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JOHN WARD
Head of Finance and Governance Services

Contact: Mrs Bambi Jones on 01243 534685
Email: bjones@chichester.gov.uk

East Pallant House
1 East Pallant
Chichester
West Sussex
PO19 1TY
Tel: 01243 785166
www.chichester.gov.uk

A meeting of **Corporate Governance & Audit Committee** will be held in Committee Room 2, East Pallant House on **Thursday 30 June 2016** at **9.30 am**

MEMBERS: Mrs P Tull (Chairman), Mr G Barrett (Vice-Chairman), Mr G Hicks, Mr I Curbishley, Mr T Dempster, Mrs N Graves, Mrs P Hardwick, Mr F Hobbs, Mr P Jarvis and Mr S Morley

AGENDA

1 **Chairman's Announcements**
Any apologies for absence that have been received will be noted at this point.

2 **Approval of Minutes** (Pages 1 - 6)
The committee is requested to approve the minutes of its ordinary meeting on 22 March 2016.

3 **Urgent items**
The chairman will announce any urgent items that due to special circumstances are to be dealt with under the Late Items agenda item.

4 **Public Question Time**
The procedure for submitting public questions in writing by no later than 12:00 on Wednesday 29 June 2016 is available upon request to Member Services (the contact details for which appear on the front page of this agenda).

5 **Declarations of Interest**
These are to be made by members of the Corporate Governance and Audit Committee or other Chichester District Council members present in respect of matters on the agenda for this meeting.

6 **Annual Audit and Certification fees 2016-17** (Pages 7 - 9)
To review the proposed audit and certification work that Ernst & Young LLP proposes to undertake in 2016/17 and the fees for this work.

7 **Audit Plan 2015-16 Progress**
To receive an oral update on progress against the Audit Plan 2015/16.

8 **S106 Annual Monitoring Report** (Pages 10 - 14)
To consider the annual report on S106 agreements setting out new agreements signed, income received and monies spent for the previous financial year including an update on non-financial obligations and information on those S106 agreements due to expire within two years. An update on the current position with regard to implementation of the Community Infrastructure Levy (CIL) is also included.

9 **2016-17 Treasury Management Strategy - update** (Pages 15 - 16)
The committee is requested to consider the proposed amendments to the Council's 2016-17 Treasury Management Strategy and to request Cabinet to recommend to full Council that the strategy be approved.

10 **Overarching Investment Opportunities Protocol** (Pages 17 - 33)
At its meeting held on 24 November 2015 the committee considered a report relating to the Council's Overarching Investment Protocol. Minute 38 relates to the committee's resolution to set up a Task and Finish Group to consider and complete the drafting of the protocol. Following consideration by the group the committee is now requested to approve the broad principles of the overarching investment opportunities protocol as set out in paragraphs 7 to 11 of this report and the Land & Property Sub-Strategy investment protocol at Appendix 1.

11 **Strategic Partnerships Annual Report** (Pages 34 - 35)
The committee is requested to endorse the findings of the annual review of partnerships at paragraph 3.3 of the report.

12 **Internal Audit - Audit Plan Progress** (Pages 36 - 37)
The committee is requested to consider and note the Internal Audit Plan progress report.

13 **Committee work programme 2016-17** (Pages 38 - 39)
The committee is requested to consider and agree its work programme for 2016-17.

14 **Late items**
The committee will consider any late items as follows:
(a) Items added to the agenda papers and made available for public inspection
(b) Items that the chairman has agreed should be taken as a matter of urgency by reason of special circumstances to be reported at the meeting

15 **Exclusion of the Press and Public**
The Committee is asked to consider in respect of the following item(s) whether the public, including the press, should be excluded from the meeting on the grounds of exemption under Parts I to 7 of Schedule 12A of the Local Government Act 1972, as indicated against the item and because, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information. **The reports dealt with under this part of the agenda are attached for members of the Corporate Governance & Audit Committee and senior officers only (salmon paper)**.

16 **Potential liabilities of outstanding litigation (Part 2)** (Pages 40 - 43)
The committee is requested to consider and note this annual report which provides information regarding any potential liabilities of the Council in relation to outstanding litigation.

NOTES

1. The press and public may be excluded from the meeting during any item of business wherever it is likely that there would be disclosure of "exempt information" as defined in section 100A of and Schedule 12A to the Local Government Act 1972.

2. The press and public may view report appendices which are not included with their copy of the agenda on the Council's website unless these contain exempt information.

3. Restrictions have been introduced on the distribution of paper copies of supplementary information circulated separately from the agenda as follows:

   a) Members of the Corporate Governance & Audit Committee, the Cabinet and Senior Officers receive paper copies of the supplements (including appendices). Other members may request a copy of the supplementary information or a copy is available in the Members' Room, East Pallant House.

b) The press and public may view this information on the Council's website at Chichester District Council - Minutes, agendas and reports unless they contain exempt information.

4. The open proceedings of this meeting will be audio recorded and the recording will be held for one year by the town council. A copy of the recording will also be retained in accordance with the council's information and data policies. If members of the public make a representation to the meeting, they will be deemed to have consented to being audio recorded. By entering the committee room they are also consenting to being audio recorded. If members of the public have any queries regarding the audio recording of this meeting, please contact the contact for this meeting at the front of this agenda.

5. Subject to the provisions allowing the exclusion of the press and public, the photographing, filming or recording of this meeting from the public seating area is permitted. To assist with the management of the meeting, anyone wishing to do this is asked to inform the chairman of the meeting of their intentions before the meeting starts. The use of mobile devices for access to social media is permitted, but these should be switched to silent for the duration of the meeting. Those undertaking such activities must do so discreetly and not disrupt the meeting, for example by oral commentary, excessive noise, distracting movement or flash photography. Filming of children, vulnerable adults or members of the audience who object should be avoided. (Standing Order 11.3)

Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 2, East Pallant House on Tuesday 22 March 2016 at 9.30 am

Members Present:	Mrs P Tull (Chairman), Mr G Hicks (Vice-Chairman), Mr G Barrett, Mr I Curbishley, Mr T Dempster, Mrs N Graves, Mrs P Hardwick, Mr F Hobbs and Mr S Morley
Members not present:	Mr P Jarvis
In attendance by invitation:	Mr M Young (Ernst & Young LLP)
Officers present:	Mr J Ward (Head of Finance and Governance Services), Mrs H Belenger (Accountancy Services Manager), Mr S James (Principal Auditor) and Mr P Coleman (Member Services Manager)

53 Chairman's Announcements

Apologies had been received from Mr Jarvis.

54 Approval of Minutes

The minutes of the previous meeting were considered and agreed. Matters arising were reported as follows:

Minute 44 – The Chairman reported that the following update had been received at the beginning of February regarding the Community Facilities and Open Space/Leisure contributions allocated to Boxgrove Parish.

“With respect to the Community Facilities, they are proposing to spend it on enhancements to the Village Hall. There was a pause in the project due to several of the executive trustees (including the Chairperson) resigning. A new Chair was elected at the end of September 2015 and the Parish Clerk will be pressing them to make sure that they progress the project.

Sport and Leisure – they are hoping to spend it on enhancements to the Sport Pavilion and the have someone looking at proposals with some parents, including enhancements to the kitchen, a small extension, provision of showers, window replacements and/or new flooring.

There do not seem to be any firm proposals at present regarding the Open Space money – but this is specifically required to be used on enhancements to sports pitches and they will be encourage to take this forward at the same time as the above sports pavilion works.”

RESOLVED

That the minutes of the meeting held on 19 January 2016 be approved as a correct record, and that they be signed by the Chairman.

55 **Urgent items**

There were no urgent items for consideration at this meeting.

56 **Declarations of Interest**

There were no declarations of interest.

57 **Public Question Time**

No public questions had been received.

58 **Certification of Claims and Returns Annual Report**

The Committee considered the certification of claims and returns annual report 2014-15, circulated with the agenda (copy attached to the official minutes). Mr Young presented the report.

He drew attention to the certification of the housing benefit subsidy claim. The work had followed up recommendations from 2013/14. It had found similar errors, but fewer of them and of lower value than in the previous year. He explained that about 60-70% of audit reports of similar authorities found such errors, and the relatively low value of the errors in a claim valued at nearly £38m did not give undue cause for concern.

