Dealing	Daily*
Sedol number	BDS68Q2
ISIN number	GB00BDS68Q24
Dividend payment dates	End February, May, August & November
Annual management charge (taken 100% from capital)	0.60%

*The Dealing Deadline is normally 12 noon London time on a Dealing Day. The Valuation Point is normally 3pm on a Dealing Day.

Risk warning and disclosures

This document is a financial promotion and is issued for information purposes only. It does not constitute the provision of financial, investment or other professional advice. To ensure you understand whether our product is suitable, please read the Key Information Document and Prospectus. Investors should consider the risk factors and the tax implications of investing in this fund identified in the Prospectus. Past performance is not a reliable indicator of future results. The value of investments and the income derived from them may fall as well as rise. Investors may not get back the amount originally invested and may lose money. Any forward-looking statements are based upon our current opinions, expectations and projections. We undertake no obligations to update or revise these. Actual results could differ materially from those anticipated. Investors in each Unit Class of the Fund must be Eligible Investors as defined in the Prospectus of CCLA Authorised Contractual Scheme. The ACS Manager participates in the Financial Services Compensation Scheme (FSCS). The Fund is a sub-fund of the CCLA Authorised Contractual Scheme which has been constituted as a co-ownership scheme. The fund is authorised in the UK and regulated by the Financial Conduct Authority. CCLA Fund Managers Limited (registered in England & Wales No. 8735639 at Senator House, 85 Queen Victoria Street, London, EC4V 4ET) is authorised and regulated by the Financial Conduct Authority. CCLA Fund Managers Limited is the Manager of the Diversified Income Fund. The Trustee is HSBC Bank plc (registered in England & Wales No. 14259 with its registered office at 8, Canada Square, London, England E14 5HQ). For information about how we obtain and use your personal data please see our Privacy Notice at <https://www.ccla.co.uk/our-policies/data-protection-privacy-policy>

ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE ON 12 FEBRUARY 2020

SUBJECT:	Business Continuity Planning Update
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REPORT AUTHOR:	Joe Russell-Wells, Group Head of Neighbourhood Services
DATE:	January 2020
EXTN:	37914
PORTFOLIO AREA:	Neighbourhood Services

EXECUTIVE SUMMARY:

This information paper provides Members with an overview and update on Business Continuity Planning within the Council.

RECOMMENDATIONS:

- Members are asked to note the contents of this paper.

1. BACKGROUND:

1.1 Business Continuity Management is the ongoing planning process to enable continued provision of core services and activities though any kind of disruptive incident. The reasons for an incident may include the loss of premises or access to premises, loss of key staff, loss of IT, or any other disruption.

1.2 Business Continuity can be defined as

'a holistic management process that identifies potential threats to an organisation and the impacts to business operations that those threats, if realised, might cause, and which provides a framework for building organisational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value creating activities'

1.3 It is therefore about the organisation preparing for a disaster, incident or event that could affect the delivery of services. The aim being that at all times key elements of a service are maintained at an emergency level and brought back to an acceptable level as soon as possible.

2. Corporate Business Continuity Plan

2.1 This is the over-arching plan which is used to guide the organisation if there is an event which interrupts the normal working of the organisation.

2.2 The objectives of the Corporate Business Continuity Plan are:

- Provide a documented yet flexible response and management plan for the business continuity risks to Arun District Council
- To provide the Recovery Teams with a detailed list of actions to cover the initial period following a disruption / incident
- To enable efficient services' planning and response
- To ensure control is established at a senior level within the Council at the critical early stages of an incident disrupting the delivery of one or more of the Council's services
- To direct the response and recovery in the initial period following an incident
- To prioritise the response during the on-going management of an incident

2.3 The plan identifies a clear notification and invocation process so that the organisation can quickly recognise and respond to a business continuity threat. The Plan identifies the members of the Business Recovery Management Team (BRMT) to oversee any incident. The BRMT are responsible for the Council's response to and incident / disruption.

2.4 Key roles include:

- *Assess, respond, and manage the impact of the incident across the affected services*
- *Assume responsibility for co-ordinating incident management*
- *Provide direction / support as required to staff, visitors, volunteers etc. and outside agencies to effectively manage the incident at an operational level*
- *Invoke Core and Critical Service Business Continuity Plans (BCP) where appropriate*
- *Liaison with Core and Critical Services throughout the response to a disruption / incident*

2.5 The Corporate Plan provides a checklist and generic actions lists to guide actions through an incident; this provides a framework for response to a variety of impacts.

3. Review

3.1 The objective outcome of any incident is it to ensure all services are able to return to normal functions as soon as possible. Services identified to undertake critical activities are prioritised for recovery. Critical service functions and respective recovery time objectives for the individual service areas have been identified and reviewed by Corporate Management Team (CMT) in 2019 – the Corporate Plan identifies these services giving a priority for recovery.

3.2 Each service area has produced Business Continuity Plans (BCP) and Business Impact assessments (BIA). The format of these was reviewed and improved whilst working alongside by Zurich Insurance Company Ltd; the Council's insurers up until 31 January 2019.

3.3 In 2016 and 2017 scenario testing and a table top exercise, led by Zurich was undertaken with various officers. Following the feedback and various recommendations given, the service area BCP's and BIA's were updated.

- 3.4 During 2019 Zurich were retained by ADC to review Business Continuity. Following a review of service plans and the Corporate Business Continuity Plan an exercise was held with the members of the Business Recovery Management Team in October 2019. The exercise was led by Zurich and took the BRMT through a scenario which was designed to test the team.
- 3.5 Zurich made a summary resulting from the exercise, and whilst some recommendations for the Authority were identified, it was made clear that the Council had a much-improved response from the previous exercising and demonstrated clear leadership and coordination with the scenario presented.
- 4. NEXT STEPS**
- 4.1 The recommendations from the exercise held on the 14 October 2019 are being actioned and the Corporate Business Continuity Plan updated.
- 4.2 The next steps include an exercise with several service areas in February 2020 again led by Zurich. The exercise will test the service area BCPs and BIAs and the response to a presented scenario.
- 4.3 The response to the exercise will be reviewed and any further recommendations made by Zurich. Plans will be updated as required and a final version of the Business Continuity Plan will be taken back to CMT.
- 4.4 Following the completion of the exercises, and plans being updated, it is proposed that the Business Continuity plans should be reviewed annually, with any relevant testing and exercising.

2. PROPOSAL(S):

Members are asked to note the report

3. OPTIONS:

Not applicable

4. CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial	✓	
Legal	✓	
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓

Sustainability		✓
Asset Management/Property/Land	✓	
Technology	✓	
Other (please explain)		

6. IMPLICATIONS:

Business continuity planning process is vital to enable continued provision of core services and activities though any kind of disruptive incident. Any incident may have an impact on many areas of the working of the organisation, Business Continuity Management is in place to minimise the risk of these implications.

7. REASON FOR THE DECISION:

To inform and update Members

8. BACKGROUND PAPERS:

The Corporate Business Continuity Plan can be found at the following link: [The Plan](#)

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT AND GOVERNANCE COMMITTEE ON 13 FEBRUARY 2020

PART A : REPORT

SUBJECT: Update on Progress against the Recommendations from the Partnerships Audit

REPORT AUTHOR: Jackie Follis, Group Head of Policy

DATE: 13 January 2020

EXTN: 37580

PORTFOLIO AREA: Policy

EXECUTIVE SUMMARY:

This paper sets out progress to date on a register of partnerships for Arun District Council, including an initial list of arrangements which may meet the agreed definition of a partnership and how this work should go forward.

RECOMMENDATIONS:

To note the background and proposed approach to developing an up-to-date partnership register

1. BACKGROUND:

- 1.1. Partnership working has been identified as increasingly important for the future, particularly given the predicted financial situation for local government.
- 1.2. An extract from the CIPFA document 'Audit Committees: Practical Guidance for Local Authorities and Police (part 3, section 12)' states:

“The audit committee’s role should be to consider the assurance available on whether the partnership or collaboration arrangements are satisfactorily established and operating effectively. The Committee should satisfy itself that the principles of good governance underpin the partnership arrangements. For example, the audit committee should seek assurance that the authority has appropriate arrangements to identify and manage risks, ensure good governance and obtain assurance on compliance. The committee may also want to know what arrangements have been put in place to maintain accountability to stakeholders and ensure transparency of decision making and standards of probity are maintained.”
- 1.3. The Corporate Management Team agreed a working definition of 'partnerships' in order to facilitate the development of a Partnerships Register and ongoing process for reviewing this.

“A voluntary or statutory arrangement between the authority and one or more free and independent parties which is designed to secure some shared objective. The authority is required to make either a significant financial contribution or a significant contribution in terms of other assets or it will take the role of lead or accountable body within the arrangement

A partnership is not about a traditional customer/supplier relationship, outsourcing or other purely contractual relationship”

1.4. A recent survey of Group Heads has resulted in a much longer list of ‘partners’ than has been previously identified, set out in Appendix 1. The word ‘Partnership’ is potentially used differently in a number of different contexts, which we need to take account of.

The initial list of partners (Appendix A) covers a number of differently defined bodies:

- Listed on the Arun Website under partnership working, but also wellbeing and Arun Business Partnership pages;
- Listed in the Constitution;
- Identified by Full Council as outside bodies which require a member representative from Arun;
- Arrangements identified by Group Heads, including some contracts.

1.5. CMT and the Audit and Governance Committee have agreed that the current definition is as precise as possible, though will be open to interpretation in certain cases. A first look at the list does raise questions and the next piece of work will be to determine if all of these meet the definition.

1.6. Many of these partnerships are relatively operational in nature and it does not seem appropriate to list these, for example in the Constitution, so it will be necessary to hold a full register elsewhere.

1.7. Once the list is completed, it should be reviewed on a regular basis (bi-annually) by officers. It should also be reviewed for relevance as arrangements do sometimes outlast their usefulness or need to change. Part of this regular review should focus on outcomes, added value and our contribution in terms of finance and other resource.

1.8. Once the Register has been completed (recognising that it will be subject to change from time to time), Members of Audit and Governance need to determine how they wish to use the register to carry out their responsibilities. This may be, for example by focusing on a much smaller priority list of arrangements depending on their impact and current council priorities. A number of key relationships/partnerships with the Council are covered by significant contractual arrangements and although they will be listed in the Register they are already audited/scrutinised in other ways and this should also be noted in the Register.

1.9. We refer to partnership working on our website, <https://www.arun.gov.uk/partnership-working> but this list is not identical to that included in the Constitution. We also have separate references to partnership on our Wellbeing pages and the Arun Business Partnership pages, demonstrating some of the lack of clarity around the definition. We need to review references to

partnership on the website with Group Heads.