There had been minor errors in uprating of statutory maternity pay. The auditors had carried out additional testing of incorrect uprating of the State Retirement Pension and incorrect calculation of self-employed income. The results were set out on page 2 of the certification report and a summary of recommendations was on page 5. These recommendations had been agreed by the Revenue and Benefits Service Manager.

As a result of the additional testing an additional fee of £3,207 was proposed to be added to the indicative fee, raising the actual fee to £13,217.

Mrs Kirkham (Revenue and Benefits Service Manager) explained that the service was trying to ensure a reduced error rate. A number of new controls were being put in place. Claims by self-employed people were especially complicated, particularly as the method of calculation was different from that used by HMRC. Such claims would, in future, be allocated to more experienced assessors.

Mrs Hardwick asked about the non-HRA rent rebates, on which no additional testing had been undertaken. Mrs Kirkham acknowledged that the error rate had increased. Some errors were due to delays in communication of tenant rent information from landlords, on whom the Council relied. The benefits teams were now undertaking regular checks to ensure information was received in a timely manner..

Mr Hobbs asked how value for money was decided in balancing the costs of additional training to eliminate a very small percentage error. Mr Ward replied that the combined value of the error and the additional audit fee was very low and any additional costs would be met within existing resources.

In answer to questions, Mr Young stated that the indicative audit fees were set by the Public Sector Audit Appointments Ltd (PSAA) through a competitive tendering process, and the PSAA had to agree any additions for extra work.

RESOLVED

That the certification of claims and returns annual report 2014-15 be noted.

59 **Audit Plan 2015/16 Progress report**

The Committee considered the Audit Plan for the year ending 31 March 2016, circulated with the agenda (copy attached to the official minutes). Mr Young presented the Plan.

With reference to section 2 of the Plan, he explained that the ‘risk of management override’ was a compulsory fraud risk, undertaken in all audits, and did not relate to any concerns specific to this Council. The Value for Money risk assessment (section 3) had also not identified significant risks specific to the Council. He also drew attention to the materiality threshold in paragraph 4.4 and the timetable in paragraph 4.7. The team leader was already on site and testing would start the week after next. With reference to section 5, Mr Young drew attention to the fact that a Senior Manager from EY had joined the Council as a Group Accountant. This was not considered to be a threat. Finally, Mr Young drew attention to the fees in Appendix A, where the scale fees were significantly less than in 2014/15.

Members asked for re-assurance that the accountancy team could meet the timetable. Mrs Belenger confirmed that they could, and Mr Ward added that the team had gone through a major re-structuring. The timetable for closing the accounts would be brought forward by a month from 2017/18, and the Council was using the intervening two years to practise earlier closure of the accounts.

The Committee asked where the most likely opportunities for fraud existed. Mr Young replied that the audit would investigate any frauds detected at or against the Council. The most likely frauds against the Council related to housing benefit, council tax reduction and blue badge claims. Procurement, override of controls and fraudulent mis-reporting were the most likely opportunities at the Council. However, this Council had a record of honesty and integrity. Mr Ward added that, when the fraud investigation team had transferred to the Department of Work and Pensions (DWP), one investigator had been retained and added to the Internal Audit Team. A report on his role and work would come to a future meeting, but one area of investigation was the housing register.

Mrs Hardwick asked whether the auditors ever communicated with members without officers present. Mr Young acknowledged that this was usual in the NHS and charitable sector, but not in local government. However, any member who wished to do so would be welcome to request a private discussion. The Chairman added that she had an annual exchange of letters with the auditors to confirm her satisfaction with governance arrangements.

RESOLVED

That the Audit Plan for the year ending 31 March 2016 be noted.

60 **Accounting Policies**

The Committee considered the report circulated with the agenda (copy attached to the official minutes). Mrs Belenger introduced the report, explaining that it was good practice for any proposed changes to accounting policies to be considered and approved by the Committee before the end of the accounting year. The only significant change proposed this year related to the treatment of the Community Infrastructure Levy (CIL), although to date none had been received in the current year.

Members asked whether CIL would still be used to provide new school places if councils no longer had responsibilities for schools, but this was not known yet. Members also asked about the use of a small proportion of CIL to fund revenue expenditure, and it was explained that up to 5% of CIL could be used to fund administration. The Committee felt that this should be made more explicit in the policy.

Mrs Belenger also confirmed that the relationship of CIL receipts to specific schemes would be identifiable in the Council's financial system.

RESOLVED

That the amendments to the Accounting Policies shown in Appendix 1 be formally adopted for the financial year ended 31 March 2016, subject to a reference to an administration charge of up to 5% being substituted for "a small proportion of the charges" in the final sentence.

61 **Budget Carry Forward Requests**

The Committee considered the report circulated with the agenda (copy attached to the official minutes). Mrs Belenger introduced the report.

She drew attention to the Accounts and Audit Regulations 2015, which would shorten the timetable for closing and publishing the accounts from 2017/18. The Accountancy Service was exploring and testing processes to streamline current practice. Previously, carry forwards had been agreed after the year end, but it was now considered appropriate to bring forward their approval process. Any approvals would be subject to the funds being available and unspent at the year end. Mrs Belenger then described the three requests being put forward (Appendix).

The Chairman pointed out that the requests had been vetted by the Chief Executive and the Head of Finance and Governance Services.

RESOLVED

That the Cabinet be requested to approve the requests, set out in the appendix, totalling £88,600 for budgets to be carried forward in 2016-17.

(Mr Hicks left the meeting.)

62 **Strategic and Operational Risks**

The Committee considered the report circulated with the agenda, together with the revised Appendix 2 circulated at the meeting (copies attached to the official minutes, except confidential Appendix 1). Mrs Belenger introduced the report.

She explained that the Corporate Management Team reviewed risks quarterly and individual managers reviewed risks they were responsible for monthly. The Strategic Risk Group, comprising three members each from the Committee and from the Cabinet with the Strategic Leadership Team, had reviewed the Strategic Risk Register, the Programme Board Risks and the high-scoring organisational risks on 15 March 2016.

Mrs Belenger corrected the previous quarterly review score for risk CRR01 in Appendix 1, which should read 3, not 6. She drew attention to the revised Appendix 2 and to Appendix 3.

Mr Barrett asked whether there was a clear mitigation plan for each risk. Mrs Belenger confirmed that there was a detailed control plan for all strategic risks. These sought to manage rather than eliminate risks, and were reviewed quarterly.

The Committee resolved to exclude the public, including the press, from the meeting for discussion of the Strategic Risk register (Appendix 1) on the grounds that it was likely that there would be a disclosure to the public of ‘exempt information’ of the description specified in Paragraph 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part I of Schedule 12A to the Local Government Act 1972 and because, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighed the public interest in disclosing the information.

In respect of CRR68, the Committee acknowledged that, because the risk score consisted of impact and likelihood, the impact of this risk would always be high. It was difficult to tell from the quarterly report what progress had been made in reducing likelihood and there needed to be a means of measuring improvement over time. This illustrated a general problem with the risk report and Mrs Belenger undertook to find a better way of summarising information in future reports.

In respect of CRR88 (re Recycling Target), the Committee wished for some indication of current performance.

RESOLVED

(1) That the current strategic risk register and the internal controls in place, plus any associated action plans to manage those risks, be noted and that officers' attention be drawn to the concerns raised.

(2) That the current high scoring organisational risks and the mitigation actions in place be noted.

63 **Internal Audit - Audit Plan Progress**

The Committee considered the report circulated with the agenda (copy attached to the official minutes). Mr James introduced the report.

He drew attention to the audit report on Housing Benefit, which had been forwarded to members of the Committee. There had been one comment from Cllr Jarvis about the re-structuring of the team.

Mrs Kirkham reported that the re-structuring of the Revenues and Benefits Teams reflected the changing needs of the customer and the requirements of the DWP. The re-structure had included the establishment of a Control Team with special responsibility for checks and controls of subsidies. The re-structuring was nearly complete. All managers and team leaders had been involved in its design and all staff had been informed.

Mr James then described the three-year rolling programme of audits, including the Audit Plan 2016/17, explaining that this included an annual audit of key financial controls so that the external auditors could place maximum reliance on internal audit. He drew attention to the new check on the Leisure Centres contract, which would be reviewed annually. A number of audits, which were incomplete in 2015/16 would be completed in 2016/17.

RESOLVED

That the Housing Benefit audit report, the Audit Plan 2016/2017 and the progress against the Audit Plan 2015/2016, be noted.