2. PROPOSAL(S):

2.1. A Register of partnerships to be completed, including work to be undertaken by Directors and Group Heads to identify the following:

- Does a partnership have formal governance arrangements covering all participants? This will vary and may be for example a letter of agreement, a contract, or even minutes of a meeting where this was agreed.
- Does membership of the partnership contribute to the Council's objectives?
- Are partnership costs/inputs from ADC understood and controlled (financial support, time etc) and is the participation cost-effective?
- Is the partnership operating effectively – is it monitored to ensure that objectives/terms of reference etc are being met, does the partnership deliver synergy, has it continued beyond its usefulness etc?
- Are risks (to the Council, other members of the community etc.), identified, assessed and managed?
- Are formal reports on the partnership provided to Officers, Members and the public as appropriate, where this is considered to be necessary?

2.2. It is proposed that a report is brought back to the Audit and Governance Committee in the Autumn.

2.3. It is proposed that regular reviews/updates of the partnership register are undertaken at intervals to be agreed once the work set out above is completed.

2.4. The views of and suggestions from members are welcomed.

3. OPTIONS:

To note the proposed approach to up-dating the partnerships register

4. CONSULTATION:

See note in implications

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial		✓
Legal		✓

Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓

6. IMPLICATIONS:

There are no implications for the actual review, the review may however lead to considering the nature of our future relationship with some partners which could well have implications for a number of Council policies.

7. REASON FOR THE DECISION:

To produce an up to date register of partners

8. BACKGROUND PAPERS:

Arun website partnership page:-

<https://www.arun.gov.uk/partnership-working>

CIPFA Guidance to Audit Committees on Partnerships (see extract attached)



Appendix - CIPFA
Guidance Extract.pdf

PARTNERSHIPS INDEX (at 22.01.20)

Definition of 'Partnership':-

"A voluntary or statutory arrangement between the authority and one or more free and independent parties which is designed to secure some shared objective. The authority is required to make either a significant financial contribution or a significant contribution in terms of other assets or it will take the role of lead or accountable body within the arrangement."

Name of Body	Partnership working with...[service area or whole Council?]	Lead Officer	Terms of Reference?
Coast to Coast Local Enterprise Partnership (LEP)	Place	Denise Vine	Y
WSCC Growth Board/Arun Economy Project	Economy	Karl Roberts/Denise Vine	Y
Arun Business Partnership	Economy	Denise Vine/Miriam Nicholls	Y
Sussex Police & Crime Panel	Whole Council	Cllr Gillian Yeates	
Health & Adult Social Care Select Committee	Whole Council	Cllr Dr Walsh	
West Sussex Joint Scrutiny Steering Group			
Arun Wellbeing & Health Partnership		Wellbeing Services Manager (vacant)	Y
West Sussex & Greater Brighton Strategic Planning Board	Planning	Karl Roberts	Y
Joint Area Committees	Whole Council	Jackie Follis	
Adult/Children Safeguarding Boards	Whole Council and All Statutory Bodies	Cathryn French	Y
Arun & Chichester Citizens Advice	Whole Council	Robin Wickham	Contract

Greater Brighton Economic Board - Officer Steering Group	Economy	Denise Vine	N
CWS Skills & Enterprise Group	Economy	Denise Vine	N
CWS Tourism – Visitor Economy Project	Economy	Denise Vine	N
Littlehampton Traders Partnership	Economy	Denise Vine/John Edjvet	N
Everything Connects – WSCC Digital Infrastructure meetings	Whole Council	Nigel Quinlan	Contract
SE Coastal Group Monitoring	Engineering Services	Nat Slade	Y
Chichester District Council On Land Drainage	Engineering Services	Nat Slade/Roger Spencer	N
WSCC On Local Lead Flood Authority Issues	Engineering Services	Nat Slade/Roger Spencer	Y
Adur & Worthing Councils on Structural Calculation Checking	Engineering Services	Nat Slade/Roger Spencer	N
LABC On Structural Calculation Checking	Engineering Services	Nat Slade/Roger Spencer	N
Partners in South East Coastal Group & Environment Agency on Coastal Issues	Engineering Services	Nat Slade/Roger Spencer	N
Horsham DC On Structural Calculation Checking	Engineering Services	Nat Slade/Roger Spencer	N
Strategic Health Partnership (Estates)	Property, Estates & Facilities	Nat Slade/Paul Broggi	N
Public Health England	Environmental Health	Nat Slade/Neil Williamson	Y
One Public Estate	Property, Estates & Facilities	Nat Slade/Paul Broggi	N
Sussex Air Quality Partnership	Environmental Health	Nat Slade	Y
Local Authority Caravan Site Licensing Officers' Forum	Environmental Health	Nat Slade/Neil Williamson	N
Amber Living & Jon Burley Ltd	Private Sector Housing	Nat Slade/Louise Crane	Y
WSCC Independent Living Service	Private Sector Housing	Nat Slade/Louise Crane	N
Energy Wise South	Private Sector Housing	Nat Slade/Louise Crane	N
CDC & University of Chichester – Landlord Accreditation Scheme	Private Sector Housing	Nat Slade/Louise Crane	Y

Sussex Energy Saving Partnership	Private Sector Housing	Nat Slade/Louise Crane	Y
West Sussex Fuel Poverty Co-Ordinator	Private Sector Housing	Nat Slade/Louise Crane	Y
National Landlord Association	Private Sector Housing	Nat Slade/Louise Crane	N
West Sussex Disabled Facilities Grant – Adaptations Project Steering Group	Private Sector Housing	Nat Slade/Louise Crane	Y
Arun Pub Watch Schemes		Nat Slade/Sarah Meeten	N
Adur & Worthing & Councils re: Stray Dogs	Licensing	Nat Slade/Sarah Meeten	N
Adur & Worthing & Councils re: Out of Hours Noise Service	Licensing	Nat Slade/Sarah Meeten	N
LABC Sussex Chief Building Control Officers Group	Building Control	Nat Slade/Jim Henn	Y
A27 Arundel Improvements		Karl Roberts	
Bognor Regis Heritage Partnership	Planning (Policy and Conservation)	Neil Crowther/Martyn White	Y
Littlehampton Town Council Heritage Partnership	Planning (Policy and Conservation)	Neil Crowther/Martyn White	Y
Felpham Village Conservation Society	Planning (Policy and Conservation)	Neil Crowther/Martyn White	Y (Constitution)

Outside bodies

BODY	TERM OF OFFICE	RELEVANT CABINET PORTFOLIO	RELEVANT LEAD OFFICER
Littlehampton Harbour Board	4 year until 31 March 2021	Technical Services	Nat Slade
Voluntary Action Arun & Chichester (formally known as Council for Voluntary Service)	1 yr - to May 2020	Director of Services	Robin Wickham
West Sussex Mediation Service	1 yr – to Sept 2020	Residential Services	Satnam Kaur
Court of the University of Sussex	1 yr–to 31 July 2020	Leader	Nigel Lynn
Action in Rural Sussex	1 yr - to Oct 2020	Economy	Denise Vine
South East Employers	1 yr - to July 2020	Policy	Jackie Follis
Tourism South East Sussex	1 yr - to May 2020	Community Wellbeing	Robin Wickham
Leader - South Downs and Coastal Plain Action Group	1 yr - to May 2020	Economy	Denise Vine
South Downs National Park Authority	4 yrs – May 2019 to May 2023	Planning	Neil Crowther
Conservation Area Advisory Committee	1 yr - to May 2020	Planning	Neil Crowther
Keystone Centre Management Committee	1 yr - to May 2020	Community Wellbeing	Robin Wickham

St Mary's Community Centre, Felpham – Management Committee	1 yr - to May 2020	Corporate Support	Alan Peach
Bognor Regis Regeneration Board and Bognor Regis Regeneration Steering Group	1 yr - to May 2020	Economy	Denise Vine
Arun Wellbeing and Health Partnership	1 yr - to May 2020	Community Wellbeing	Robin Wickham
West Sussex Health and Adult Social Care Committee [NOTE: Has to be a Member of OSC]	1 yr – to May 2020	Community Wellbeing	Robin Wickham
LGA's Coastal Issues Special Interest Group – Cabinet Member for Technical Services	1yr to Sep 2020	Director of Place	Roger Spencer
Age UK - West Sussex	1 yr - to May 2020	Community Wellbeing	Robin Wickham
Coastal West Sussex Partnership Board (formerly Coastal West Sussex Area Investment Framework Board)	1 yr - to May 2020	Economy	Denise Vine
Parking and Traffic Regulations Outside London Adjudication Joint Committee (PATROLAJC) [Cabinet Member for Neighbourhood Services]	1 yr – to May 2019	Technical Services	Calvin Baylis

LGA District Council Network [nominations are made by the South East England Council (SEEC)]	1 yr – May 2020	Cabinet	Nigel Lynn
Police and Crime Panel [Cabinet Member for Community Wellbeing]	1 yr – to May 2020	Community Wellbeing	Robin Wickham
Rural West Sussex Partnership	1 yr – May 2020	Economy	Denise Vine
Safer Arun Partnership	1 yr to May 2020	Community Wellbeing	Robin Wickham
Coastal West Sussex Planning Board	1 yr to May 2020	Planning & Infrastructure	Karl Roberts
Coast to Capital Strategic Joint Committee	1 yr to May 2020	Economy/Leader	Nigel Lynn/Denise Vine
LGA People & Places Board (nomination made by the LGA) [Leader of the Council]	1 yr to July 2020	Leader	Nigel Lynn
East Arun Health Services Advisory Committee [formally known as Littlehampton Health Advisory Group]	1 yr to May 2019	Community Wellbeing	Robin Wickham
West Sussex Fire & Rescue Services Inter Authority Fire & Rescue Liaison Group	t.b.c.	Community Wellbeing	Robin Wickham

Bathing Water Quality Steering Group (previous reps included Cabinet Member for Technical Services too)	1 yr to July 2019	Technical Services	Nat Slade
LGA Councillors' Forum [nomination made by the LGA]	1 year to July 2018	Leader	Nigel Lynn
New: Integrated Prevention and Earliest Help (IPEH) Board – details attached -	1 year to May 2020	Community Wellbeing	Robin Wickham
New: Western Sussex Hospitals - Member of Council of Governors	1 year to May 2020	Community Wellbeing	Robin Wickham
Greater Brighton Economic Board	1 year to May 2020	Economy	Denise Vine
Inter Authority Air Quality Group	1 year to May 2020	Technical Services	Nat Slade
South East Coastal Group Monitoring Meeting	1 year to May 2020	Technical Services	Nat Slade
A27 Arundel Improvements Consultation Group	1 year to May 2020	Policy	Jackie Follis
Angmering Advisory Group	1 year to May 2020	Planning	Neil Crowther
North Littlehampton Advisory Group	1 year to May 2020	Planning	Neil Crowther
Yapton, Ford & Clymping Advisory Group	1 year to May 2020	Planning	Neil Crowther
Barnham, Eastergate and Westergate Advisory Group (BEWAG)	1 year to May 2020	Planning	Neil Crowther
Aldwick West & Pagham Advisory Group	1 year to May 2020	Planning	Neil Crowther
West Bersted Advisory Group	1 year to May 2020	Planning	Neil Crowther

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 13 FEBRUARY 2020

PART A : REPORT

SUBJECT: Revised Strategic Risk Register 2019/20

REPORT AUTHOR: Stephen Pearse (on behalf of Governance & Risk Group)

DATE: January 2020

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

The Council's Strategic Risk Register has been reviewed and revised to reflect changes from the adoption of the Council's revised strategic targets 2019-2023, since its last update in November 2019

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note and approve the revised Strategic Risk Register

1. BACKGROUND:

The Council's Risk Management Strategy requires that the Strategic Risk Register (SRR) should be reviewed periodically and risks re-scored where necessary. The Audit & Governance Committee has Member oversight of the risk management arrangements within the Council.