The meeting ended at 11.45 am

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CHAIRMAN Date:

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Tel: + 44 2380 382 100
Fax: + 44 2380 382 001
ey.com

Diane Shepherd
Chief Executive
Chichester District Council
East Pallant House
1 East Pallant
Chichester
PO19 1YT

11 April 2016

Ref: CDC/16-17/Fee Letter

Direct line: 07974 757910

Email: PKing1@uk.ey.com

Dear Diane

Annual Audit and Certification Fees 2016/17

We are writing to confirm the audit and certification work that we propose to undertake for the 2016/17 financial year at Chichester District Council.

Indicative audit fee

For the 2016/17 financial year Public Sector Audit Appointments Ltd (PSAA) has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements;
- Value for money conclusion; and
- Whole of Government accounts.

For Chichester District Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- There is an effective control environment;
- We can rely on the work of internal audit as planned;
- The operating effectiveness of the internal controls for the key processes identified within our audit strategy;
- Our accounts opinion and value for money conclusion being unqualified;

- Officers meeting the agreed timetable of deliverables;
- Appropriate quality of documentation is provided by the Council; and
- Prompt responses are provided to our queries and draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2015/16, our audit planning process for 2016/17 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The PSAA has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2014/15 benefit certification fees, and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2016/17 relates to work on the housing benefit subsidy claim for the year ended 31 March 2017. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2015/16 benefit certification work, and to reflect any further changes in the certification arrangements.

Summary of fees

	Indicative fee 2016/17 £	Planned fee 2015/16 £	Actual fee 2014/15 £
Total Code audit fee	49,090	49,090	65,453
Certification of housing benefit subsidy claim	9,913	7,847	13,217
Total	59,003	56,937	78,670

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

Billing

The indicative audit fee will be billed in 4 quarterly instalments of £14,750.75.

Building a better working world

Audit plan

Our 2016/17 plan is expected to be issued in March 2017. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Finance and Governance Services and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Corporate Governance and Audit Committee.

Audit team

The key members of the audit team for the 2016/17 financial year are:

Paul King **Executive Director**	PKing1@uk.ey.com	Tel: 07974 757910
Martin Young **Assistant Manager**	MYoung1@uk.ey.com	Tel: 07867 152513

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely

Paul King
Executive Director
For and on behalf of Ernst & Young LLP

cc. John Ward, Head of Finance and Governance Services
Councillor Tull, Chair of the Corporate Governance and Audit Committee

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 30 June 2016

S106 Monitoring Annual Report

1. Contacts

Report Author:
Caroline Peace, Planning Obligations Monitoring & Implementation Officer
Tel: 01243 534766 Email: cpeace@chichester.gov.uk

2. Executive Summary

1. Total contributions secured by new S106 agreements signed between 1 April 2015 and 31 March 2016 was £2,474,229.
2. The value of contributions received from S106 Agreements between 1 April 2015 and 31 March 2016 was £1,145,476.
3. The total expenditure on projects funded from S106 Contributions between 1 April 2015 and 31 March 2016 was £287,183

3. Recommendations:

That the Committee notes:

3.1 The income and expenditure in respect of S106 contributions between 1 April 2015 and 31 March 2016.

3.2 The information on agreements within two years of the expenditure target date as set out in Appendix 4.

3.3 The details of non-financial obligations as set out in Appendix 5.

4. Background

4.1 The updated Section106 Protocol, approved by Corporate Governance and Audit Committee (CGAC) on 19 January 2016 sets out the reporting arrangements. In accordance with this protocol, CGAC receives an Annual Report in June each year setting out new agreements signed, income received and monies spent for the previous financial year, including an update on non-financial obligations and information on those S106 agreements due to expire within two years. Members are reminded that some non-financial obligations are operational and do not have expiry or trigger dates.

5. Outcomes to be achieved

5.1. Effective monitoring of Section 106 Agreements.

6. S106 Progress & Developers' Infrastructure Contributions

6.1 New Section 106 Agreements completed 2014/15

Appendix 1 shows financial obligations secured between 1 April 2015 and 31 March 2016. These total £2,474,229 from 74 new S106 Agreements completed comprising:-

- 52 Unilateral Undertakings, mainly comprising Chichester Harbour recreational disturbance mitigation contributions from smaller developments
- 22 bilateral S106 Agreements
- 68 contained financial contributions to CDC
- 4 contained only non-financial obligations to CDC
- 2 contained only financial contributions to WSCC

6. 2 Contributions due to be paid to CDC (including those from 2015/16 agreements detailed above)

There are a number of outstanding S106 contributions where the trigger point for collection of monies has not yet been reached and from developments that have not yet started. The exact amount of money expected is not known until the relevant trigger date is received because indexation can increase the sum due. A developer can also seek to renegotiate the terms of an Agreement after 5 years have passed from completion. Such applications are reported to the Planning Committee. Table 1 shows the contributions expected by CDC, and those unspent, broken down by type.

Table 1: Expected Contributions by Type

As of 16 May 2016		
Contribution Type	**To be received**	**Received and Unspent**
Affordable Housing	£1,769,000	£1,604,464
CCTV	£0	£11,442
Chichester Harbour	£95,000	£161,456
Community Facilities	£3,306,117	£1,246,858
Interest	£0	£112,222
Leisure	£1,569,642	£560,480
Pagham Harbour	£253,300	£11,134
Public Open Space	£864,410	£221,137
Park and Ride	£0	£99,202
Primary Care Trust	£148,880	£0
Public Art	£377,257	£96,290
Recreation Disturbance	£141,806	£0
Sussex Police	£64,794	£0
Sustainable Transport	£0	£42,563
Transport	£100,000	£0
Waste and Recycling	£8,392	£11,903

6.3. Contributions received during 2015/16 Financial Year

Appendix 2 sets out contributions received by Chichester District Council between 1 April 2015 and 31 March 2016 amounting to £1,145,476.

6.4 **Agreements completed between 2008 and 2016**

Year	Number of new agreements signed including West Sussex CC	No of new agreements with financial contributions to CDC	Total contributions expected by CDC from new agreements
2015 - 2016	74	68	£2,474,229
2014 - 2015	88	87	£1,696,022
2013 - 2014	35	26	£3,387,627
2012 - 2013	15	8	£461,876
2011 - 2012	9	4	£678,734
2010 - 2011	16	7	£1,496,345
2009 – 2008	24	10	£2,345,165

6.5 **S106 Payments received by each spending department**

Details of receipts and expenditure are shown in Appendix 3 including data from WSCC and SDNPA.

6.6 **S106 Monitoring Contributions**

Para. 204 of the National Planning Policy Framework advises Local Authorities to monitor all legal agreements. From 2008 until the High Court ruling referred to below, the Council charged a 5% monitoring fee for recording and monitoring of S.106 Agreements. During the financial year 2015/16 the Council collected £47,917 in monitoring fees.

Following a legal challenge in the High Court in 2015, it was ruled that administration and monitoring fees were not necessary to make development acceptable in planning terms. As a result the Council is no longer collecting these fees in Agreements signed since the ruling. Officers are however assessing the options for introducing a new monitoring charge under section 111 of the Local Government Act 1972.

6.7 **SDNPA**

The Section 106 protocol operated by the SDNPA and CDC applies to S106 Agreements associated with schemes within the South Downs National Park signed on or after 1 April 2011. Currently 9 Agreements are being monitored by the SDNPA as set out in Appendix 3. CDC expects to be informed when funding has been received.

6.8 **S106 agreements nearing their expenditure target date**

Appendix 4 sets out the contributions which are reaching their expenditure target date within the next two years, together with those that have reached their spending deadline. Officers have been experiencing difficulty with a number of Parish Councils which have not either identified projects for spending or are taking an excessive amount of time to provide quotes. In these instances, the problems are compounded where there has been a change in Parish Clerk. In future, spending officers will liaise with the Ward Members where there is concern about expiry of spending sums.

Further to the November 2015 CGAC report, funds were returned to the developer in respect of planning application CCE/00/01073/FUL for the Farr's Field bus shelter in February 2016. £25,000 was secured, at the request of West Sussex County Council and the funds were paid to the Council on 29 January 2008. WSCC was however unable to find a suitable location for the bus shelter in the area. The agreement was specific in requiring that the bus shelter be installed within 5 years of the receipt of the obligation. The project was not taken further due to future maintenance and road safety issues for the bus shelter being unresolved and following discussion with the developer, the funds were returned in February 2016.