The Strategic Risk Register was last considered by the Committee at its November 2019 meeting. As advised, the SRR has been subject to further review and update by the Governance & Risk Group and Corporate Management Team following the adoption by the Council of a number of revised Strategic Targets for the period 2019-2023.

Based upon these targets additional risks have been added, together with mitigating actions that are in place to reduce the level of the risks. It must, however, be recognised that the strategic risks are largely long-term and that the impact of external factors (e.g. Government policy and funding changes, etc.) remains uncertain.

Based upon discussion at the November Committee meeting, the risk rating for #17 Elections has been raised slightly.

2. PROPOSAL(S):		
It is proposed that the Committee notes and approves the revised Strategic Risk Register		
3. OPTIONS:		
To note and approve the revised Strategic Risk Register, or not		
4. CONSULTATION:		
Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS:		

7. REASON FOR THE DECISION:
The Committee notes and approves the revised Strategic Risk Register

8. BACKGROUND PAPERS:
N/A

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

ARUN DISTRICT COUNCIL – Risk Profile

Likelihood	4 Certain			16	1, 6a, 18
	3 Probable		6b	3, 8	13, 19
	2 Possible		10	2, 4, 5, 7, 9, 11	12, 17
	1 Unlikely			15	
Impact	1 Insignificant	2 Marginal	3 Significant	4 Severe	

Risk No.	Risk Scenario Title
1	Finance
2	Change Management and Service Transformation
3	Regeneration and Economic Development
4	Procurement and Contracts Management
5	Member Decision Making
6a	Homelessness
6b	Affordable Housing Development
7	Local Plan (<i>reinstated after revised Council strategic targets agreed</i>)
8	Partnerships
9	Information and Data Security
10	Community Engagement and Customer Insight
11	Coastal Protection and Land Drainage
12	Corporate Business Continuity
13	Cybersecurity
15	Local Authority Trading Companies
16	Corporate Stock Compliance Issues
17	Elections
18	Brexit Implications
19	Climate Change
Removed from Strategic Risk Register at 2019 review	
14	New Littlehampton Leisure Centre (<i>opened in 2019</i>)

The overall risk rating score is Likelihood x Impact

The matrix has 3 filters – red, amber and green:-

	Red risks are those which cause the Council or service greatest concern, are in need of closer attention and may require more frequent scrutiny, review and reporting
X	Amber risks are those that should be reviewed periodically to determine if practical steps can be taken to reduce the scoring to 'green' and the control measures in operation regularly reviewed
	Green risks are likely to require no further action but should still be subject to review

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
1	16 ↕	Finance <ul style="list-style-type: none"> • Uncertainty around outcome on business rates changes and New Homes Bonus • Uncertainty over future central government funding • CIL funding changes • Reduction in government grants going forward • Impact of changes in immigration rates • Impact of squeeze on HRA rents • Uncertainty around outcome of welfare reform • Anticipated Budget deficit from 21/22 • Leaving the European Union – increased uncertainty over the economy • Possible multiple future borrowing requirements for General Fund and HRA • PWLB interest rates increased • Significant external funding required to progress regeneration proposals • Insufficient funding for capital projects / corporate building maintenance • New targets of Council may not be affordable • Significant increased pay claim for 2020/21-on following completion of existing 2-year agreement • Reduction in grant funding from WSCC 	<p>The council faces a great deal of financial uncertainty which could result in budget deficits, loss of HRA & General Fund balance etc.</p> <p>Deficit worsens and balances reach minimum level in a shorter period of time</p> <p>Although Article 50 has been triggered, options and timescales for the progress of Brexit remain uncertain – currently extended to 31 January 2020</p>	<ul style="list-style-type: none"> • Financial insecurity and possible extra local funding to be found • Possible pressure to further outsource service areas • The council may fail to realise capital investment and/or income generation opportunities • Additional savings to be made in future years • National and institutional investment uncertainty – UK credit ratings reduced • Ongoing low interest rates, reducing treasury investment returns • Loss of future EU grant funding (regeneration impact) – post-Brexit UK replacement funding uncertain • Further pressure on demand-led services e.g. benefits, homelessness, etc. • Possible negative impact on housebuilding, etc. • Interest and capital repayments to be made on borrowing • Ability to maintain minimum reserve level will be threatened • Major regeneration projects cannot be progressed • Corporate buildings are not adequately maintained • Council strategic targets / Priorities cannot be achieved 	<ul style="list-style-type: none"> • Good culture of financial management previously = strong position going forward • Medium Term Financial Strategy (MTFS) regularly reviewed and reported to Cabinet • Capital Strategy 2019/20-2021/22 adopted and to be reviewed annually • CIPFA new Financial Management Code (FMC) covering Local Authorities published for implementation from 2021/22 • Strong asset management • Appetite to invest capital strategically • Local Council Tax Support scheme agreed annually • Treasury strategy / good investment performance – monitoring of available investment opportunities • Innovative schemes being considered to generate future revenue e.g. Property Investment Fund • Updated HRA Business Plan produced and monitored • HRA rent uplift will recommence in 2020/21 • Monitoring of possible changes to Government policy, legislation, etc. • Other more innovative investment schemes being considered, but higher risk to obtain rewards • WSCC engaged with the Council to progress the Arun Growth Deal – more weight to requests to the LEP for funding • Participation in external bodies (e.g. Greater Brighton Economic Board) to lever external funding

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
					<ul style="list-style-type: none"> Initial funding to progress revised strategic targets agreed and future funding will be considered for business cases
2	6 ↕	Change Management and Service Transformation			
		<ul style="list-style-type: none"> Ineffective prioritisation in a smaller organisation Residual '2020 Vision' work and management / operational restructures stretching resources and possibly leading to conflicting outcomes Additional overhead from changed targets / Priorities of new (post-5/19) Council Limited specialist project management staff for future major developments Outcome of future re-tendering exercises could lead to major change projects affecting core systems / processes Uncertainty surrounding Government's 'devolution' agenda Finite budget will restrict what can be achieved Potential significant restructuring costs (e.g. Housing) 	<p>The council may not have the resource capacity (numbers, knowledge, expertise); and staff and members may have inherent resistance to change which will make it difficult to deliver the strategic outcomes</p>	<ul style="list-style-type: none"> Knowledge gaps are not filled (loss of experienced managers / staff) If capable staff are not developed internally and given opportunities they are more likely to leave – long term recruitment and retention issues Lower morale and motivation (may increase in areas of potential change / outsourcing) Possible increase in sickness absence, stress claims etc. Potential governance issues in unfamiliar roles Loss of strategic vision as operational duties (the day job) takes over Political and management change harder to implement and embed There may be lost opportunities for sharing services and work Reliability of service delivery Customer dissatisfaction / loss of trust or confidence within community Potential reputational issues More financial pressure on services 	<ul style="list-style-type: none"> The Arun Improvement Programme (AIP) reviews all major ICT and business change requests to ensure we invest in the right projects (board consists of officers and Members) ICT Service Strategy 2019-2023 progressed in 2018 which will provide direction in terms of future capability Separate Digital Strategy & Blueprint developed and agreed by Members Customer Access Strategy reviewed and updated. Member consultation and implementation plan being progressed Report on future strategic targets / Priorities presented by CEO and agreed by Full Council Training and development plans considered in annual performance review Senior Management Development Programme (LEAD) and New Manager programmes to be progressed Short vs Long term sickness absence reported to Cabinet and specific consideration of workplace stress issues progressing Capital project plan agreed by Cabinet to allow for initial workload prioritisation Outstanding 'review of service' programme areas to be completed – aim being better service, at reduced cost

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
				<ul style="list-style-type: none"> Projects / new initiatives fail to deliver desired outcomes Limited budget for capital projects 	<ul style="list-style-type: none"> Council will continue to investigate partnering opportunities with other Councils Elements of shared services with other public bodies are working well Council open to looking at more shared services and partnerships in future
3	9 ↕	Regeneration and Economic Development			
		<ul style="list-style-type: none"> Lack of visible progress with Bognor Regis developments which are now being reconsidered by new Council Failure to resource and implement the action plan to deliver the long-term regeneration strategies (for Bognor Regis and generally throughout ADC) Lack of funding to deliver major regeneration projects Decisions not made swiftly enough – political will? Change of direction / vision of new (post-5/19) Council – strategic regeneration vision yet to be agreed Lack of public / partner acceptance of, and buy-in to strategies Legal challenges increase Multiple major projects running simultaneously – resource stretched Impact of growth of Butlins and Chichester University influencing local market conditions Other Council borrowing priorities / increase in PWLB rates Uncertainty surrounding major Government schemes impacting 	<p>The plans to develop Bognor Regis and Littlehampton are vulnerable to challenge and delays. The council may also be unable to agree a wider mid-long term strategy for economic development and regeneration across the district</p>	<ul style="list-style-type: none"> Developers and investors could be deterred Possible legal issues from developer plans submitted in advance of Council consideration of schemes Missed opportunities to invest in areas of development potential Reputational issues around non-delivery Development of council land (car parks, etc.) could mean loss of income stream Lack of growth Increase in economic stagnation Area turns into a commuter belt and is not regenerated leading to decline Financial and reputational risk / poor publicity 	<ul style="list-style-type: none"> Options for Regis Centre and Hothamton sites to be reconsidered by new Council for public consultation Funding and development options to be progressed Revised Sir Richard Hotham planning application rejected following Council determining its position as landowner, but approved on appeal Some capital spend projects progressed (East Bank, River Arun, Hotham Park café, etc.) Successful funding bid to enable Littlehampton regeneration / public realm improvements to progress Central funding obtained and significant progress made on some regeneration schemes (Bognor Regis public realm, BR station) National supermarket chains investing in the district Revised planning applications for Salt Box site (LEP bid for infrastructure grant unsuccessful) Bognor Regis Town Centre BID established Continued working with key partners (e.g. Butlins, Chichester University)