In respect of planning application CCN/ 05/00430/FUL, Shippams Factory (Roman Quarter) and Social Club, the developer has requested that unused funds be returned. £30,099 was received by CDC as a CCTV contribution, together with indexation under the S106 in 2008. The agreement was specific and restricted to providing a wall mounted CCTV camera in a pre-determined location. The camera has been installed at a cost of £20,485, leaving a balance of £9,614. The spending officer has requested that the balance be used towards maintenance, however, the developer has requested it be returned.

7. Update on Implementation of the Community Infrastructure Levy (CIL)

7.1 CIL was implemented on 1 February 2016 for the part of Chichester District outside of the South Downs National Park. This was accompanied by a new Planning Obligations and Affordable Housing SPD.

7.2 **How CIL will affect planning obligations**
Since the CIL has been implemented, S.106 (Planning Obligations) have been scaled back. Infrastructure associated with the cumulative growth of the area is now being secured by CIL. However, S.106 planning obligations will continue in relation to affordable housing and certain site specific requirements to mitigate the impact of new development. The new Planning Obligations and Affordable Housing Supplementary Planning Document (SPD) shows how CIL, S106 planning obligations, planning conditions, and Highways S278 agreements work together as a set of tools to help deliver necessary infrastructure as a result of development.

8. Community impact and corporate risks

8.1 The risks that development will not provide the infrastructure required to make it acceptable in planning terms is reduced.

8.2 The risk of returning unused contributions is reduced.

9. Other Implications

Are there any implications for the following?		
	Yes	No
Crime & Disorder:		✓
Climate Change:		✓
Human Rights and Equality Impact:		✓
Safeguarding		✓
Other (Please specify):		✓

10. Appendices

10.1 Appendix 1 – Details of new S106 Agreements signed between 1 April 2014 and 31 March 2015

10.2 Appendix 2 – Details of income received between 1 April 2014 and 31 March 2015

10.3 Appendix 3 - Receipts and Expenditure by Service (including WSCC and SDNP)

10.4 Appendix 4 – Unspent contributions approaching or beyond target expenditure date.

10.5 Appendix 5 – Current S106 Agreements by Ward showing Non-Financial Obligations

Chichester District Council

CORPORATE GOVERNANCE AND AUDIT COMMITTEE 30 June 2016

2016-17 Treasury Management Strategy - update

1. Contacts

Report Author:
Mark Catlow, Group Accountant
Tel: 01243 785166 x 3123 E-mail: mcatlow@chichester.gov.uk

2. Recommendation

2.1. That the Committee considers the proposed amendments to the Council's 2016-17 Treasury Management Strategy and requests Cabinet to recommend to full Council that the strategy be approved.

3. Background

3.1. The Council approved its Annual Investment Strategy on 26 January 2016. This Strategy provided for a diversification of Council investments into more secure and/ or higher yielding asset classes during 2016-17, including the Local Authority property fund, covered and corporate bonds.

3.2. The Council has also recently changed its banker to National Westminster Bank Plc. Day to day operational cash balances are held in a deposit account with the Council's banker where it is uneconomic to invest them elsewhere for very short periods.

4. Outcomes to be achieved

4.1. Investment limits specified in the Council's Treasury Management Strategy now need revising to fully implement the Council's approved investment strategy and to reflect the recent change in its banker.

5. Proposal

5.1. Appendix 1 sets out the proposed amendments to the Council's Treasury Management Strategy and provides a rationale for each amendment.

5.2. Appendix 2 contains an updated Treasury Management Strategy that incorporates the proposed changes.

6. Alternatives that have been considered

6.1. Not applicable

7. Resource and legal implications

7.1. Any amendment to the Council's Treasury Management Strategy requires the approval of Full Council.

8. Consultation

8.1. The changes are based on officers' professional judgement supported by advice from the Council's treasury management advisors.

9. Community impact and corporate risks

Not applicable

10. Other Implications

Are there any implications for the following?		
	Yes	No
Crime & Disorder:		X
Climate Change:		X
Human Rights and Equality Impact:		X
Safeguarding:		
Other (Please specify):		X

11. Appendices

11.1. Appendix 1 - Proposed amendments to 2016-17 Treasury Management Strategy

11.2. Appendix 2 - Updated Treasury Management Strategy with tracked changes

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 30 June 2016

Overarching Investment Opportunities Protocol

1. Contacts

Report Authors:
Tony Jackson, Accountant (Technical & Exchequer)
Tel: 01243 785166 Ext 3123, Email: tjackson@chichester.gov.uk

Peter Legood, Valuation & Estates Manager
Tel: 01243 534668, Email: plegood@chichester.gov.uk

2. Executive Summary

This report describes proposals for implementing an investment strategy to preserve and improve the financial and other resources available to the Council. The strategy aims to generate revenue income from capital investment, and is a direct response to the prospect of dwindling central government funding in future years.

The strategy sits within, and adopts the principles incorporated in the Council's corporate Asset Management Plan in respect of land and property transactions. However, as well as land and property, the strategy is open to other forms of investment opportunity to the extent that they support and promote other Council policies, plans and priorities.

To fund investment opportunities as they arise, the investment strategy will draw upon the newly established Investment Opportunities Reserve, supplemented by other available sources of internal and external finance, to the extent that it is necessary to realise approved investments.

3. Recommendations

3.1 That the committee approves the broad principles as set out in paragraphs 7 to 11 as an overarching investment opportunities protocol, and

3.2 That the committee approves the Land & Property Sub-Strategy investment protocol (Appendix 1), revised following consideration by the Task & Finish Group in 2016.

4. Background

4.1 At its meeting of 3 February 2015, the Cabinet considered a report on the Council's Budget Spending Plans 2015-16 and resolved that "a new Investment Opportunities Reserve….is created" (Paragraph 6.10 of that report). This currently stands at £2,118,500.

4.2 The purpose of the reserve is principally to fund investments that will generate increased income given the expectation that central government funding shall continue to diminish over time. Accordingly, the Council recognises the importance of accessing investment opportunities of all kinds to maximise its income earning potential alongside other measures aimed to preserve services while maintaining a balanced budget.

4.3 To this end the Investment Opportunities Reserve has been established comprising capital funds which will be used in conjunction with other available resources (capital receipts, earmarked capital & revenue reserves, borrowing etc.) for the purposes of securing investments in land, property, and other assets that will generate higher returns than currently available for alternative cash investments at a time when interest rates remain at historically low levels.

4.4 At its meeting held on 24 November 2015 the Committee considered a report relating to the Council's Overarching Investment Protocol. The report advised (paragraph 7.4) that only one Investment Protocol had so far been drafted and this related to the Land and Property Sub-Category. The Committee resolved to set up a Task and Finish Group to consider and complete the drafting of this Investment Protocol. There have been two meetings of the Task and Finish Group and a revised version of the Protocol has been produced and the Committee is asked to approve the investment Protocol - Land and Property Sub-Category in this revised form.

4.5 This report also sets out the broad considerations that need to be made, and the procedures to be followed, with regard to future investments to be funded from the Investment Opportunities Reserve. The strategy aims to provide consistency of approach and transparency to decision making and provide an overarching investment protocol.

5. Outcomes to be achieved

5.1 To have an agreed overarching investment protocol which is complemented by the specific land and property sub strategy in order to assist the Council when it considers the forms of investment within its powers with the principal aim of enhancing the revenue income generating potential from capital investment.

6. Proposal

6.1 That the broad considerations set out in paragraphs 7 to 11 be agreed as the overarching investment protocol principles to be adopted.

6.2 The revised sub strategy in respect of investments for land and property as detailed in Appendix 1 reflects the outcome of the review by Task & Finish Group. The committee are requested to approve this revised protocol.

7. Scope (Terms of Reference)

7.1 The Council will consider all forms of investment within its powers with the principal aim of enhancing the revenue income generating potential from capital investment.

7.2 For Land & Property investments the net initial yield range should be between 5.0% and 9.0% although exceptions may be made in special circumstances. Generally a lower yield will reflect a more secure investment requiring less management so a high yielding property may not necessarily be a good investment.

7.3 In any event the Council seeks to achieve a return on Land & Property investments above the 4.7% minimum rate of return based on the CCLA property fund. All costs in relation to the purchase and management of the property are to be included in assessing the return on the Investment (ROI)

7.4 For other investments target returns shall be assessed relatively to appropriate benchmarks and the average returns for alternative cash usages within the treasury management strategy.

7.5 For indicative purposes the actual returns for treasury management and Property investments were as follows:

Source of Return	Actual Return 2014/15	Actual Return 2015/16	
Treasury Management	0.87%	0.79%	
Property *	10.24%	9.09%	To 2 November 2015
**Based on acquisition of 4A & 4B Terminus Rd (Willow Park), 8A Terminus Road (Woodruff Centre) & 2-8 Crane Street*			

7.6 However, it is also recognised that financial return is not the sole rationale in any investment decision, as there may be other important considerations which may vary in emphasis over time. Such considerations may include either in combination or individually any number of the following

- The extent to which council plans, policies and priorities are supported
- The benefit to the local community, its residents, businesses and partners
- The Impact on the local economy, housing and infrastructure
- The potential to regenerate or develop the local area
- The risks involved, as well the benefits.

7.7 Accordingly, the investment opportunities strategy proposes that (subject to Member approval) flexibility be applied to enable an investment proposal to proceed where there is a strong non-financial reason for doing so, even though the overall level of financial return may fall short of the target financial return.

7.8 Thus, it is intended that a case by case review of each proposed investment be conducted using an appropriate evaluation methodology. The evaluation shall include comparison against other relevant benchmarks of financial performance where available. This is because although existing Contract Standing Orders do not cover the buying or selling of land or any interest in land, it is nevertheless the requirement to obtain the “achievement of the best consideration in the circumstances and to recognise the Council’s community objectives”.

7.9 Consequently, while investments shall be selected with a view to ‘future-proof’ the financial resources the Council has available, it shall also be considered with a view to maintain, extend or improve service delivery for the benefit of the community generally.

8. The Council's Legal Power to Invest

8.1 Generally, The Local Government Act 1972 empowers Councils as follows:

"a local authority shall have power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions" (Part VII, Section 111).

In exercising this power, the Council aims to obtain a mixed portfolio of investments that spreads both the return and risks across a range of assets, such as:

- Land and property acquisition
- New housing investment
- Business Opportunities
- Financial assets (cash or non- cash)

8.2 Where necessary, the appropriate legal advice shall be obtained to ensure the legality of any proposed transaction before it is secured or obligates the Council.

9. Investment Protocol

9.1 The investment strategy is intended to be applied in accordance with the Council's prevailing Contract Standing Orders and Financial Regulations, and therefore is not a substitute.

9.2 Accordingly, the process for considering, approving and recording any form of investment (excepting those relating to investment of cash surpluses made under the Council's Treasury Management Strategy and Annual Investment Strategy) shall follow the provisions under the Asset Management Plan, Contract Standing Orders and Financial Regulations to the extent that they are appropriate for procuring supplies and services, appraisal of contractors and contracts, and any other incidental tasks relevant to the form of investment.

9.3 For any one particular category of investment, the provisions so prescribed in these sources of reference shall be supplemented (where deemed to be necessary) by a "sub-strategy procedure document" making clear any additional requirements to be followed or satisfied. For example, it may set out additional decision criteria or methodology for assessing the suitability of an investment, the benefits or risks associated with the investment, or any additional officer and Member reporting requirements.

9.4 The Land & Property Sub-strategy contained at Appendix 1 is the only one proposed at the current time. Any future sub-strategy procedures that may be proposed for other forms of investment shall be submitted in the first instance to the Commercial Programme Board (or other relevant Committee) for approval prior to being adopted.

9.5 Any investment opportunities shall be assessed against the criteria stated in the Council's prevailing capital prioritisation form assessment, and must go through the appropriate approval process before any commitment to the investment is made.

9.6 In any event, formal Member approval by way of a report submitted to the appropriate Committee shall be obtained in advance of committing to any form of investment where Contract Standing Orders and Financial Regulations require this.

10. Investment Risks for the Council

10.1 The Strategy recognises that any form of investment is not without risk since the value of any investment may rise or fall over time, especially where it is to be retained over many years.

10.2 To mitigate the impact of uncertainty the investment objective shall be to provide a spread of investments with varying degrees of risk, given that it is recognised that the inherent risk is generally reflected either in the price or the rate of return (i.e. the higher the risk, the higher the return and vice versa).

10.3 Accordingly, the consideration of any investment shall include a risk assessment that shall aim to measure as objectively as possible the likelihood and severity of the impact should the risks identified be realised. This can provide comparison against the potential benefits (financial and otherwise) for which the investment is being considered in the first place, and form part of the decision making process.

10.4 Among the risk factors to be considered are:

- Acquisition Risk – the Council may incur transaction costs without guarantee of securing the investment (e.g. the Council may be one of several bidders, or required to pay a premium).

- Price & Cost Risk – Once acquired the price or cost of the investment may fluctuate over time, which may in itself reflect variations in demand and supply.

- Economic / Political Risk – the ability to retain or dispose of an investment may be inhibited by the economic and political environment at any point in time.

- Market Risk – the Council's ability to influence the price, financial return or other benefits pertaining to the investment may be limited by the market in which it operates.

10.5 In order to manage some of the risks associated with the acquisition of assets under this investment protocol a thorough and due diligence process must be adhered to identify any potential risks as part of the evaluation process.

11. Resource & Financial Considerations

11.1 The Investment Opportunities Reserve currently has £2,118,500 available for capital investment. As investments are made over time (and the amount available diminishes to fund future investments) there will be a need to replenish the fund or supplement the amount available with other financial resources.

11.2 Where this need arises, the Head of Finance & Governance shall be consulted to consider the availability of other sources of internal or external finance by which to supplement the Investment Opportunities Reserve, or otherwise to fund new investments. Among the options considered shall be the scope for making contributions from revenue underspends that occur at year end, or transferring a proportion of in-year capital receipts to the Reserve.

11.3 In these respects the use of existing internal resources such as capital receipts or other surplus reserves is likely to be preferred to prudential borrowing from external sources. But such borrowing as may be considered necessary and approved shall be conducted within the approved limits for Prudential Borrowing applicable.

12. Consultation

12.1 This report has been prepared by officers comprising the Capital Investment Development Group who have met on several occasions in 2015. The report has duly been considered by the meeting of the Commercial Programme Board held on 28 July, and Corporate Management Team meeting on 12 August. The initial protocol was presented to the Corporate Governance & Audit Committee on 24 November 2015, and thereafter referred to a Task & Finish Group which met on 29 February and 5 April 2016.

13. Community impact and corporate risks

13.1 The community impact of any particular investment proposal is indeterminable at this stage as it is dependent on the ultimate type of investment entered into (e.g. whether property related, purely financial, or other form of investment).

13.2 The corporate risks are those covered above by Section 10 of this report.

14. Other Implications

14.1 Such investments as may be made shall be done so ethically in a manner that is consistent with other Council policies, values and practices, and does not inadvertently result in promoting, supporting or delivering outcomes that the Council would not wish to occur.

14.2 Other implications considered include:

Crime & Disorder:		None
Climate Change		None
Human Rights and Equality Impact		None
Safeguarding:		None

15. Appendices

Appendix 1 - Land & Property Sub Category Report

16. Background Papers

None

Appendix 1

Investment Opportunities Protocol - Land & Property Sub Category

1. Introduction

1.1 This is the land and property sub category protocol which is under the overarching investment opportunities protocol, so as to provide specific guidance to officers dealing with property investment acquisitions. The protocol also provides guidance regarding retention of revenue producing property assets and guidelines for dealing with request by tenants or other parties to purchase or change the Council's interest in a property. It also considers the generation of income through property development or other property transactions and initiatives.

2. Background

2.1 With low rates of interest for deposited reserves the Council has recognised that land and property can generate a return on capital with the additional potential of capital and rental growth in the longer term. Retention of income producing properties and acquisition of carefully selected investment purchases has therefore become an important element of the Council's investment opportunity strategy. In line with this at its meeting of 3 February 2015, the Cabinet considered a report on the Council's Budget Spending Plans 2015-16 and resolved that "a new Investment Opportunities Reserve is created" (Paragraph 6.10). This now stands at £2,118,500 following Cabinet in February 2016 agreeing to add £1,296,400 to the fund. The potential for land and property investment purchases are not, however, restricted to the sum available from this reserve.