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		the area e.g. Arundel by-pass, Chichester by-pass			<ul style="list-style-type: none"> Investment prospectus prepared for Bognor Regis 'Innovating Our High Streets' initiative to progress Economic Strategy, Seafront Strategy and Tourism / Events Strategy to be developed
4	6 ↕	Procurement and Contracts Management			
		<ul style="list-style-type: none"> Major contracts let (waste collection, leisure, greenspace) - contractors may not be making the expected savings, achieve the level of external investment, or provide service to the expected standard Other major contracts under review / approaching re-tender Council may be reliant on third party (e.g. WSCC) timescales Major IT systems due for re-tender Recent loss of Council's Procurement staff Short lead time for (e.g. ICT) changes linked to new contracts 	The Council has recently let a number of its most significant contracts (leisure, waste management, grounds maintenance, services for the elderly)	<ul style="list-style-type: none"> Tension between existing contractors and the council through tendering / change periods Poor publicity / reputational issues Cost savings are not achieved Service quality deteriorates Possible major projects and operational changes required if it is decided to change long-established IT systems Challenge to Council if procurement processes not followed Required infrastructure not in place in time for new contracts 	<ul style="list-style-type: none"> Contract specialists used for the re-tender processes (Housing Reactive Repairs currently progressing) Procurement Strategy in place Clearer communication of council's expectations of contractor(s) Strategic view going forward Leisure Management and Greenspace contracts awarded with significant savings and investment commitment Waste management contract extended to allow additional savings Services for activities for the elderly still being progressed as joint procurement exercise with WSCC Procurement advice arrangement with Hampshire CC progressed by Finance Implementation plans to be agreed with relevant service areas
5	6 ↑	Member Decision Making			
		<ul style="list-style-type: none"> Post May-2019 Council is No Overall Control (NOC) Conflict may affect decision making Lack of experienced Councillors Some lack of understanding of resource requirements and change issues 	<p>Decision making may be impacted as Council is now No Overall Control</p> <p>The complexity of current legislation could lead to some members not having</p>	<ul style="list-style-type: none"> Potential DPA / FOI issues More vulnerability to governance and compliance failures Decisions held up by process Reversal of previous Council decisions 	<ul style="list-style-type: none"> Overall member desire to see council move forward Common goals / revised strategic targets to be agreed and progressed Cabinet Working Party review of scheme of delegation of authority completed

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Unwillingness by some members to communicate unpopular changes and decisions to the public Some Members are also County Councillors and Parish / Town Councillors which could lead to conflict Perception that not all members are involved in decision making / lack of transparency Binding decision on significant change to Council governance arrangements taken by Full Council (1/20) for implementation in May 2021 	the necessary skillset to meet the demands of the changes and increasing financial and service delivery pressures facing the council	<ul style="list-style-type: none"> Poor publicity / reputational risk Additional costs if decisions (e.g. Planning) go to appeal Less ownership and leadership at local levels through lack of engagement Insufficient current Committees resource to progress governance changes Unclear / untested future decision making via committees could lead to delays in Council decisions 	<ul style="list-style-type: none"> Review of Constitution and Codes of Conduct progressed Agreed Corporate Plan with focus on key issues (to act as a “temperature gauge”) Induction plan for new members provided after May 2019 elections Governance Working Party considered options for future arrangements prior to decision to change Adoption of new governance arrangements agreed as May 2021 to allow further consideration of structure, Constitution, responsibilities, etc. Additional Committees resource to administer future arrangement agreed as part of revised Council strategic targets New committees’ system, Member iPads and O/365 implemented and live in May 2019
6a	16 ↕	Homelessness			
		<ul style="list-style-type: none"> Overarching homelessness strategy – but service needs to be more proactive Increase in demands on the Council ‘Squeeze’ on rents will have an impact on HRA, Council house building and RSLs in the area Slow progress on purchase of additional temporary accommodation Uncertainty over Government ‘levies’ (e.g. pay to stay, etc.) Increase in immigration due to current EU Policy on free movement and current crises in Middle East and Africa 	The council may not be able to provide sufficient affordable housing and/or temporary accommodation, at a time when the community in general is under great pressure from the Welfare Reforms	<ul style="list-style-type: none"> More vulnerable people and increase in demands on Council Future increase in number of homeless Less capacity within charities / voluntary organisations Extra bed and breakfast costs being incurred again in future – costs still increasing. Further supplementary estimate required in January 2020 Council may not fulfil statutory obligations Universal Credit leading to tenancies ending & mortgage 	<ul style="list-style-type: none"> Housing Allocations Scheme revised in 2018 to meet requirements of Homelessness Reduction Act, including re-definition of the qualification criteria More effective processes (including prevention) and additional software being obtained, aiming to reduce B&B costs incurred Restructure of Housing department being progressed New Housing & Homelessness Strategy progressed Housing contracts being examined and reviewed Council commitment / increased Member interest toward building new affordable

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Increase in demands from the Welfare Reform Act Significant increase in university campus at Bognor will impact availability of accommodation Uncertainty over impact of government benefit changes – Universal Credit, etc. Lack of internal officer capacity to deliver changes in addition to existing capital programme Impact of HMO's becoming student or staff accommodation on local rental market stock Additional responsibilities under the Homelessness Reduction Act 2017 Continuing loss of HRA properties through Right To Buy (RTB) Potential loss of WSCC funding for 'commissioned services' / to voluntary organisations 		<ul style="list-style-type: none"> costs increasing leading to foreclosure Increased demand on customer services – enquiries, complaints, etc. Failure to increase Council housing stock Increased borrowing Poor publicity / reputational risk 	<ul style="list-style-type: none"> homes and bringing empty homes into re-use; possible new Government initiatives Purchase of properties by the Council in 2017 as part alternative to continued use of private bed & breakfast accommodation Updated HRA Business Plan produced and monitored. Commitment to deliver 250 new homes in period to 2027/28 to offset RTB sales (but target may increase as part of strategic priorities) Small amount of additional Government grant funding Council investigating development of General Fund land for e.g. student accommodation to ease pressure on rental market LGA / Councils lobbying Government regarding changes to RTB legislation / receipts Council Chief Executives liaising with WSCC to identify impact and consequences on local Councils and voluntary organisations
6b	6 ↕	Affordable Housing Development			
		<ul style="list-style-type: none"> Lack of in-depth internal development expertise for house building Lack of available and fit for purpose properties (council able to build or buy but requirement is for smaller properties) Lack of Council-owned land for further development New developments vulnerable to challenge from members and community 	The council may not be able to fulfil the development targets for building new homes	<ul style="list-style-type: none"> Reputational issues for council & revenue investment not maximised Delays in building new Council housing / reduction in proposed scheme due to lack of finance Significant borrowing may be required Increased cost of borrowing from PWLB rate change Reviews and changes are resource intensive 	<ul style="list-style-type: none"> as 6A above New Housing & Homelessness Strategy being progressed Requirement for proportion of new developments to be affordable housing (e.g. via S106) Review of Council-owned land for possible development Several house purchase schemes being investigated Engagement with appropriate partners to attract funding and development

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Reduction in the amount of stock from RTB release, leading to reduced rental income Significant negative impacts of Government changes to national rent setting policy on HRA Business Plan Reduction in HCA grants for affordable housing Possible clawback of Right To Buy (RTB) 1:1 receipts if not used in time Reduction in new RTB receipts Delay in new house build program Increased delivery targets from new Council, but may not be affordable / deliverable Government legislative changes not encouraging Local Authorities to build at social rents Infrastructure deficit (e.g. GP reductions) could lead to lower take up of housing in the area 		<ul style="list-style-type: none"> Impact on council legal team resource / extra costs of external resource Significant reduction in HRA rent income until rent increases allowed Development schemes are less economically viable and not progressed by landowners Area is not seen as a viable market for development Potential return to Government of 1:1 receipts Council targets fail to be met 	<ul style="list-style-type: none"> Monitoring / reporting of RTB 1:1 receipts to CMT and Cabinet HRA Business Plan adopted and reviewed annually HRA rent uplift will recommence in 2020/21
7	6 Reinstated	<p>Local Plan</p> <ul style="list-style-type: none"> The Council is to decide on the 13th Jan whether to review the Local Plan in order to update our policies on issues such as climate change and to address the current under-delivery of housing against agreed targets More neighbourhood plans are being developed at Parish/Town Council level Not meeting the Housing Delivery Test requirements or % year Housing Supply means the Council 	Although the Local Plan has been adopted, the Council could still be vulnerable to development in unallocated areas if the Council is unable to maintain a 5-year supply of housing or meet the required Housing Delivery Test requirements	<ul style="list-style-type: none"> If ongoing test and supply requirements are not met, there will be less ability to make strategic planning decisions, increasing the prospect of development in unallocated areas and a lack of cohesion within the locality Significant cost for lengthy planning framework review 	<ul style="list-style-type: none"> More information to members (seminars and workshops, etc.) to explain the issues & Government planning requirements and implications thereof Planning department resource remains under review – LGA Peer Review in June 2018 Revised studies and policies consulted on and agreed by Members, prior to submission to the Inspector Land supply and strategic sites to be kept under review

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		is more vulnerable to planning decisions being overturned on appeal			<ul style="list-style-type: none"> Planning policies to be reviewed as part of climate change issues Housing Delivery action plan to be progressed
8	9 ↓	<p>Partnerships</p> <ul style="list-style-type: none"> Council may enter into arrangements which do not serve its longer-term best interests Informal and voluntary partnership arrangements do not produce benefits / synergy Public health transition will mean partnership working with NHS clinical commissioning groups – significant local concerns in respect of GP practice closures and lack of overall co-ordination of activities within the NHS Government impetus to share more, leading from funding reductions & potential lessening of political control Lack of understanding of potential opportunities in the marketplace Increased financial pressure on all parties Increased partnership complexity – both contractually and through service delivery Lack of definition surrounding the constitution of a partnership, grants and shared service Lack of progress against past audit recommendations Reduction / lack of commitment from external partners - funding cuts could impact existing services 	If key partnerships are not robustly governed, they may not offer the best longer-term value for ADC. There may also be missed opportunities by not exploring enough options	<ul style="list-style-type: none"> There may be lost opportunities for sharing services and work Reliability of service delivery Customer dissatisfaction / loss of trust or confidence within community Potential reputational issues Lack of governance and clarity around objectives of partnerships New responsibilities for council with the public health transition Funding reductions means having to find different income streams More financial pressure on services Projects fail to deliver desired outcomes Less capacity within charities / voluntary organisations 	<ul style="list-style-type: none"> The Council will continue to investigate partnering opportunities with other Councils Engagement with external partner agencies Roles and responsibilities, priorities, finances, etc. defined as part of arrangements 'Partnership' definition agreed by CMT to inform relevant discussions on Vision Partnership Register being collated Audit & Governance Committee interest in progress Voluntary and support sector funding subject to ongoing review Council Chief Executives liaising with WSCC to identify impact and consequences on local Councils and voluntary organisations

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Impact of Local Policing Plan putting greater pressure on specific Council services e.g. Community Safety, Environmental Health, Housing, etc. Potential loss of WSCC funding for 'commissioned services' / to voluntary organisations 			
9	6 ↕	<p>Information Governance and Data Security</p> <ul style="list-style-type: none"> Increasing FOI and DPA requests (national issue) / complexity and limited resources which are stretched More information sharing can lead to less control Lack of Member awareness on information governance and data security requirements and standards. Lack of formal mandatory training and staff awareness of new requirements Additional burdens from EU General Data Protection Regulation (GDPR) – concern over resources available to meet these Increase in home and mobile working Limited specialist resource to investigate data breaches – ICT support is not (formally) 24x7 	<p>The council is facing an increased risk of a breach of Data Protection Act / General Data Protection Regulation</p>	<ul style="list-style-type: none"> Increased vulnerability to breach of Data Protection Act / GDPR leading to reputational damage / financial penalties (and significantly higher fines possible under GDPR) Less time within Council Advice & Monitoring team to deal with issues could lead to mistakes, etc. Lack of clarity around what information is where and who is responsible for it Certain Council services being unable to function without PSN compliance Potential ICO censure / financial costs from the GDPR Poor publicity / reputational issues Incident management of possible breaches will require corporate / CMT support and will impact existing work 	<ul style="list-style-type: none"> Trained resource to handle FOI / DPA requests DPA / FOI training programme progressed for staff with annual updates planned Council networks reviewed by consultant and annual certification to Public Services Network (PSN) standard achieved ICO guidance on preparation for General Data Protection Regulation (GDPR) reviewed and Action Plan progressed. Additional, external advice obtained Data audit conducted and policies updated for GDPR compliance, will now be subject to ongoing review Data Protection Officer (DPO) appointed and trained Policy / publication updates being completed and regular briefings provided to CMT and staff GDPR training provided to all staff and Members. E-Learning being added for Information Governance Information Security Group (ISG) oversight of GDPR and security compliance

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
					<ul style="list-style-type: none"> Incident management process to be developed and advised to staff / management Additional data protection resource obtained ICT & Service Improvement Manager added to delegated authority for GDPR and IT Technical Manager to be added (to increase capacity) Availability arrangements for ICT out-of-hours incident response accepted by CMT
10	4 ↕	Community Engagement and Customer Insight			
		<ul style="list-style-type: none"> Understanding of customer / community “needs” vs “wants to have” can be patchy across the council Council commitment to digital strategy, but direction unclear - over reliance on web-based systems could alienate public and councillors Council not maximising social media and other communication methods The next generation of council service users will have different needs and expectations and could become alienated by traditional methods of delivery of information If changes not progressed effectively, then risk will be increased Challenge / poor publicity surrounding housing proposals by developers 	<p>Risk of failure to engage effectively with the community, either by communicating the council’s objectives and service plans or understanding and managing customer expectations</p>	<ul style="list-style-type: none"> More difficult to formulate and deliver major initiatives that are effective and relevant (e.g. Local Plan, regeneration) Difficulty communicating changes to service delivery Failure to maximise opportunities within the community Rural opportunities could be overlooked Poor publicity / lack of community support 	<ul style="list-style-type: none"> Your Council – service area objectives extended for 2018-2021 Corporate Plan reviewed / updated for 2018-on Customer satisfaction results under review Customer Services changes resulting from Vision work / service transformation Council commitment to providing more digital opportunities. Further work on website development and social media channels required New Arun ICT Service Strategy 2019-2023 agreed and a separate Digital Strategy and Blueprint developed Social media policies reviewed and updated Customer Access Strategy reviewed and being progressed Customer Access Strategy Vision ‘to put customers at the heart of what we do’ Public engagement strategy to be developed

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Customer satisfaction results reducing 			<ul style="list-style-type: none"> Planning Peer Review undertaken in 2018 New (post-5/19) Council Cabinet commitment to consultation and transparency Key Council meetings now recorded
11	6 ↕	Coastal Protection & Land Drainage			
		<ul style="list-style-type: none"> Multiple agencies / property owners involved – requirement for individual decisions delaying actions Bad weather increases rate of erosion / chances of flash flooding Longer term – climate change and sea level rise <p>Coastal Protection:-</p> <ul style="list-style-type: none"> Delays due to legislative / regulatory requirements e.g. environmental studies Conflicting opinions as to required solution Insufficient funding to deliver scheme(s) Rapid deterioration of short-term improvements Increased climate change risk - Member concern at external comment on 'managed realignment' and impact on Arun District and residents <p>Land Drainage:-</p> <ul style="list-style-type: none"> All parties (across the network) need to be aware Possible removal of Internal Drainage Boards may lead to 	<p>Some areas of the District are subject to significant erosion issues, with a high risk to dwellings</p> <p>The Council must fulfil its responsibilities as landowner (riparian) under the Land Drainage Act to ensure that its part of the whole network functions effectively</p> <p>The Council has powers (under the Coastal protection Act) and also responsibilities for maintenance of assets on its controlled land</p>	<ul style="list-style-type: none"> Loss of residents' homes Flood damage to property, land and infrastructure H&S issues Increased costs Reputational issues / poor publicity Need for temporary housing <p>Coastal Protection:-</p> <ul style="list-style-type: none"> Increased risk of problem extending to neighbouring coastal areas Environmental impact 	<p>Coastal Protection:-</p> <ul style="list-style-type: none"> Council installed additional short-term defences (heavy rocks and shingle recycling) Engaging with residents and Parish Councils Engaging with other relevant authorities (e.g. Environment Agency, Chichester DC) Lobbying central government Some partnership grant funding (flood and coastal erosion grant from the EA) provided to approved major flood and coastal risk management schemes Pagham – spit breached in 2016 and the community now has an approved planning application to cut through the remaining part, although it currently unlikely if this work will proceed The Council has a forward capital programme (informed by the Shoreline management Plan and Coastal Defence Strategies) and a year-on-year revenue programme Council considering Committee on Climate Change report and will consider future Government / EA advice and proposals. To feed into wider Council consideration of climate change issues

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		responsibilities being passed back to the Council			Land Drainage <ul style="list-style-type: none"> Working with EA (automated flood warning) and WSCC (LLFA) Monitoring weather forecasts and noting / responding to Met Office alerts Engaging with Parishes and flood groups across the District Emergency Planning engages with relevant bodies Drainage Engineer appointed to progress Council land responsibilities and to assist other parties
12	8 ↕	Corporate Business Continuity			
		<ul style="list-style-type: none"> Threat of loss of buildings / infrastructure through fire, flooding or other incident Continued uncertainty over the future of BRTH, which would act as recovery site for the Civic Centre IT critical system recovery requirements still to be agreed 	The Council is facing increased risk of cyber attack There is a risk to business continuity from a major incident either directly impacting the Council's infrastructure / services or the provision of key services, etc. by contractors / suppliers Mass loss of staff through illness e.g. pandemic	<ul style="list-style-type: none"> Loss of buildings or access to buildings through fire damage, flooding or other serious environmental incident, etc. Loss of major contractors / suppliers through a major incident affecting their infrastructure / staff Inability to provide key services / reputational issues 	<ul style="list-style-type: none"> Advice obtained from Council's insurers Corporate Business Continuity Plan under development for agreement by CMT and subject to workshop testing Service Business Impact Analysis (BIA) and Business Continuity Plans (BCP) reviewed and updated in order to identify critical service and IT requirements BIA and BCP to be reviewed / updated by all service areas annually Revised evacuation / incident procedures due after Civic Centre bomb scare incident Workspace recovery plans to address identified impacts and plans Procurement tender processes require major contractors to have business continuity plans in place
13	12 ↕	Cybersecurity			
		<ul style="list-style-type: none"> Increased threat of cyber-attacks (viruses, malware, ransomware, etc.) 	The council is facing an increased risk of cyber threat	<ul style="list-style-type: none"> Loss of key systems / inability to provide key services Loss or corruption of data 	<ul style="list-style-type: none"> Proprietary security software in use on pc's, networks and mobile devices

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Increased vulnerability through extended use of internet and cloud facilities Poor working practices by staff / partners could lead to security breaches 		<ul style="list-style-type: none"> Financial loss Reputational damage Costs / time spent to recover 	<ul style="list-style-type: none"> ICT deploy appropriate security measures to minimise cyber risks (e.g. firewalls, anti-virus checking, etc.) Additional security products (e.g. using artificial intelligence / machine learning) purchased Security and ICT usage policies in place and regularly updated Rolling process is in place to patch all systems to the latest versions Vulnerability testing undertaken to meet certification requirements and PSN certification achieved e-Learning now in place and adding system to test understanding and record completion Incident response and reporting mechanisms have been reviewed and implemented Regular updates provided to CMT Cybersecurity certification being progressed Cyber Risk Register developed and reviewed monthly with CMT – no red items Cyber Risk Escalation Matrix and Cyber Incident Response Plan both completed Updates to awareness and security has led to improved LGA Cybersecurity Stocktake rating (now Green-Amber from Amber-Red) External (LGA) consultant review has confirmed that appropriate configurations and actions are in place to minimise the risk as far as is practical Future use of 'cloud' services included in ICT Service Strategy, which will improve resilience

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
15	3 ↕	Local Authority Trading Companies			
		<ul style="list-style-type: none"> Lack of technical knowledge in the Council in respect of the establishment and operation of arms-length companies Companies could be poorly managed Additional legal and operational requirements Companies fail to deliver required services, income or cost savings Substantial external borrowing may be required by the Council Council liable for trading company debt Government / CIPFA concerns over level of Local Authority borrowing / purposes No appointed Directors or key personnel 	<p>There are risks to the Council from the establishment of arms-length trading companies in order to provide key services and/or to increase income streams / reduce costs</p>	<ul style="list-style-type: none"> Services are not provided Lack of Council control Financial loss Non-repayment of loans Reputational damage Failure to meet additional legal requirements (e.g. Companies Act) Companies eventually wound down, leading to additional costs (e.g. redundancy) Rise in PWLB interest rates in 2019 Further CIPFA requirements to prevent borrowing in advance of need No persons identified to carry out work of Company 	<ul style="list-style-type: none"> External advice obtained from other Councils / consultants regarding business cases Specialist advice obtained e.g. regarding legal issues Business cases being developed for approval by CMT and Members – Local Property Company currently dormant but under consideration by Members Formal agreements to be put in place for trading companies, including financing, involvement of officers / members as Directors, etc. Constitution changes made in respect of monitoring and reporting to the Council
16	12 ↕	Corporate Stock Compliance Issues			
		<ul style="list-style-type: none"> Lack of knowledge / management oversight of compliance issues Inadequate Council monitoring systems Lack of technically competent staff to complete checks Ongoing restructure and recent staff losses Compliance requirements differ across various areas of the Council 	<p>There are risks to the Council, its staff and its residents where key compliance checks have not been satisfactorily completed for social housing, corporate buildings, etc. and any issues addressed (e.g. fire, water, gas, etc.)</p>	<ul style="list-style-type: none"> Death or injury to staff or residents Destruction / damage to corporate premises / housing stock Regulatory censure / intervention Corporate manslaughter prosecution Reputational damage Additional costs 	<ul style="list-style-type: none"> Different senior management now responsible under new structure External consultant review undertaken and issues identified Action plan agreed with Regulator of Social Housing Data sources identified and new software obtained Existing data identified and loaded Diligence checking of contractors to ensure data passed to them is in line with GDPR requirements Housing stock – Health & Safety Improvement Plan January-November 2019 being progressed and resulted