2.2 This report sets out the considerations that need to be made, and the procedures to be followed, with regard to future property investment and retention. The strategy aims to provide consistency of approach and transparency to the decision making process.

3. Scope (Terms of Reference)

3.1 A key aim of investing in land and property is for the enhancement of secured revenue income from capital investment above the levels obtainable from other forms of investment. This is part of the Council's objective of providing increased financial resilience in the context of decreased funding from central government.

3.2 Land and property acquisition and development is also a means of influencing regeneration and the economic development within the District. Therefore while one objective may be to increase the financial resources the Council has available, appropriate investment can also extend service delivery or provide community improvement generally.

3.3 For these reasons priority will be given to acquiring property in the Chichester District, albeit opportunities to acquire properties elsewhere shall not be excluded altogether if a justifiable case exists for doing so. Properties outside of the District area but close enough for officers to undertake the management of the property, should be considered, albeit with priority given to the purchase of investments within the District area.

3.4 Additionally the protocol recognises that the strategy does not stand alone but sits within the context of other corporate policies and plans to which due regard shall be given, such as:

- Planning Policies (Local Plan, Local development Schemes, Master Planning Strategic sites etc.)
- Economic Strategy
- Economic Development Action Plan
- Asset Management Plan
- Estates Service Plan – Chichester Enterprise Gateway, Barnfield Drive Development
- Medium Term Financial Plan – size and sources of available funds

3.5 This protocol will need to also consider any future strategies that may be developed over time and so the list stated in 3.4 is not exhaustive.

3.6 The investment strategy aims to acquire land and property for the longer term (10 years or more) to reap the benefit of sustained rental income and capital appreciation as land and property values recover from the effects of economic downturn in recent years.

3.7 From time to time the Council is approached by other parties seeking to obtain interests in Council property and it may not always be in the Council's interests to proceed with them. For example the Council has retained freehold ownership of most of the land at the Quarry Lane and Terminus Road industrial estates and it is not considered to be in the Council's interests to release this in a piecemeal fashion when requested by occupying tenants. Similarly the Council has been willing to extend leases where this facilitates regeneration or redevelopment but not where it is felt that this will prolong the retention of poor standard buildings. More generally the Council wishes to retain revenue earning properties and does not wish to sell to occupying tenants. It will assist officers in dealing with requests of this nature if there are underlying policies that they can refer to.

4. The Council's Legal Power to Acquire Land and Property

4.1 Generally, the Local Government Act 1972 empowers the Council to acquire any land and property or right which facilitates, or is conducive or incidental to, the discharge of any of its functions. Where necessary, the appropriate legal advice shall be obtained to ensure the legality of any proposed transaction before it is secured or obligates the Council.

4.2 The protocol will apply to all acquisitions of land and property for investment purposes. For the purpose of this protocol, an acquisition is defined as acquiring a legal interest in land and property, namely the taking of a freehold, leasehold or licence in land and property for investment purposes. The Strategy also applies to investment by way of commercial property development and partnership schemes.

5. Local Property Market & Investment Opportunities

5.1 The Council's existing property portfolio generates income of approximately £2.5 million per year (as in 2015/16 financial year) for the General Fund revenue account.

5.2 This income comprises rents and licence fees principally from 49 industrial units, 72 commercial and industrial ground leases, 40 shops, 17 offices, 27 lettings to sports, community and voluntary organisations, 7 kiosks and concessions (including the Chichester Traders Market), miscellaneous lettings such as the crematorium and bus station, 17 commercial access agreements and 84 residential access agreements.

5.3 Signs of gradual improvement in property markets in the South East following the aftermath of the 2008 financial crisis and economic downturn in the UK and other European countries for the years that followed mean that it is in the interests of the Council to make further acquisitions as early as possible before property values increase further.

5.4 Investment Opportunities are likely to take 3 main forms.
(a) Freehold or Long Leasehold Purchases
(b) Commercial development of property with the Council retaining ownership and receiving rental income.
(c) Partnerships where another party undertakes the development and the Council (as landowner) receives a proportion of the rental value.

5.5 The Council will pursue a mix of land and property investments for leasing or rent (e.g. industrial, retail or office related units etc.) subject to satisfying the decision criteria specified in Section 6 below. Ideally we are looking for a balanced portfolio but with investment opportunities in the District so limited and the number of investment purchases to date also limited, this is unlikely to be a major consideration.

5.6 Within the Chichester District area investment opportunities are limited and potential acquisitions must be considered as they arise. Retail, industrial and commercial properties are the properties most likely to meet the Council's criteria for investment acquisition. Commercial development provides an alternative means of property investment. Current projects include the Enterprise Gateway and the proposed development of Plot 21 Terminus Road. The development at Barnfield Chichester is an example of a partnership opportunity.

5.7 The Investment Opportunities Reserve currently (at June 2016) holds funds of £2,118,500 but the Council will consider using General Reserves should funds in the Investment Opportunities Reserve be insufficient to acquire a property deemed to be of significant importance or value. Additionally, the Council may consider the possibility of Prudential Borrowing to meet the shortfall providing the outcomes specified in Section 6 below are satisfied and the Council would not exceed its Prudential Borrowing Limits (See Financial Implications below). The use of general reserves is likely to be preferred to borrowing if funds are available.

6. Investment Decision Criteria

6.1 The following matters will be taken into account either in isolation or in combination (e.g. as part of an appropriate evaluation matrix) in assessing the suitability of an investment. It is intended that each investment shall be looked at on its own merits, and the criteria are to be treated as a guide rather than there being a requirement for compliance with every condition.

As a first priority acquisitions should be within the Chichester District Council Area, or, as a second priority sufficiently close by for the asset to be managed by the Council:

Acquisition will be preferred if a community or economic development benefit is achieved through Council ownership, and the acquisition assists in strengthening the local economy. Properties with existing income producing tenancies or pre-lets are likely to be preferred to vacant properties. The suitability of the tenants from an ethical point of view will be considered as part of the evaluation of any investment opportunities. The strength of tenant covenants, length remaining on leases and terms of leases will also be taken into consideration (ideally seeking acquisitions, pre-let to tenants of good covenant on fully repairing and insuring terms, with an unexpired term of at least 5 years and how secure the tenant is);

The acquisition is to provide an acceptable rate of return compared to placing the funds on deposit for an equivalent period, and meet other benchmarks of performance for a similar investment. The rate of return required will vary according to the type of land or property interest being acquired. In the market secure income produces a lower yield than riskier investments but both may be acceptable if the return reflects the circumstances, risk and level of landlord involvement.

Any risks associated with the investment opportunity should be identified and any mitigation actions should be identified in order to ensure that any residual risks are not contrary to the risk appetite of the Council.

Other considerations

- Acquisition will expedite existing agreed Council strategies, plans or priorities;
- Acquisition supports partnering arrangements beneficial to the Council and the local community;
- Acquisition will consolidate the Council's existing land holding portfolio to facilitate larger developments;
- Acquisition will assist in the modernisation of the District's business infrastructure and/or encourage inward investment, re-location or business start-up;
- Acquisition is not in conflict with strategic planning policies;
- Acquisition will not increase the Council's ongoing revenue costs in the longer term;

- Acquisition should generally be good quality commercial land and property but not necessarily limited to traditional sectors, e.g. retail, office and industrial and consideration will also be given to innovative land and property opportunities;

6.2 Investment Purchases

(a) Use of the following table will provide further guidance for the evaluation of prospective properties against a scoring matrix with a minimum score required of least 100 out of a maximum score of 168 (60th percentile). There may however be sound reasons for acquiring a property that does not meet the score and the matrix should be treated as guidance rather than mandatory.

	Score	**4**	**3**	**2**	**1**	**0**
SCORING CRITERIA	**Weighting Factor**	**Excellent**	**Very Good**	**Acceptable**	**Marginal**	**Unacceptable**
Location	12	Major Prime	Micro Prime	Major secondary	Micro secondary	Tertiary
Tenancy strength	10	Single tenant with strong financial covenant	Single tenant with good financial covenant	Multiple tenants with strong financial covenant	Multiple tenants with good financial covenant	Tenants with poor financial covenant strength
Tenure	9	Freehold Lease	125 years plus Lease	between 50 & 125 years Lease	between 20 & 50 years Lease	less than 20 years
Occupiers lease length	5	Greater than 10 years	Between 7 and 10 years	Between 4 & 7 years	Between 2 & 4 years	Less than 2 years; vacant
Repairing terms	4	Full repairing & insuring	Internal repairing - Remainder 100% recoverable	Internal repairing - Remainder partially recoverable	Internal repairing - Remainder non recoverable	Landlord
Lot size	2	Between £2m and £4m	Between £1m & £2m	Between £500,000 & £1m	Under £500,000 or over £4 million	N/A

(b) The net initial yield[1] range should be between 5.0% and 9.0% although exceptions may be made in special circumstances. Generally a lower yield will reflect a more secure investment requiring less management so a high yielding property may not necessarily be a good investment. The Council seeks to achieve a return above the 4.7% minimum rate of return based on the CCLA property fund.

(c) All costs in relation to the purchase and management of the property to be included in assessing the return on the Investment (ROI)

(d) Due diligence checks to generally be made before an acquisition is referred to Cabinet. There may be cases where a quick decision to purchase is required to avoid the property

[1] [Net Initial Yield is defined as the revenue income generated by the investment as a percentage of the property acquisition costs.]

being lost to competitors and here a more limited due diligence may be acceptable before review by Cabinet, with some aspects of more detailed due diligence may in those cases necessarily be undertaken between making an offer and contracting to purchase.

Due diligence checks to include:
- Check lease(s)
- Check condition of property/arrange survey
- Check status of tenant(s)
- Check rents/outgoings have been paid
- Market research – is price/yield appropriate
- Market research – could property be re-let if vacant.
- Title checks – not undertaken until solicitor appointed

6.3 Property Development

(a) Specialist advisers to be employed to provide advice and act for the Council.

(b) Assess costs and future income as accurately as possible. Seek to minimise risks where possible by pre-let agreements, fixing construction costs and avoiding/minimalizing variations.

(c) Seek rate of return no less than return expected on property acquisitions.

6.4 Partnership Transactions

(a) Specialist advisers to be employed to provide advice and act for the Council.

(b) Generally seek income as a percentage of rack rent aiming at between 15% and 20%. Additionally seek premium if maximum rental share that can be agreed does not represent the full land value.

(c) Enter into a development Agreement that looks to the developer partner to bear a share of risks and seeking to minimise the risks to the Council.

7.0 Guidance for Land and Property retention, development and other property initiatives

- The Council will retain revenue producing property assets and will usually reject requests by tenants and other interested parties to acquire the Council's freehold interest.

- Property development (such as the Enterprise Gateway) may be an alternative way of generating revenue income from land and property. There will also be a regeneration/economic development interest arising from this.

- Other property initiatives such as site assembly, taking lease surrenders or buying subordinate leasehold interests will be pursued to improve the Council's property holdings and revenue income.

- Re-gearing of leases, particularly at Quarry Lane and Terminus Road, where existing leases are not on modern terms with modern rent review patterns will be carried out when the opportunity arises. However this is to be used as an incentive to tenants to redevelop sites or substantially refurbish outdated premises and there will be an assumption that extended or re-geared leases will not be granted where a tenant is only seeking a more secure term without undertaking the redevelopment or refurbishment.

- Where a property has strategic value to the Council, some of the above criteria may be relaxed e.g. land capable of development or required to enable development.

8. Property Investment Procedure

8.1 In all cases where the acquisition of an interest in land or property is being considered, the acquisition must be carried out and negotiated by the Estates Service (or otherwise to be determined and agreed).

8.2 The Council will usually appoint an agent who has introduced a potential acquisition to act on behalf of the Council in the negotiations. As part of that instruction the agent will usually be expected to provide a purchase report and valuation. Otherwise, with respect to significant acquisitions (over £750,000), a valuation will be commissioned by the Council from an appropriately qualified third party.

8.3 When a property is identified as a potential investment, it is proposed that the following "Acquisition Protocol" is applied:

ACQUISITION PROTOCOL

1. Potential land or property for acquisition is identified by the Estates Team, and Legal & Finance staff informed.
2. Estates Team in consultation with other officers evaluate each potential land or property acquisition in accordance with the decision Criteria (Section 6 above).
3. If the potential investment meets the decision criteria the Estates Team refer the proposal & evaluation to Senior Leadership Team (or Commercial Programme Board) for approval to report to Cabinet/Council.
4. If the Senior Leadership Team (or Commercial Programme Board) approves the proposed investment the Recommendation is referred to Informal meeting of Cabinet and SLT (or Group of members appointed to consider investment proposals) to give initial approval for provisional offer to be made and due diligence to proceed. Due diligence to be undertaken as far as possible before Cabinet consideration.
5. Prepare report to Cabinet / Council. If approval is obtained, Legal Services are instructed by Estates Team to proceed with formalising the acquisition (Estates Team to assist Legal Services throughout the process until completion).

To ensure that investments meeting the Council's decision criteria are not lost when time is limited, it is recommended that the Head of Commercial Services in consultation with and approval of the Head of Finance and Governance and Cabinet Member for Commercial Services, be given delegated authority to proceed to negotiate "subject to contract" after Point 2 above has been completed. In some cases it may be necessary to proceed ahead of a programmed Cabinet meeting and to obtain authority from the urgent matters Sub- Committee to contract to purchase a property. No final or binding commitment shall be made by any Council Officer unless all the protocols have been satisfactorily fulfilled.

9. Possible Risks for the Council

9.1 The Strategy recognises that any form of investment is not without risk since property values and rental streams may vary over time, especially where the property is to be retained over many years. Property values and rentals can rise over time but tenancy issues such as need for repairs and voids can also occur and could affect the income received from a property. Accordingly, the strategy operates within the context of the following identifiable risks that the Council consider to be acceptable.

- Acquisition Risk – the property market has been in recession, with less institutional activity, but has signs of increased competitive activity from smaller property companies. This means it is likely that the Council will be one of several bidders for any good-quality properties and may be an unsuccessful bidder on a number of occasions.
- Cost Risk – Abortive costs, including legal costs, survey fees, officer time, all may be incurred in abortive transactions including costs for initial feasibility investigations.
- Lack of suitable sites/buildings –the property market is restricted and is dominated by secondary or tertiary assets that may not be of the quality the Council would acquire. There may therefore be a shortage of suitable stock in the locality.
- Property market risk – property is an inherently riskier asset than other asset classes because of its physical characteristics, which need to be managed and maintained. This is compensated for by increased returns. However, the property market is not a certain market and the Council may not achieve its target returns if market conditions deteriorate in future years following acquisition.
- Transactions may occur prior to a property ever coming to the market. Obtaining prompt information to identify properties for sale is vital. This can be done through the Estates Team maintaining close contacts with property owners and agents in the locality, but may not always result in a successful acquisition.
- Reputational risk – Risk of damage to the Council's reputation as a consequence of the Council's involvement with a particular property or tenant.

9.2 Accordingly, the Council shall evaluate risks of acquisition on each occasion in order to mitigate the likelihood of the risks occurring, or to minimise abortive costs.

9.3 The risks associated with an investment opportunity once identified, along with any mitigation actions, must also then be assessed or considered against the whole property portfolio. The rate of return normally reflects the perceived risk of an investment opportunity or acquisition (i.e. the higher the risk the higher the rate of return), so it is necessary to ensure that the portfolio is balanced and has a wide range of the rates of return in order to manage the risks.

10. Financial Considerations

10.1 Land and property Investments are likely to produce a higher return than interest received on bank deposits but there are potential risks and costs.

10.2 The Council presently (2016/17) has sufficient reserves to fund limited land and property acquisitions. Future disposals will provide additional potential capital and a new Investment Opportunities Reserve has been established – this being a capital fund derived from a transfer from revenue resources to fund capital expenditure.

10.3 Should funds fall below the amount necessary to achieve a beneficial acquisition that meets the decision criteria in Section 6, the Head of Finance & Governance may consider the option of Prudential Borrowing (within the Council's approved limits for Prudential Borrowing) if the return on investment is equal to or exceeds the cost of borrowing plus the anticipated rate of return. Use of existing reserves is however likely to be preferred if funds are available. The principals contained in the Council's Financial Strategy should be considered when identifying funding sources.

10.4 Accounting guidelines define Investment Properties as properties held "solely for rental or capital appreciation". However, in practice the majority of the Council's income derives from a much broader property portfolio (see Para 5.2).

10.5 Consequently, for any proposed acquisition the Estates Team and Legal Services shall provide Accountancy Staff with the information necessary to ensure properties are correctly classified for financial reporting and accounting purposes, including a comprehensive assessment of the revenue and capital implications.