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
					reported to Regulator. Program of work being undertaken by competent staff / contractors to complete missing or out-of-date compliance checks and undertake remedial actions <ul style="list-style-type: none"> Regulator provided with regular monthly updates and Council is working to agree a voluntary undertaking
17	8 ↑	Elections <ul style="list-style-type: none"> Changing electoral registration practices Possible repeal of Fixed Term Parliament Act by new government Potential future changes to voting processes being piloted in the UK Disenfranchisement of voters Challenge to election results Electoral fraud Lack of preparation for unscheduled events - 'snap' General Election / 2nd EU Referendum Increased burden for multiple Neighbourhood Plan referenda Insufficient and/or inexperienced elections staff available for poll / count Likely count day for PCC elections in 2020 is now scheduled as the VE Day bank holiday 	There are risks to the Council and its staff when acting on behalf of the Government / Electoral Commission in the conduct of elections / referenda	<ul style="list-style-type: none"> Legal action against Returning Officer Reputational loss Election petition or judicial review Community unrest Increase in frequency of elections / referendums Short notice leading to unavailability of polling stations / lack of polling or count staff 	<ul style="list-style-type: none"> Detailed planning performed for elections Electoral Commission regulatory issues and guidance reviewed Detailed risk register maintained Annual canvass progressed to update Electoral Roll Experienced staff used where possible Training provided to polling and count staff Established processes for e.g. postal voting Robust count and verification procedures established Liaison with other relevant authorities where voting regions overlap (e.g. Parliamentary elections) or where results are regional rather than local Polling station review progressed after the May 2019 elections Warnings of possible future election dates provided to staff by Returning Officer
18	16 ↑	Brexit Implications <ul style="list-style-type: none"> Significant revision of legislation to take place Uncertainty over future EU funding available 	Although Article 50 has been triggered and the UK is due to leave the EU on 31 January 2020 (extended)	<ul style="list-style-type: none"> Legislative changes may impact Council services and operations 	<ul style="list-style-type: none"> Council monitoring progress towards leaving / advice from Government (e.g. on 'no deal' preparation) and risk assessments in place

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> Impact on availability / costs of consumer items is not known Changes to procurement regulations Uncertain impact on EU citizens in UK / breakdown of communities Potential for further delay of leaving date / second referendum Still uncertainty over deal / no-deal exit Potential for change of Government Economic upheaval – changes to interest rates, inflation, etc. Potentially lengthy process to establish trade deals after Brexit 	from 29 March / 31 October 2019), there is still no agreement on how this will be achieved and the impact locally, on the UK, the EU and globally	<ul style="list-style-type: none"> Possible legal issues regarding data flows outside of the UK in the event of a no-deal Brexit Increased costs Negative impact on tourism Changes required to Council processes and documentation Lack of funding for projects e.g. infrastructure, regeneration Lack of consumer items leading to panic buying / stockpiling Lack of medicine leading to increased burdens on NHS and partners Additional enquiries to Council staff Changes to benefits regime Loss of 'key' workers in some sectors Issues with elections / Electoral Roll Potential increase in homelessness Potential for further referendum / snap election Protests / civil unrest 	<ul style="list-style-type: none"> Council monitoring advice from appropriate other sources e.g. LGA, CIPFA, etc. and any reports/initiatives obtained from e.g. other councils Contingency plans for snap election, etc. European Union (Withdrawal) Act 2018 provides stopgap incorporation of old EU laws New Prime Minister and Cabinet in place from 24 July 2019 with publicised commitments to meet 31 October deadline and protect the rights of resident EU citizens
19	12 (New)	Climate Change	<p>Along with many others, the Council has declared an 'environmental and climate change emergency'</p> <p>Aim to make the activities of the Council carbon neutral by 2030</p>	<ul style="list-style-type: none"> Increased risk of local flooding No reduction / increase in carbon emissions Poor energy, water, etc. efficiency and increasing strain on infrastructure Increasing air, water, etc. pollution 	<ul style="list-style-type: none"> Increased national awareness and drive for change New Government manifesto promises Member desire to progress climate change agenda Council monitoring and implementing changes to Government standards (e.g. Future Homes)

ARUN DISTRICT COUNCIL – STRATEGIC RISK REGISTER 2019/20

No	Rating	Vulnerability	Trigger	Consequence	Current Controls / Mitigating Actions
		<ul style="list-style-type: none"> • Slow take-up of energy saving measures e.g. green / renewable tariffs, smart meters, etc. • Inadequate level of sustainability required in proposed / approved developments • Slow development of Government-led policies, for home and energy standards, etc. • Slow take-up of electric, hybrid and low-emission vehicles – lack of accessible charging points 		<ul style="list-style-type: none"> • Adverse health issues for residents e.g. asthma • Increased build costs for developers • Continued poor vehicle emissions • Reputational damage / poor publicity 	<ul style="list-style-type: none"> • Options for developing planning policy guidance and Supplementary Planning Documents (SPD) aimed at improving the sustainability of developments compared to the current position to be progressed and action plan to be produced • 'Carbon neutral' district aim to be progressed • Liaison with water agencies on local water quality (Blue Flag beaches) • Liaison with Sussex Air Quality Partnership • Climate Change Manager post to be set up – Climate Change strategy and action plan to be agreed and progressed • Liaising on provision of suitable vehicle charging points for the future • Liaison with partners / advice to residents on energy saving, reduction in carbon emission, wellbeing, etc. • Providing support for other national / local initiatives e.g. waste recycling, removal of single-use plastics, etc.

Page 168

↑ - risk score increased

↓ - risk score reduced

↔ - no change

ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 13 FEBRUARY 2020

PART A : REPORT

SUBJECT: Annual Internal Audit Plan 2020/21

REPORT AUTHOR: Stephen Pearse, Chief Internal Auditor

DATE: January 2020

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

Each year Internal Audit is required to develop an annual audit plan for the following financial year, for agreement by the Audit & Governance Committee

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to agree the outline Annual Internal Audit Plan

1. BACKGROUND:

Each year Internal Audit is required to develop an annual audit plan for the following financial year.

This provides the opportunity for the Chief Internal Auditor, in consultation with senior managers within the Authority and with members of the Audit & Governance Committee, to determine where best the limited resources available to Internal Audit should be directed. In order to prepare the plan, consideration has been given to accepted best practice, as promulgated by both CIPFA and the Chartered Institute of Internal Auditors.

The section has continued to operate with 2 FTE in the short-term, with the focus on mandatory and high priority work. The outline plan presented is based upon the existing 2 FTE (as at February 2020).

Now that the Council's revised structures / operations are largely in place, consideration can be given to resourcing for the future. It is therefore likely that there will be some change in 2020 while the future Internal Audit resource is finalised.

As at the start of 2020, there are still a number of Council strategies (e.g. Customer Access, Digital, etc.) to be progressed that may result in work for the section. There also remains considerable uncertainty regarding a number of areas e.g.:-

- the Council's ongoing financial position, as impacted by central Government policy / funding changes and potential knock-on effects from cuts elsewhere e.g. WSCC

- the impact of Brexit / transition arrangements once agreed by central Government and the impact on the requirements for / provision of Council services
- new / changed initiatives as a result of the revised Strategic Targets for the period 2019-2023 adopted by the Council.

These may require further operational changes to meet new and changed requirements / legislation.

In view of this, an outline-only plan is attached for the agreement of the Committee and there will again need to be considerable flexibility through the year as to the assignment of resource to specific tasks. As agreed with management, it is currently anticipated that work will be required (timing and scope to be agreed) at some stage in the year on e.g.:-

- the Housing area (after the restructure has been completed) and the new reactive repairs provider is in place
- the Office 365 implementation project (ongoing from 2019)
- the Northgate replacement / upgrade project (Revenues and Benefits software – with new functionality due for implementation in early 2020 and some additional modules later in the year)
- the planned implementation of the Community Infrastructure Levy (CIL).

These will be accommodated within the proposed outline plan and reports on the progress of work being undertaken will be provided to meetings of the Audit & Governance Committee through the year, as is currently the case.

Should there be a significant change during the year in the work to be undertaken by the section or in the resource available to it, then a revised Plan will be prepared and advised to the Committee.

2. PROPOSAL(S):

It is proposed that the Committee agrees the outline Annual Internal Audit Plan for 2020/21

3. OPTIONS:

To agree the outline Annual Internal Audit Plan for 2020/21, or not

4. CONSULTATION:

Has consultation been undertaken with:	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	YES	NO
Financial		✓

Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓

6. IMPLICATIONS:

7. REASON FOR THE DECISION:

The Committee agrees the outline Annual Internal Audit Plan for 2019/20

8. BACKGROUND PAPERS:

N/A

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Outline Internal Audit Plan for 2020/21

30/3/20-28/3/21 (52 weeks)

Based upon the current 2.0 FTE and in line with the number of days per auditor / classification of assignments that had been considered for a common shared internal audit service

Key Financial Systems	78
<i>(Key control checking for the main 'financial systems' - Benefits, Cash & Banking Council Tax, Accounts Payable, Accounts Receivable, Housing Rents, NNDR, Payroll, Treasury Management)</i>	
ICT Audit (including projects)	65
<i>(Likely to include Northgate Upgrade, Office/365, Digital Agenda, Electronic Payments Processing)</i>	
Business Systems Audit	123
<i>(Audit work TBC in service areas as agreed with senior management, including work required in emerging risk areas e.g. Climate Change)</i>	
Contract Audit	8
Follow-Ups	6
PSIAS / QAIP (includes reviewing & updating audit procedures)	4
Total Chargeable Days (Audit)	284
Governance / AGS	5
National Fraud initiative (NFI)	17
Corporate Fraud	3
Audit Advice	10
External Audit Liaison	4
Committee Representation	10
Planning & Control	23
Contingency (e.g. for special investigations)	7
Meetings (Corporate)	8
RIPA	2
FOI	2
Total Chargeable Days (Non-Audit)	91
Total Chargeable Days	375

(Chargeable days are those after allowance for bank holidays, leave, sickness, admin, etc. which are an overhead and not directly relevant to Council service areas)

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ARUN DISTRICT COUNCIL

REPORT TO AND DECISION OF AUDIT & GOVERNANCE COMMITTEE ON 13 FEBRUARY 2020

PART A : REPORT

SUBJECT: Progress Against the Audit Plan

REPORT AUTHOR: Stephen Pearse, Internal Audit Manager

DATE: January 2020

EXTN: 37561

PORTFOLIO AREA: Corporate Support

EXECUTIVE SUMMARY:

Each year Internal Audit undertakes its work against an annual audit plan, as approved by the Audit & Governance Committee prior to the start of the financial year

The Committee is required to oversee the provision of an adequate and effective internal audit service

RECOMMENDATIONS:

Members of the Audit & Governance Committee are requested to note the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February meeting

1. BACKGROUND:

An outline Audit Plan was presented to, and approved by, the Committee at its February 2019 meeting reflecting the resource currently available. The aim of the plan was to ensure that mandatory work is completed, that there is appropriate involvement in the progress of the 2020 Vision initiative / ongoing transformation and to progress audit work on the priority / highest risk areas identified.

However, the Committee was advised that, although the revised management structure has been finalised, some lower level organisational changes are still being progressed and there is still considerable uncertainty as to where audit resource may be required in the year.

The attached report identifies the main areas of work undertaken by the Internal Audit section to February 2020.

2. PROPOSAL(S):

It Committee is requested to note the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February meeting

3. OPTIONS:		
To note the contents of the report, or not		
4. CONSULTATION:		
Has consultation been undertaken with:		
	YES	NO
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)		✓
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)		
	YES	NO
Financial		✓
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		✓
6. IMPLICATIONS:		

7. REASON FOR THE DECISION:
The Committee notes the content of the report on progress made against the outline Audit Plan agreed by the Committee at its February meeting

8. BACKGROUND PAPERS:
N/A

Audit Progress

At the Audit & Governance Committee meeting of 14 February 2019, the Committee agreed an outline plan for the section for 2019/20.

Since the plan was provided to the Committee, work has been undertaken in the following areas:-

<u>Code</u>	<u>Title</u>	<u>Work performed</u>
RE03	Main Accounting	<ul style="list-style-type: none"> • Self-assessment of Council arrangements / financial resilience against CIPFA's Financial Management Code performed and draft report to be discussed with Group Head of Corporate Support • (E&Y) Key controls testing completed
RE04	Purchase Ledger	<ul style="list-style-type: none"> • Monitoring progress of roll-out of new procedure for corporate credit cards (following 2018/19 audit) • Liaison with Finance regarding possible introduction of virtual or embedded credit cards as payment methods • Ongoing monitoring of order amendment progress • Jasper (ad hoc reporting system) update implemented – now allows access to order authorisation data. Old routines re-tested and updated • (E&Y) Key controls testing completed
RE05	Value Added Tax	<ul style="list-style-type: none"> • Liaison with Insurance & Risk Officer regarding preparation for introduction of Government's Making Tax Digital (MTD) process (in place from 10/19)
RE08	Payroll	<ul style="list-style-type: none"> • Monthly joiners and leavers checks • Enhanced key control checks review completed Reported to A&GC 21/11/19 • (E&Y) Key controls testing completed
RE10	Estates & Valuations	<ul style="list-style-type: none"> • Liaison with Property & Estates staff regarding set up and use of general fund property information in segregated area of QL system • Liaison with P&E staff on possible new system (subject to business case, budget and approval) • Liaison with Finance staff regarding reporting of Council land to meet data transparency requirements
RE11	Corporate Property Management	<ul style="list-style-type: none"> • Liaison with Property & Estates staff regarding progress of Property Investment Strategy / Fund Update provided to A&GC 11/19
CS03	Housing Finance	<ul style="list-style-type: none"> • (E&Y) Key controls testing completed
CS16	Housing Benefit (& Council Tax Reduction)	<ul style="list-style-type: none"> • Liaison with Finance, Procurement, Benefits and external audit in respect of arrangements for future

		<p>Housing Benefit Subsidy Claim certification</p> <ul style="list-style-type: none"> • Liaison with Benefits in respect of the results of the Housing Benefit Subsidy Claim 2018/19 certification Update provided to A&GC 2/20 • Liaison with R&B Manager on draft Risk Based Verification Policy • (E&Y) Key controls testing completed
CS17	Council Tax	<ul style="list-style-type: none"> • Annual test checks on CT precept calculations for Finance • (E&Y) Key controls testing completed
CS18	NDR	<ul style="list-style-type: none"> • (E&Y) Key controls testing completed • Ongoing consideration of possible NDR fraud areas (including small business relief and exemptions)
CS19	Income: Sundry Debtors	<ul style="list-style-type: none"> • Liaison with Group Accountant on new reporting to service areas on overdue Sundry Debtor invoices • (E&Y) Key controls testing completed
CE06	Members' IT & Allowances	<ul style="list-style-type: none"> • Liaison with ICT and Committees staff regarding implementation of ModernGov system for Members and Committees in May 2019
CS12	Information Technology	<ul style="list-style-type: none"> • Liaison with ICT staff in respect of Council cybersecurity risk assessment and security measures. (Council has had assistance of an LGA consultant) • Input into progress of required Information Asset Register
CS13	Information Technology – Physical Security & Disaster Recovery	<ul style="list-style-type: none"> • Liaison with ICT staff in respect of Council's ICT disaster recovery arrangements Advice received that Capita (WSCC) Power Place, Chichester data centre will close and move to Horsham (but not expected until 2022). PowerPlace houses Council servers for internet, email, etc. and also the back-up SAN • Liaison with Neighbourhood Services staff regarding the progress of Council Business Continuity Planning (BCP) arrangements and documentation
CS15 RE07	PCI-DSS Compliance Income Collection / Systems	<ul style="list-style-type: none"> • Update on Council's electronic payment processing arrangements via Capita and AllPay • Further review of use of CallPay for card payments and Capita's Electronic Licence Management System (ELMS) portal by the Council • Consideration of PCI-DSS areas of non-compliance and past / current consultant and vendor advice on way forward • Senior management have been advised that there will need to be a major Council-wide project to consider future payment processing (e.g. use of one supplier rather than two), potential technology and/or customer service changes and compliance issues. Also requires agreement of Council's future Customer Access Strategy
CP02	Information & Data Governance	<ul style="list-style-type: none"> • Liaison with Group Head of Council Advice & Monitoring Officer regarding future work on data protection and completion of Record of Processing

		<p>Activities</p> <ul style="list-style-type: none"> Review of pre-GDPR data audit information to update Information Asset Register Liaison with ICT staff and attended demonstrations of 3rd party data filtering / analysis product which would help identify risk areas and potential data breaches
PR01	Arun Improvement Programme	<ul style="list-style-type: none"> Liaison with ICT & Service Improvement Manager in respect of AIP agenda items, review of system proposals, etc.
PR04	EDRMS / Workflow	<ul style="list-style-type: none"> Liaison with ICT (e-Support) staff in respect of project to implement retention and deletion schedules (as agreed for GDPR compliance) into the Council's EDRMS
PR09	Digital Arun Project	<ul style="list-style-type: none"> Ongoing liaison as to what the Council's digital strategy is to be and who is responsible – further discussions progressed by CMT Brief review of publicised initiatives from other Councils Liaison with ICT and input to draft Digital Strategy / Blueprint (considered by CMT 17/9/19). Internal Audit Manager is now part of steering group for the digital agenda With ICT and other Council staff, attended County-wide conference hosted by Adur & Worthing (largely related to infrastructure) Steering Group consideration of proposals on Sussex By The Sea website and Aareon digital portal / services for Housing
PR10	Northgate Upgrade	<ul style="list-style-type: none"> Liaison with R&B and ICT staff regarding progress of project to upgrade the Northgate Revenues and Benefits system in 2019. This will include use of Cloud storage / workflow and introduction of Citizen Access functionality Cloud-based system delivered in late October However, delay in delivery of:- <ul style="list-style-type: none"> Citizen Access Information At Work (DMS replacement) Risk Based Verification of claims (subject to Policy agreement by Members) <p>These were due in early December 2019, but will now be early in 2020. (Some additional modules will also be implemented later in the year)</p> <ul style="list-style-type: none"> Test of access to documents in Information@Work system
PR11	Office/365 Migration	<ul style="list-style-type: none"> Liaison with ICT staff regarding Office/365 migration project Phase 1 (June 2019) converted desktop for staff from old, unsupported Office version Later Phases will include moving data to Cloud storage and will require security considerations as to access, labelling, GDPR requirements, etc.
CP03 MS01	Corporate Governance Annual Governance	<ul style="list-style-type: none"> Annual review of compliance against the Council's local Code of Corporate Governance Discussion with Director of Place regarding future

	Statement	<p>terms of reference for the Council's Governance & Risk Group</p> <ul style="list-style-type: none"> • Identification of updates required to the Council's Code of Corporate Governance • Preparation of the updated Annual Governance Statement and review by CMT • Draft AGS published on website with draft Accounts (by 31 May) and provided to external audit – Final AGS published with the audited Accounts <p>Reviewed by G&R Group and CMT 5/19 Reported to A&GC 30/7/19</p>
MS03	RIPA	<ul style="list-style-type: none"> • Advice provided to service areas in respect of queries concerning possible use of surveillance, whether this would fall within the scope of the RIPA legislation and other options available • Review of (Home Office) Code changes • Review of changes from the Investigatory Powers Act 2016 • Updates to Council's RIPA Policy drafted for legislative changes <p>Presented to A&GC 21/11/19 – for approval by Full Council 15/1/20</p> <ul style="list-style-type: none"> • Liaison with officers, review of past reports, etc. in preparation for IPCO inspection in December 2019. Liaison with IPCO Inspector during the inspection and minor changes to RIPA Policy (agreed with Chairman of A&GC for Full Council 1/20) • Review of IPCO inspection report and liaison with appropriate officers to progress recommendations / observations raised
MS04	NFI	<ul style="list-style-type: none"> • The NFI Council Tax Single Person Discount reports were received in December 2018. These have been reviewed by Internal Audit and account queries referred to Revenues. (Old, redundant Electoral Roll entries have been referred to Elections) • Reports from the main 2-yearly NFI exercise have been received and reviewed (except for those being reviewed by Benefits) • Additional new reports using HMRC data received in 8/19. Key reports reviewed and queries referred to Housing and Benefits • Liaison with Revenues and Elections in preparation for annual Council TAX SPD review – files due at Cabinet Office 12/19 • Files verified and sent to Cabinet Office • Results received and awaiting review
CE02	Communications	<ul style="list-style-type: none"> • Review of Council use of external communications, including social media channels – draft report to be discussed with Group Head of Policy
CE05	Elections & Electoral Registration	<ul style="list-style-type: none"> • High-level observation / review of postal vote processing for May 2019 Elections performed • Review of elections expenses claim to progress
CP04	Risk Management	<ul style="list-style-type: none"> • Update of Strategic Risk Register via Governance & Risk Group (and agreed by CMT) • Input to WSCC and Sussex Resilience Forum (SRF)

		<p>risk registers for Brexit</p> <p>Updated SRR presented to A&GC 21/11/19</p> <ul style="list-style-type: none"> • Further update of Strategic Risk Register is planned for January 2020 once revised strategic priorities of the Council have been agreed and additional risks identified <p>Update to A&GC 2/20</p>
IN02 CP05	Fraud & Corruption Fraud & Corruption	<ul style="list-style-type: none"> • Compilation of data for publication to meet Government Data Transparency Code requirements • Compilation and submission of data for CIPFA annual fraud survey • Review of results from CIPFA's Fraud & Corruption Tracker survey 2019 • Review and update of the Council's Anti-Fraud, Corruption & Bribery Policy <p>Presented to A&GC 21/11/19</p> <ul style="list-style-type: none"> • Preparation of Annual Counter-Fraud Report <p>Reported to A&GC 30/7/19</p> <ul style="list-style-type: none"> • Liaison with Housing Fraud Investigator on progress to December 2019, prior to her changing role
AD08	Audit Standards & Quality (PSIAS/QAIP)	<ul style="list-style-type: none"> • Update of appropriate Arun internal audit documents • Preparation of self-assessment to be used in Arun's EQA • Liaison with Head of Business Services from Wealden Council who conducted the review – provision of information and documentation for EQA • Consideration of EQA report received and action plan to progress issues raised. Reviewed with Group Head of Corporate Support and Chief Executive <p>Presented to A&GC 21/11/19 – Action Plan progress to be advised in 7/20</p>
ES01	Environmental Health	<ul style="list-style-type: none"> • Liaison with ICT project manager in respect of the Tascomi system implementation – issues still being addressed with the vendor • Liaison regarding the future linking of the Tascomi system to Capita payment processing
ES04	Car Parks	<ul style="list-style-type: none"> • Liaison with Car Parks & Customer Service Manager in respect of contactless card payment pilot
ES06	Leisure Strategy / Management	<ul style="list-style-type: none"> • A governance review of the leisure centre project has been completed following delivery of the 'Littlehampton Wave'
ES13	Engineering	<ul style="list-style-type: none"> • Liaison with Engineering Services Manager on miscellaneous issues, including coastal defences, drainage and climate change
PL02	Planning Section106	<ul style="list-style-type: none"> • Review of Community Infrastructure Levy (CIL) proposals • Liaison with other Council audit areas where CIL has already been implemented • Liaison with Planning and Finance staff on implementation proposals, processes, etc.
CP06	Ethics	<ul style="list-style-type: none"> • A review of ethical governance issues (as recommended by CIPFA) completed and discussed

		with Chief Executive Reported to A&GC 21/11/19
CP07	Corporate Conduct	<ul style="list-style-type: none"> Liaison with HR Manager in respect of progress of revised Officer Code of Conduct and review of draft, prior to Full Council approval in 11/19
CP08	Travel & Subsistence	<ul style="list-style-type: none"> Analytical review of car use / mileage completed at the request of the CEO – linked to corporate review of car allowances Report provided to CEO on costs associated with possible Council use of electric pool cars
CP10	Resource Management	<ul style="list-style-type: none"> Identification of agency and contract staff, including agencies / companies used and rates
CP11	Procurement & Contracts	<ul style="list-style-type: none"> Liaison with new Procurement staff (shared arrangement with Chichester DC, with additional support from senior staff at Hampshire CC). Some discussion regarding Standing Orders, ordering, etc. Further change now due in staffing of Procurement Constitution compliance (e.g. standing orders) review
CP13	Grants & External Funding	<ul style="list-style-type: none"> Ongoing liaison with Finance and Technical Services staff in respect of Disabled Facilities Grant (DFG) certification and proposals for pooling across the County
CS02	Housing Repairs	<ul style="list-style-type: none"> Liaison with senior management on progress of investigation and agreed action plan to address the issues raised by the Regulator of Social Housing Liaison regarding the progress of the current management restructure of the Housing department
MS05	Contract Checking	<ul style="list-style-type: none"> Sample checks on contract compliance with Council Standing Orders and contract management in respect of financials
MS06	Follow-Up Review	<ul style="list-style-type: none"> Liaison with service areas in respect of actions on outstanding audit points Report provided to CMT, prior to old, outstanding items being included in annual reports (presented to A&GC in 7/19)
LI02	Member Liaison / Committees	<ul style="list-style-type: none"> Review and update of past induction training for members of the Audit & Governance Committee for the new Council post-May 2019 Elections Induction session provided to Committee on 2/7/19 Consideration of LGA and other Council information in respect of proposed review of the Council's governance structure and possible change to 'committee system'
TP02	Officer Group Representation	<ul style="list-style-type: none"> Chairing meetings of the Information Security Group and liaison with members on progress

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/2021**

Date of Meeting: 13 February 2020			
Statement of Accounts			
Agenda Items	Subject	Lead Officer / Member	Comments
1	Accounting Policies for 2019/20 Accounts	Financial Services Manager	If CIPFA advise of any changed requirements, then an update will be provided at the July meeting
External Audit			
2	Audit Planning Report	Ernst & Young	Covering the audit of the 2019/20 Accounts
3	Housing Benefit Subsidy Claim 2018/19 Certification	Internal Audit Manager	Summary of results of annual claim certification performed by E&Y
Governance Framework			
4	Capital Strategy	Financial Services Manager	For approval by Full Council (18/3/20)
5	Updated Strategic Risk Register	Internal Audit Manager	As advised to A&GC at November 2019 meeting
Treasury Management			
6	Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (18/3/20)
Internal Audit			
7	Annual Internal Audit Plan	Internal Audit Manager	
8	Update on the work of Internal Audit	Internal Audit Manager	
Other Items			
9	Update on the progress against recommendations from the Partnerships audit (as included in the Annual Governance Statement 2017/18)	Group Head of Policy	Requested by Committee at 2/19 meeting
10	Update on the status of the Council's Business Continuity Planning (BCP) arrangements	Group Head of Neighbourhood Services	Further to interim report provided to Committee 11/19
Work Programme			

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/2021**

11	To agree the rolling work programme for 2020/2021	Internal Audit Manager	
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February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31/3/20

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/2021**

Date of Meeting: 30 July 2020 (TBC)			
Statement of Accounts			
Agenda Items	Subject	Lead Officer / Member	Comments
1	Final Statement of Accounts 2019/20	Financial Services Manager	Draft version will be provided to external audit and posted on the Council's website at 31 May 2020
2	Annual Governance Statement	Internal Audit Manager	Draft version will be considered by Chairman / Vice Chairman in May, provided to external audit and posted on the Council's website at 31 May 2020
External Audit			
3	Response to E&Y on annual assurance letter regarding governance arrangements	Committee Chairman	Letter will be agreed with the Chairman and sent to external audit in April
4	Audit Results Report – ISA 260	Ernst & Young	
5	Annual Audit Fee Letter	Ernst & Young	
Governance Framework			
6	Local Code of Corporate Governance	Internal Audit Manager	
Treasury Management			
7	Treasury Management Annual Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (date tbc)
Internal Audit			
8	Annual Internal Audit Report & Opinion	Internal Audit Manager	
9	Progress against action plan from the 2019 External Quality Assessment (EQA) on the Council's Internal Audit Service	Internal Audit Manager	Initial report presented to Committee in November 2019
10	Update on the work of Internal Audit	Internal Audit Manager	
Other Items			
11	Annual Counter-Fraud Report	Internal Audit Manager	Any urgent updates can be provided at

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/2021**

			other meetings
12	Chairman’s Annual Report To Council	Committee Chairman	To be presented to Full Council
13	Annual update on use of RIPA powers in the previous Municipal Year	Internal Audit Manager	
Work Programme			
14	To agree the rolling work programme for 2020/2021	Internal Audit Manager	Updates, etc.

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/2021**

Date of Meeting: xx November 2020 (TBC)			
Statement of Accounts			
Agenda Items	Subject	Lead Officer / Member	Comments
	There are no items currently planned for this meeting		
External Audit			
1	Annual Audit Letter	Ernst & Young	
2	Housing Benefit Subsidy Claim 2019/20 Certification	Internal Audit Manager	Summary of results of annual claim certification performed by E&Y (TBC – if not received, will be at Feb 2021 meeting)
Governance Framework			
3	Updated Strategic Risk Register	Internal Audit Manager	
Treasury Management			
4	Treasury Management Mid-Year Report	Senior Accountant (Treasury Management)	Recommendations for approval by Full Council (xx/1/21)
Internal Audit			
5	Update on the work of Internal Audit	Internal Audit Manager	
Other Items			
	There are no items currently planned for this meeting		
Work Programme			
6	To agree the rolling work programme for 2020/21	Internal Audit Manager	Updates, etc.

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/2021**

Date of Meeting: xx February 2021 (TBC)			
Statement of Accounts			
Agenda Items	Subject	Lead Officer / Member	Comments
1	Accounting Policies for 2020/21 Accounts	Financial Services Manager	If CIPFA advise of any changed requirements, then an update will be provided at the July meeting
External Audit			
2	Audit Planning Report)	Ernst & Young	Covering the audit of the 2020/21 Accounts
Governance Framework			
3	Capital Strategy	Financial Services Manager	For approval by Full Council (date tbc)
Treasury Management			
4	Treasury Management Strategy Statement and Annual Investment Strategy	Senior Accountant (Treasury Management)	For approval by Full Council (date tbc)
Internal Audit			
5	Annual Internal Audit Plan	Internal Audit Manager	
6	Update on the work of Internal Audit	Internal Audit Manager	
Other Items			
7	Update on the progress of Council-owned companies (TBC)	Internal Audit Manager	
Work Programme			
8	To agree the rolling work programme for 2021/2022	Internal Audit Manager	

February meeting has to be timed so that Treasury Management Strategy can be approved by Full Council before 31/3/21

Other items to be considered in Work Programme:-

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

Property Investment Fund

- Progress reports (Property & Estates Manager)

**AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2020/2021**

Council-owned companies (should any be established)

Governance & Risk Group updates

Relevant policy reviews, updates, etc.

Potential changes to the Council's governance structure

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