10.6 In particular, where properties are acquired for leasing to third parties, an assessment shall be required to ensure the leases arising may properly be treated as an operating lease – as this will ensure that revenue budgets may receive the full benefit of the income generated. With this aim in mind, an important consideration is that the lease term is not for the major part of the property's economic life. Furthermore, at the start of the leases, the net present values of future lease payments must not amount to substantially all of the fair value of the properties concerned.

10.7 Expenditure on Council owned property could also impact on the Council's additional VAT allowance (i.e. Partial Exemption Limit). Therefore, it is likely to be in the Council's interests to waive the exemption and opt to tax on new properties acquired, if that option has not already been exercised by the previous landlord. The status of tenants and their ability to reclaim VAT will be an influence to determining whether to opt to waive the VAT exemption. Where development is undertaken it is likely that the VAT exemption will be waived so that the Council can recover VAT on development costs.

11. Other implications.

11.1 The Property Investment Strategy described in this report is intended to be applied in accordance with the Council's prevailing Standing Orders and Financial Regulations, and therefore is not a substitute.

11.2 Accordingly, the procedures for procurement of supplies and services, appraisal of contractors and contracts, and other incidental tasks relating to the acquisition and retention of properties for investment shall follow standing arrangements.

11.3 Any investment opportunity must also adhere to the capital prioritisation assessment protocol.

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 30 June 2016

Strategic Partnerships Annual Report

1. Contacts

Report Author:
Amy Loaring, Partnerships Officer
Tel: 01243 534726 Email: aloaring@chichester.gov.uk

1.1. Recommendations

That the committee endorses the findings of the annual review of partnerships at paragraph 3.3.

2. Background

2.1. At a special meeting of the Corporate Governance and Audit Committee on the 23 July 2012 the following recommendations were made:

(a) The committee should receive an Annual Partnerships report on the effectiveness of the council's strategic partnerships focussing on governance arrangements and risk monitoring.

(b) The council's partnerships, both strategic and operational, should be reviewed during the council's annual service planning process to ensure that they are still achieving their outcomes, that risk registers are up to date and regularly reviewed and the council's strategic objectives continue to be met.

(c) That the role of members who serve on partnerships is made clear in the partnerships guidance document particularly in relation to the requirements for annual reporting.

3. Analysis of Partnerships and recommendations

3.1. There are currently 10 strategic level partnerships that the council is involved with as set out in the annual partnerships report at Appendix 1.

3.2. The annual review of partnerships has been considered against the Partnerships Guidance at Appendix 2. The guidance was last reviewed in 2015 to strengthen the risk management element of partnerships. We have completed partnerships training with members as part of the induction programme in 2015 and the guidance has been published on the intranet for officers. Partnerships are still reported on as part of service planning in the council every year and these are monitored by the Partnerships Officer.

3.3. The annual review has concluded that all strategic partnerships have appropriate governance arrangements in place, the partnerships guidance is being followed and the risks to the Council from its membership of the strategic partnerships is therefore being appropriately managed.

4. Community impact and corporate risks

4.1. By not completing a review of the main strategic partnerships of the council we risk council resources being directed into partnerships that do not meet the council's priorities, waste our resources, do not have a clear goal, and could bring the council into disrepute. By ensuring that appropriate governance is in place in these partnerships and their risks managed we can ensure the quality of their work and their benefit to the local community.

5. Other Implications

	Yes	No
Crime & Disorder:		✓
Climate Change:		✓
Human Rights and Equality Impact:.		✓
Safeguarding:		✓

6. Appendices

6.1. Appendix 1 – Chichester District Council Partnerships report 2016
6.2. Appendix 2 – Chichester District Council Partnerships Guidance 2015

7. Background Papers

None

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 30 June 2016

Audit Reports & Progress Report – Audit Plan

1. Contacts

Report Author:
Stephen James – Principal Auditor
Tel: 01243 534736 E-mail: sjames@chichester.gov.uk

2. Recommendation

The committee is requested to consider the Audit Reports and note progress against the audit plan.

3. Main Report

3.1. **Key Financial Systems 2015 - 2016**

Internal Audit reviews the controls operating within the key financial systems on an annual basis. Any weaknesses are then reported separately to the relevant service. For the year 2015-2016, Internal Audit has produced an annual report for the year end to be reported to Committee.

There were 10 recommendations made in the report together with service specific ones, these can be found together with responses and deadlines in the Table of Findings in appendix 1.

3.2. **Personnel and Recruitment**

Internal Audit reviewed the arrangements in place for the adequate approval and funding of posts, pre-employment verification checks, satisfactory monitoring arrangements and current procedure notes available to staff. Internal Audit found that the Human Resources section provide a good standard of service and support to its staff. However, there were some procedural issues where improvements can be made. Internal Audit has made seven recommendations which have been agreed by management.

3.3. **Fraud Report**

Internal Audit reviewed the arrangements in place for the prevention and detection of fraud within the Council, and that there are adequate resources to carry out investigations and to identify potential risk of potential fraud. Overall Internal Audit found that the Council continues to operate a robust framework of policies and procedures.

No recommendations have been made as a result of this review a copy of which has been as sent to Members for information.

4. Background

4.1. Not Applicable

5. Outcomes to be achieved

5.1. Not Applicable

6. Proposal

6.1. Not Applicable

7. Alternatives that have been considered

7.1. Not Applicable

8. Resource and legal implications

8.1. Not Applicable

9. Consultation

9.1. Not Applicable

10. Community impact and corporate risks

10.1. Not Applicable

11. Other Implications

Are there any implications for the following?		
	Yes	No
Crime & Disorder:		√
Climate Change:		√
Human Rights and Equality Impact:		√
Safeguarding:		√
Other (Please specify):		√

12. Appendices

12.1. Progress Report – Audit Plan
12.2. Key Financial Systems Audit Report
12.3. Personnel & Recruitment Audit Report

13. Background Papers

13.1 Fraud Prevention Report 2015-2016

Chichester District Council

CORPORATE GOVERNANCE AND AUDIT COMMITTEE 30 June 2016

Corporate Governance and Audit Committee Work Programme 2016-17

1. **Contacts**

Tricia Tull - Chairman of the Corporate Governance & Audit Committee
Telephone: 01243 641439
E-mail: ttull@chichester.gov.uk

Bambi Jones – Principal Scrutiny Officer
Telephone: 01243 534685
E-mail: bjones@chichester.gov.uk

2. **Recommendation**

The committee is requested to consider and agree its work programme for 2016-17.

3. **Background**

3.1 Each year the Corporate Governance and Audit Committee prepares its work programme identifying the issues it will consider throughout the year.

3.2 At its meeting in March 2012 the committee agreed the following principles:

- To meet five times a year, with the following cycle: June/July, September, November, January and late March/early April

- Routine reports, primarily for information or endorsement, would be drawn to members' attention between meetings. If members had no comment or their questions had been satisfactorily answered, the report would if necessary be submitted to the next meeting for endorsement without discussion. However, if a member was dissatisfied with the response to a question or felt the topic deserved discussion, it would be submitted to the next meeting for debate.

- Task and Finish Groups can be used to take an issue off-line for deeper consultation and report back with recommendations.

- Where major documents (such as Treasury Management) are brought to the committee for approval, highlighting or underlining should be used to identify changes from previously approved versions.

- Reports should be shorter and more use should be made of executive summaries.

3.3 Following the September 2014 meeting it was agreed that in future high/medium priority internal audit reports would be included with the agenda and that low priority audit reports would be emailed to members for information.

Developing a work programme

4.1 The 2016/17 work programme has been developed in consultation with the Council's external auditor and with internal audit officers and taking into account suggestions for future focus discussed by the committee during the year.

4.2 The Business Routeing Panel met on 31 March 2016 to discuss the council's full work plan and to suggest further member involvement in issues. No additional items were suggested for CGAC.

4.3 Members are requested to consider this work programme and to make comments or suggestions as appropriate.

5. Implications

Are there any implications for the following?

	Yes	No
Crime & Disorder:		x
Climate Change:		x
Human Rights and Equality Impact:		x
Safeguarding		x
Other (Please specify): eg Biodiversity		x

6. Appendices

Appendix 1 – Draft Work Programme 2016-17

7. Background Papers

None

By virtue of paragraph(s) 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted