Chichester District Council

NOTICE OF MEETING

East Pallant House Chichester West Sussex PO19 1TY

Telephone: 01243 785166

Web site: www.chichester.gov.uk

MEETING	**CORPORATE GOVERNANCE AND AUDIT COMMITTEE**
DATE / TIME	Thursday 26 June 2014 at 09.30 am
VENUE	Committee Room 1 East Pallant House Chichester PO19 1TY
CONTACT POINT	Bambi Jones – Principal Scrutiny Officer Direct line: 01243 534685 Email: bjones@chichester.gov.uk

Tuesday 18 June 2014

PAUL E OVER
Executive Director

AGENDA

This agenda should be retained for future reference with the minutes of this meeting

PART 1

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

2. **Approval of Minutes** (Pages 1 to 7)
The Corporate Governance and Audit Committee is requested to approve the minutes of its ordinary meeting on Thursday 20 March 2014.

3. **Urgent items**
The chairman will announce any urgent items that due to special circumstances are to be dealt with under agenda item 15(b).

4. **Declarations of Interests**
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.

5. **Public Question Time**
The procedure for submitting public questions in writing by no later than 12:00 on Wednesday 19 March 2014 is available upon request to Member Services (the contact details for which appear on the front page of this agenda).

6. **Annual Audit and Certification Fees 2014/15 – Ernst & Young LLP** (pages 8 to 10)
To review the proposed audit and certification work that Ernst & Young LLP propose to undertake in 2014/15 and the fees for this work. The Audit Commission's report on Work Programme and Scales of Fees 2014/15 for Local Government and Police Bodies is included at Appendix 1 for information.

7. **Audit Plan 2013/14 – Ernst & Young LLP** (pages 11 to 30)
To note progress against the Audit Plan 2013/14.

8. **Draft Statement of Accounts** (pages 31 to 40)
To consider the draft statement of Accounts. The appendices to the main report will be despatched separately.

(Note: The appendices to this report are being circulated as separate documents to members of the committee and senior officers only. It may be viewed on the Council's website at www.chichester.gov.uk/committee_papers. A paper copy is available in the Members' Room at East Pallant House or from the contact named on the front page of this agenda.

9. **Carry Forward Requests** (page 41)
To consider the requests for budgets to be carried forward in 2014/15.

10. **Revised Treasury Management Strategy Statement** (pages 42 to 44)
To consider the revised Treasury Management Strategy Statement and the Investment Strategy 2014/15 and make recommendations to Cabinet. Members of the Treasury Management Task & Finish Group will feed back findings.

11. **Strategic & Organisational Risk Registers Update** (pages 45 to 48)
To consider the attached report giving details of the Council's strategic and operational risks as they are detailed in the Council's Risk Register. Members of the Strategic Risk Group will feed back their findings from the meeting held on 16 June 2014.

12. **S106 Annual Monitoring Report** (pages 49 to 55)
To consider the annual report of S106 agreements, providing progress information to date. An update on consultation software and the current position with regard to implementation of the Community Infrastructure Levy is also included.

13. **Audit Reports and Progress Report** (pages 56 to 57)
To consider the attached audit reports by Internal Audit and to note progress against the current year's Audit Plan.

14. **Business Continuity**
To receive an oral update on the position regarding electronic data storage and IT backup arrangements.

15. **Late items**
(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

PART 2

[Items for which the press and public are likely to be excluded]

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

16. **Report on potential liabilities of outstanding litigation** (pages 58 to 61)
To consider the attached report.

NOTES

With the aim of reducing paper consumption, certain restrictions have been introduced on the distribution of paper copies of longer appendices to reports where those appendices are circulated separately from the agenda:

(1) **Members of the Corporate Governance and Audit Committee, the Cabinet and Senior Officers:** They receive paper copies including the appendices.
(2) **Other Members of the Council:** The appendices may be viewed via the Members' Desktop and a paper copy will also be available for inspection in the Members' Room at East Pallant House.
(3) **The Press and Public:** The appendices relating to reports listed under Part I of the agenda which are not included with their copy of the agenda can be viewed as follows:
   (a) on the council's website at www.chichester.gov.uk/committee_papers - Select Corporate Governance and Audit Committee then choose the date of this meeting
   (b) at the main reception desk at East Pallant House Chichester
   (c) by contacting Bambi Jones (Principal Scrutiny Officer) on 01243 534685 or bjones@chichester.gov.uk

MEMBERS

Mrs P M Tull (Chairman)
Mr A J French (Vice-Chairman)

Mrs C M M Apel	Mr B Finch
Mr M J Bell	Mrs P A Hardwick
Mr T Dignum	Mr G H Hicks
Mr J Cherry	Mr R M J Marshall

Minutes of a meeting of the **Corporate Governance and Audit Committee** held in Committee Room 1, East Pallant House, 1 East Pallant, Chichester on Thursday 20 March 2014 at 09.30am.

Members (10)

Mrs P M Tull (Chairman)
Mr A J French (Vice-Chairman)

Mrs C M M Apel	Mrs P Hardwick
Mr T Dignum	Mr G McAra
Mr B Finch	

Present (7)

Apologies for absence:
Mr M Bell
Mr G Hicks
Mr R Marshall

Officers Present for all agenda items
Mrs B Jones, Principal Scrutiny Officer
Mr J Ward, District Treasurer

Officers Present for Specific Items Only
Mrs H Belenger, Accountancy Services Manager
Mr D Cooper, Group Accountant
Mrs C Dring, Benefits Manager
Mr S James, Principal Auditor
Mr P Legood, Valuation & Estates Manager
Mr W Townsend, Health & Safety Manager

Chichester District Council Members present as observers or contributors
Mr J Connor
Mrs C Purnell

Invited Representatives Present for Agenda Item 10
Mr Simon Mathers, Audit Manager, Ernst & Young LLP (EY)

169. **Minutes**

The Chairman advised that there was a follow up to minutes 163 as part of the agenda for this meeting.

Mrs Hardwick requested an amendment to minute 164, fifth paragraph, to read 'She also provided revised wording to paragraph 5 Credit Outlook *in relation to the new banking bail-in arrangements*'. The Accountancy Services Manager advised that the strategy would be amended to reflect that building society protection still exists under these arrangements. If legislation changed then it would take six months to put into effect and there would be an opportunity to buy ourselves out of any arrangement.

RESOLVED

That the Minutes of the meeting held on 23 January 2014 be signed as a correct record, subject to the above amendment.

170. **Urgent Items**

There were no urgent items for consideration at this meeting.

171. **Declarations of Interest**

There were no declarations of interest.

172. **Public Question Time**

No public questions had been submitted.

173. **Late items**

The Chairman reminded members of the additional Ernst & Young reports circulated to the committee and requested that these items be taken next on the agenda to which the committee agreed.

174 **Ernst & Young LLP reports**

The Chairman welcomed Simon Mathers, the new Audit Manager for the Council from EY. He gave a brief introduction of his new role and presented the papers circulated, namely the 2013/14 audit progress report, the 2012/13 Housing and Council Tax Subsidy Benefit certification fee, and the EY Local Government Audit Committee briefing. The following questions were raised by the committee:

- Confirmation was sought as to whether the internal audit team feel the processes in place in working with the EY team of external auditors is satisfactory? *The District Treasurer advised that the EY audit team and the internal audit team were working together and he would be able to assess whether the extra work being asked of the IA team had had an effect on the team following the audit in September.*
- The mention of Disabled Facilities Grant (DFG) administration in the EY Local Government Audit Committee briefing – will this be passed on to the council by West Sussex County Council (WSCC)? *The council's share will be passported back to us to deliver DFG, but it is uncertain what will happen beyond 2016.*
- Query re 50% business rates which local authorities receive mentioned in the briefing? *We notionally receive 50% but it is then dispersed so in effect we only*

receive 15% of business rates back. There are risks to the council regarding backdated appeals. The council has an existing model for establishing an estimate for the accounts which is adequate at present.

Mr Mathers confirmed that that the audit scale fee of £2,991 in respect of the Housing and Council Tax Subsidy Benefit claim had been approved by the Audit Commission. This was below the £3,000 approximate fee originally notified to the committee.

RESOLVED

That the Ernst & Young LLP 2013/14 audit progress report and the 2012/13 Housing and Council Tax Subsidy Benefit certification fee be noted.

175 **Accounting Policies**

The committee considered the agenda report (copy attached to the official minutes). The Group Accountant presented the report giving details of the amendments required to accounting policies in advance of the preparation of accounts for 2013/14. The Group Accountant and Accountancy Services Manager answered members' questions as follows.

- Business rates and the lack of reference to the point discussed earlier in this meeting. *We may need to disclose this as part of the statement.*
- Materiality on soft loans. *This is not the same as the auditors are talking about; the council has a much lower figure with a similar threshold to capital loans.*
- Interested in threshold. *The materiality level has to take account of the interest foregone. The accounts may need to be adjusted. It was agreed that the threshold should be disclosed.*
- Will we be required to make adjustments in the budget on post-employment benefits? If the fund is reduced then there will potentially be losses. *WSCC carries out a review every three years; the next valuation is in two years' time. This will only be applicable to those on the defined contribution scheme.*
- Don't understand what effect the changes in benefits will have on the pension fund. If there is a radical effect do we do something? *May see higher charge through the Income & Expenditure account. There is no effect on the bottom line.*

Mrs Hardwick made some suggestions for amendment of a presentational and grammatical nature to Appendix 1 which the Accountancy Services Manager agreed to put into place.

RESOLVED

That the amendments to the Accounting Policies shown at Appendix 1 to the report be formally adopted for the financial year ended 31 March 2014 subject to the further suggested amendments mentioned above.

176 **Audit Reports, Audit Plan and Audit Plan Progress**

The committee considered the agenda report and two audit reports, Housing Benefits and Estates, which had been emailed to members (copy attached to the official minutes). The Principal Auditor took the committee through the various reports in order during which the following discussion took place.

<u>Housing Benefits Audit</u>
Four recommendations (three medium priority and one low priority) had been agreed by management. Mr Dignum suggested that the committee should be satisfied with the low/medium level recommendations taking into account the large sum of housing benefits processed, the volume of applications and sometimes very difficult customers which the manager and her staff are dealing with. Mrs Apel noted the number of people assisted with housing and council tax benefit enquiries in 2013/14 and asked whether the figure for the previous year was available. The Benefits Manager undertook to respond to Mrs Apel with these figures.

<u>Estates Audit</u>
There were five recommendations in this report (four medium and one high priority). In view of the findings relating to the high priority recommendation a further audit report on 1 The Ridgeway was being prepared and would be brought to this committee in June. Mr Dignum advised that the income for the Estates section was roughly £1.6m and this year the debt recovery element should be tightened up. The Valuation & Estates Manager advised that it was crucial that an effective debt recovery regime was in place, however it had to be accepted that tenants would sometimes go into liquidation or become insolvent and debts would occur. However steps are being taken to make sure processes are effective. The committee made the following comments:

- Are start-ups an element of high risk for the council, with excessive numbers of write offs? What are the criteria for risk taking? *The future report is centred on this question.* We look to arrange tenancies to mitigate losses.
- Do you do benchmarking/research regarding the types of questions which should be asked of new tenants? *The Executive Director and the Valuation & Estates Manager belong to an Estates Surveyors group which meets on a quarterly basis and compares performance indicators and other information.*
- What have we had to write off? What is a reasonable rate of arrears? *The arrears run at 2%. The Valuation & Estates Manager undertook to advise the committee with regard to the sum we have required to write off.* Mr Finch advised that if 2% is average then the council should be satisfied with 2%. Mrs Hardwick needed to understand the risks involved and the credit worthiness of tenants and suggested there should be a reporting system which flags up an orange light earlier on. The Valuation & Estates Manager advised that the property portfolio was very varied, with large businesses and smaller shops and that the small businesses and voluntary organisations needed a lot of management.
- Mr McAra suggested that the wider priority of the council is to provide employment and this must be borne in mind in selecting tenants.
- Mrs Hardwick advised that the recommendations built into the commentary in this report was useful and suggested the format be used for all future audit reports.

<u>Audit Plan and Audit Plan Progress</u>
The Principal Auditor advised that his team was being asked by EY to carry out extra internal audit work and the council was keen to avoid additional external audit charges. This extra work related to additional testing on Key Financial Controls, which had been carried out by EY last year. An element of contingency had been included in the 2014/15 budget to allow for work to be undertaken on Housing

Benefit Subsidy. It is yet to be confirmed whether Internal Audit will be required to do this work. Full training will be required to undertake this extra work. The District Treasurer advised that quality control was with the housing benefits team, required for independent testing. The demise of the Audit Commission and appointment of EY without local authority involvement in agreeing the work programme had caused some confusion however there would be negotiation with EY regarding work planning going forward.

The Principal Auditor had recently recruited a Part-Time Auditor and had had authority to recruit a Senior Auditor to cover vacant posts.

Members were concerned that not all services were included on the audit plan, particularly Member Services. The Principal Auditor advised that elements of the service's work were audited as part of the members' allowances, reprographics and payroll audits. This was considered a low risk service so it was not included. Mrs Hardwick suggested that all services appear on the audit plan. The District Treasurer agreed that this would be carried out when developing the audit plan next year.

The committee also requested that the 2014-2017 Three Year Audit Plan be developed with columns reflecting the risk element, the value, and the complexity of the systems involved in the audit, which would provide the committee with more information regarding the service. The Principal Auditor agreed that this report would be brought back to the June committee for review.

The audits started in the current year's plan will be rolled over to the new financial year.

RESOLVED

1) That the audit reports on Housing Benefits and Estates be noted.

2) That the audit plan progress for 2013/14 be noted.

3) That the Audit Plan 2014/15 and the Three Year Plan 2014-2017 be noted, subject to a further report with the Three Year Audit Plan developed as suggested above being presented to the next committee meeting on 26 June 2014 for review.

177 Business Continuity Management

The committee considered the agenda report (copy attached to the official minutes). The Health & Safety Manager answered questions:

- Do we use cloud based services for storage and backup of the council's documents? *IT has looked at these and there are concerns with security. We currently undertake a daily backup of documents on site and a weekly backup off site, stored at HSBC. Two years ago a feasibility report had been carried out and the IT Panel had concluded that it was too costly to go with WSCC as our backup partner.*
- Mrs Purnell reminded the committee of the Code of Connection (CoCo) regulations which the council was bound to follow.

- Mr Dignum was of the view that backup should be daily and off site. When would this be reviewed again? *The Business Continuity Policy is being reviewed by the Strategic Risk Group (SRG) on 16 June 2014. The District Treasurer suggested that an update on the regular operational backup be included with this report to the SRG and that the Assistant Director of Facilities Management, Property & Customer Services be requested to attend that meeting and the next meeting of this committee in June to provide an update.*

RESOLVED

1) That the Business Continuity Management position statement be noted.

2) That the next meeting of this committee in June 2014 receive a verbal update with regard to data backup issues, a security examination of cloud services and the feasibility of more regular backup of the council's data.

3) That a Business Continuity Management update report be presented to the September 2014 meeting of this committee.

178 **Corporate Governance & Audit Committee work programme 2014/15**

The committee considered the agenda report (copy attached to the official minutes). Mrs Jones presented the report, asking members to reconsider the principles agreed by the committee at its meeting in March 2012 in relation to how future reports should be dealt with, and drew members' attention to some of the more routine reports and how these should be dealt with in future.

Members accepted that the Knowledge Hub (Members' Bulletin Board) was not being used effectively to share information and requested that the practice of uploading documents for the committee to view be stopped. The committee agreed that audit scopes and reports should be emailed out to all members of the committee as soon as these are produced, and that audit reports be included on the next available committee agenda to ensure transparency in enabling all members to see these.

Mr Finch suggested that it was important that the committee consider corporate complaints on an annual basis and that this report be added to the work programme.

The Business Routeing Panel had met the day before this meeting and had suggested a couple of further reports be routed through this committee – Community Infrastructure Levy implementation progress reports in June and November 2014.

RESOLVED

1) That the committee's 2014/15 work programme be agreed subject to the addition of the further reports suggested above.

2) That audit scopes and audit reports be emailed to all members of the committee as soon as they are available, and that audit reports be included in the next available committee agenda.

3) That the Knowledge Hub no longer be used to share the committee’s reports for comment by members.

(Note: The meeting closed at 11.35am)

____
(Chairman)

Date: __________________________________

Diane Shepherd
Chief Executive
Chichester District Council
East Pallant House
1 East Pallant
Chichester, West Sussex
PO19 1TY

11 April 2014

Ref: PK/1415/CDC/feeletter

Direct line: 0118 925 1556

Email: PKing1@uk.ey.com

Dear Diane

Annual Audit and Certification Fees 2014/15

We are writing to confirm the audit and certification work that we propose to undertake for the 2014/15 financial year at Chichester District Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and the work mandated by the Audit Commission for 2014/15.

Indicative Audit Fee

The audit fee covers the:

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

For the 2014/15 financial year the Audit Commission has set the scale fee for each audited body as part of the recent 5 year procurement exercise and consequently it is not liable to increase in that period without a change in scope.

The 2014/15 scale 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;
- We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- The financial statements will be available to us in line with the agreed timetable;
- Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee.

The indicative audit fee set out in the table below has initially been set at the scale fee level as the overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year.

As we have not yet completed our audit for 2013/14, our audit planning process for 2014/15 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract with the Audit Commission.

Certification fee

The Audit Commission has set an indicative certification fee for each audited body. The indicative fee is based on the 2012/13 actual certification fees available adjusted to reflect any known schemes that no longer require auditor certification. The Audit Commission has revised the previously published 2013/14 indicative certification fee to reflect further schemes that no longer require auditor certification.

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

Summary of Fees

	Indicative fee 2014/15 £	Planned fee 2013/14 £	Actual fee 2012/13 £
Total Code audit fee	64,553	64,553	64,553
Certification of claims and returns	10,010	5,456	12,291

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

Billing

The indicative audit fee will be billed in four quarterly instalments of £18,641 starting in July 2014.

Audit Plan

Our plan for the audit of the financial statements is expected to be issued in June 2014. This will detail the significant financial statement risks identified, planned audit procedures to respond to those risks, and any changes in fee. It will also set out the 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 District Treasurer 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 2014/15 financial year are:

Paul King **Director**	PKing1@uk.ey.com	Tel: 0118 925 1556
Simon Mathers **Manager**	SMathers@uk.ey.com	Tel: 07776 493851

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
Director
For and on behalf of Ernst & Young LLP

cc. John Ward, District Treasurer
Councillor Patricia M Tull, Chairman of the Corporate Governance and Audit Committee

Audit Plan

Year end 31 March 2014

Chichester District Council

June 2014

Ernst & Young LLP

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INVESTOR IN PEOPLE

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Chichester District Council
East Pallant House
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PO19 1YT

June 2014

Dear Members of the Corporate Governance ad Audit Committee

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Corporate Governance and Audit Committee with a basis to review our proposed audit approach and scope for the 2014 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements. It also helps ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for Chichester District Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 26 June 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King
Director
For and behalf of Ernst & Young LLP
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Contents

1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- our audit opinion on whether the financial statements of Chichester District Council give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- a statutory 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 your Whole of Government Accounts return.

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.
- Management's views on all of the above.

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

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

In parts 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to our audit, and outline our plans to address these risks.

Our process and strategy

Financial Statement Audit

- When considering the results of our audit work, we consider them in the context of their materiality to the statements as a whole.
- Where possible and more efficient we will seek to rely on the controls in your systems, therefore reducing the year-end testing required.
- To the fullest extent permissible by auditing standards, we will seek to place reliance on the work of internal audit.

Arrangements for securing Economy, Efficiency and Effectiveness

- We adopt an integrated audit approach such that our work on the financial statement audit feeds into our consideration of the arrangements in place for securing economy, efficiency and effectiveness.

2. Financial Statement Risks

We outline below our assessment of the financial statement risks facing Chichester District Council, identified through our knowledge of the Council's operations and discussion with members and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records 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.	Our approach will focus on: ► testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ► reviewing accounting estimates for evidence of management bias; ► evaluating the business rationale for significant unusual transactions;
National Non-Domestic Rates (NNDR) ratetable value appeals provision	
The Business Rates Retention Scheme came into force on1 April 2013. Under the new arrangements the Council will no longer solely collect business rates on behalf of central government, but will now share the business rate income collected between central government, the Council and other major precepting bodies, such as West Sussex County Council in the case of Chichester District Council. The level of NNDR paid on business property depends on its 'rateable value'. This is calculated by the Valuation Office Agency (VOA). Where local businesses believe the current value for business properties is wrong they can: • appeal to the VOA and ask them to correct details • appeal the rates if the local business and the VOA can't agree. This appeal is heard by a valuation tribunal. Where rating appeals are successful, monies to settle the appeals will come out of the Council's funds and will also impact on other local public bodies that precept on the Council. This includes not only claims from 1 April 2013 but also claims that relate to periods before the introduction of the business rates retention scheme. As appeals	We will seek to understand and assess the reasonableness of the Council's methodology in estimating any planned provision in respect of rateable value appeals at the balance sheet date. This will involve consideration of both the completeness and accuracy of the data on the number of appeals and the basis for the assumptions made by the Council on the likelihood of success.

are to the Valuation Office, authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.

The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.

Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- Identifying fraud risks during the planning stages.
- 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.

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

3. Economy, Efficiency & Effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at the Council; and

2. Whether there are proper arrangements in place at the Council to secure economy, efficiency and effectiveness in the use of resources.

We have not identified any significant risks to the value for money (VFM) conclusion. However, we have identified the following key areas that we will consider to support our VFM conclusion.

Other risks		Our audit approach
Council spending		
The Audit Commission produces value for money and financial ratio profiles for local authorities on an annual basis. This provides an indication of the relative spending of an individual body against a comparator group of statistical nearest neighbours which have similarities in population, expenditure, and geographical area. Our review of the 2012/13 VFM profile data showed that although the net level of Council spending after consideration of income received from fees and charges was low, the absolute level of spending on services was high relative to others. During 2013/14 the Council has continued to experience reductions in income for some service areas and has projected a shortfall on income budgets throughout the period. In common with the majority of local government the Council continues to face significant financial challenges, and itself recognises a number of risks and uncertainties that could impact on its medium term financial plans. A clear focus on addressing high cost areas continues to be essential to the economy, efficiency and	Economy, efficiency and effectiveness Financial resilience	Considering these issues our audit work will concentrate on: • an assessment of the Council's relative spending based on updated value for money profile data. In particular, this will consider the high absolute level of spending of the Council relative to others suggested by the 2012/13 value for money analysis and the impact of any reductions in income on the relative net level of spending at the Council. • the robustness of the Council's medium term financial plans, considering in particular progress made in delivering the deficit reduction programme and the recent refresh of the Council's medium term financial strategy in December 2013 and the assumptions that underpin it.

effectiveness of services delivered and the overall financial resilience of the Council. The successful delivery of the Council's deficit reduction plan agreed in May 2013, as part of its updated medium term financial plans, is therefore a significant factor in the Council maintained its sound financial position.

4. Our audit process and strategy

4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice (the Code), dated March 2010, our principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

i) financial statements; and

ii) arrangements for securing economy, efficiency and effectiveness in its use of resources.

We issue a two-part audit report covering both of these objectives.

i) Financial Statement Audit

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

We will also review and report to the NAO, to the extent and in the form required by them, on your Whole of Government Accounts return.

ii) Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

4.2 Audit process overview

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- Accounts receivable
- Accounts payable
- Business rates
- Council tax
- Cash and bank (Cash receipting)
- Housing benefits and council tax reduction

- Payroll

To the fullest extent permissible by auditing standards, we will seek to place reliance on the work to test controls in its annual programme of work.

We have also identified the following key processes that we will test substantively post year-end:

- Property, Plant and Equipment
- Pensions
- Treasury management
- Car parking income
- Financial Statements Close Process.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular for payroll and 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 Corporate Governance and Audit Committee.

Internal audit

As in prior years, we have reviewed internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements.

Use of experts

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions and property, plant and equipment valuations

Mandatory procedures required by auditing standards

In addition to the financial statement risks outlined in section 2, we have to 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.

- Addressing the risk of fraud and error.
- Reviewing significant disclosures included in the financial statements.
- Assessing the effectiveness of entity-wide controls.

- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.

- Maintaining 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 the Remuneration Report.

- Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.

- Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

4.3 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 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 have initially determined our overall materiality for the financial statements of the Council as £1.6 million, based on 2% of 2012/13 gross service expenditure.

We will communicate uncorrected audit misstatements greater than £78,000 to you.

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.

4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act 1998 in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of the Council is £64,553.

4.5 Your audit team

The engagement team is led by Paul King, who has experience of the Council. Paul King is supported by Simon Mathers who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Head of Accountancy Services.

4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government accounts; and the deliverables we have agreed to provide to you through the Corporate Governance and Audit Committee cycle in 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.

We provide progress reports to each meeting of the Corporate Governance and Audit Committee and will provide a formal report detailing the results of our 2013/14 audit to the

September meeting of the Committee. From time to time matters may arise that require immediate communication with the Corporate Governance and Audit Committee and we will discuss them with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Deliverables
High level planning:	**November**	Audit Fee Letter
Risk assessment and setting of scope of audit	**January – March**	Audit Plan
Testing of routine processes and controls	**March – April**	Audit Plan
Year-end audit	**July - September**	► Report to those charged with governance ► Audit report on the financial statements and value for money conclusion ► Audit Completion certificate ► Whole of government accounts
Reporting	**October**	Annual Audit Letter
Grant Claims	**September – December**	Annual certification report

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

5. Independence

5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 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 independence and objectivity. The Ethical Standards, as revised in December 2010, require 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
► The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between the you, your affiliates and directors and us; ► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ► The overall assessment of threats and safeguards; ► Information about the general policies and process within EY to maintain objectivity and independence.	► A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, 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; ► Details of non-audit services provided and the fees charged in relation thereto; ► Written confirmation that we are independent; ► Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ► An opportunity to discuss auditor independence issues.

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.

5.2 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. However, we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self- interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; 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 and that are in compliance with the Audit Commission's Standing Guidance.

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 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.

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

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. 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.

Non audit services provided in 2013/14

We have provided no non audit services in 2013/14.

5.3 Other required communications

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 28 June 2013 and can be found here:

http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14 £'000	Actual Fee 2012/13 £'000	Explanation of variance
Total Audit Fee – Code work	**64,553**	**64,553**	**N/A**
Certification of claims and returns*	5,456	12,291	For 2013/14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011/12, The fee set reflects some changes to the planned scope of our certification work in 2013/14, for example removal of the requirement to certify the final national non-domestic rates return.
Non-audit work	N/A	N/A	

The agreed fee presented above is based on the following assumptions:

- officers meeting the agreed timetable of deliverables;
- we are able to place reliance, as planned, on the work of internal audit;
- the level of risk in relation to the audit of accounts in consistent with that in the prior year;
- no significant changes being made by the Audit Commission to the use of resources criteria on which our VFM conclusion will be based;
- our accounts opinion and use of resources conclusion being unqualified;
- appropriate quality of documentation is provided by the audited body; and
- 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 you 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.

*Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission.

Appendix B UK required communications with those charged with governance.

There are certain communications that we must provide to the audit committee of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit ► 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	Report to those charged with governance
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	Report to those charged with governance
Fraud ► Enquiries of the audit 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	Report to those charged with governance
Related parties 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	Report to those charged with governance
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	Report to those charged with governance
Consideration of laws and regulations ► 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	Report to those charged with governance

Required communication	Reference
► Enquiry of the audit 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 committee may be aware of	
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ► 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	Audit Plan Report to those charged with governance
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► 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	Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
Certification work ► Summary of certification work undertaken	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 26 June 2014

Draft Statement of Accounts for 2013-14

1. Contact(s)

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2. Recommendation

2.1. That the Committee consider the draft Statement of Accounts shown in Appendix 1 for the financial year ended 31 March 2014 and to note the pre-audit outturn position.

3. Main Report

3.1. Introduction

3.1.1 The Accounts and Audit Regulations 2011 set out the requirements for the production and publication of the annual Statement of Accounts. These regulations require that the following procedures are adhered to for the approval and publication of the annual accounts:

- No later than 30 June following the financial year end the responsible financial officer must certify the annual accounts before they are passed to the auditor.
- The responsible financial officer must re-certify the presentation of the annual accounts after the audit is completed and before member approval is given.
- The annual accounts must be published with the audit opinion and certificate, and before must have been approved by members. The Council must also secure approval and publication by no later than 30 September.

3.1.2 The Head of Finance and Governance Services, the Council's responsible financial officer, must certify the draft Statement of Accounts as authorised for issue by 30 June 2014. The draft statements will then be passed to the Council's external auditors, Ernst & Young LLP. The draft Statement of Accounts will also be placed on deposit for public inspection for the period 7 July 2014 to 1 August 2014.

3.1.3 Ernst & Young LLP will perform their audit over a four-week period during July and August 2014. The audited Statement of Accounts for 2013-14 will be presented to this Committee for adoption at its meeting in September. The report that will accompany the audited financial statements will focus only on issues or changes that may arise as a result of the audit.

3.2. The Statement of Accounts

3.2.1 The Statement of Accounts, as defined in the regulations and specified in the relevant sections of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Accounting Code of Practice comprises:

- An explanatory foreword
- Statement of Responsibilities for the Statement of Accounts
- The accounting statements
- A statement of accounting policies
- Notes to the accounts.

The Council's draft accounts for consideration are attached in Appendix 1.

3.3. The Accounting Statements

3.3.1 The Comprehensive Income and Expenditure Statement (CIES) provides a summary of the resources generated and consumed by the Council in the year that have contributed to the changes in resources shown in the Movement in Reserves Statement.

3.3.2 The format and headings disclosed within the CIES are prescribed by CIPFA in the Service Reporting Code of Practice (SeRCOP) and The Code of Practice on Local Authority Accounting in the United Kingdom. All local councils must follow these Codes to enable direct comparisons to be made of the accounting information across local authorities. To assist members understanding of the services included under each of the SeRCOP headings within the Cost of Services section of the statement, Appendix 2 provides a more detailed financial analysis using more familiar service headings.

3.3.3 The Movement in Reserves Statement shows the movement in the year on the different reserves held by the council, analysed into those reserves that can be used to fund expenditure or reduce council tax 'Usable Reserves', and other reserves 'Unusable Reserves'.

3.3.4 The Balance Sheet sets out all the Council's assets and liabilities at the end of the financial year. The statement shows the balances and reserves at the Council's disposal, its long-term indebtedness and assets employed in its operations, together with summarised information on the assets held.

3.3.5 The Cash Flow Statement shows the changes in cash and cash equivalents of the council during the year and how the movements in cash resources have been reflected in cash flows.

3.3.6 The Collection Fund is an agent's statement that reflects the council's statutory requirement as a billing authority to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection of council tax and national non-domestic rates (NNDR) from taxpayers and its distribution to precepting bodies. For council tax, the precepting bodies are the District Council, Parish Councils,West Sussex County Council, and the Police and Crime Commissioner for Sussex.

From 1 April 2013, the regime around the income that local councils collect from NNDR changed from one where the council collects purely on behalf of central government, to one where this income is shared between central government, the local council and other major precepting bodies (such as West Sussex County Council in Chichester's case). The main aim of the scheme, known as the Business Rates Retention scheme, is to give councils a greater incentive to grow businesses in their area. It does however also increase the financial risk due to non-collection and the volatility of the NNDR aggregate rateable value.

The scheme allows the council to retain a proportion of the total NNDR received. Notionally Chichester's share is 40% with the remainder being paid to central government (50% share) and West Sussex County Council (10% share). However, a complicated mechanism of tariffs and levies means that this Council's share of NNDR from day one of localisation is just 5% of the amount collected, and will retain 20% of any growth thereafter.

The Collection Fund is incorporated in the Balance Sheet and the Cash Flow Statement.

A council tax collection rate of 98.1% was achieved in 2013-14, which compares with a collection rate of 98.2% in 2012-13. For business rates, a collection rate of 98.0% was achieved for the year compared to 97.1% in 2012-13.

3.3.7 The Statement of Responsibilities for the Statement of Accounts details the respective responsibilities of the Head of Finance and Governance Services and the Council.

3.3.8 Further interpretation of the accounts highlighting key issues is contained within the explanatory foreword of the Statement of Accounts.

3.4. Analysis of the 2013-14 General Fund position

3.4.1 The unaudited outturn position on the General Fund for 2013-14 is a surplus of £827,627 that is transferred to the General Fund Balance.

3.4.2 The main variances between the General Fund original budget and the outturn position in 2013-14 is as follows:-

Ref		**£'000**
	Underspends / Additional Income	
d)	Revenues and Housing Benefits	-424
e)	Business Rates Retention Scheme	-270
b)	Additional surplus on Chichester Contract Services activities	-260
l)	Estates	-220
m)	Business Improvement	-142
o)	Community Engagement and Development	-104

Ref		£'000
j)	Planning services	-99
c)	Emergency planning	-48
p)	Leisure and wellbeing	-41
f)	Government grants	-39
n)	Corporate training	-34
g)	Fees and charges review	-25
		-1,706
	Overspend / Shortfall of Income	
k)	Approved management restructure	421
h)	Provision for bad debts	272
a)	Car parks and CCTV	110
q)	Careline	66
i)	District Council Elections	40
		909
	Other minor variations (net)	-30
	Total variance	-827

3.4.3 The following paragraphs provide an explanation for the main variances by Cabinet Member responsibility:

Economy, Tourism and Car Parks

a) Car Parks and CCTV – A shortfall of income / decrease in costs of £109,600:
The main variances include a £156,600 shortfall in car park income at the end of 2013-14. This is due to a reduction in income being received and the fact there were no car parking charges in New Park car park for the first 4 months of the year. The reduction in income being received has been reflected in the 2014-15 budget. Following negotiations with WSCC they agreed to pay us an additional £30,000 for providing them with the Civil Parking Zones (CPZ) service. This is to bring the WSCC service to a cost neutral position for the Council. WSCC have also agreed to pay an additional £35,000 in 2014-15. There is also a further £15,000 saving from reduced rental costs for New Park car park as a result of building works.

Environment

b) Chichester Contract Services (CCS) Surplus – An increase in operating surplus of £259,900:
During 2013-14, Chichester Contract Services (CCS) has continued to identify operational efficiency savings and has also generated additional income from the services that it provides. The increased operating surplus is generated from the following significant variations:

- Savings on vehicle maintenance as a result of the introduction of new vehicles (-£91,500);
- Fuel savings have been achieved due to a reduction in the number of fleet vehicles, and the new fleet vehicles being more fuel efficient to the vehicles they have replaced (-£92,200);
- Use of savings and additional green waste income (-£38,100) to purchase a new green waste vehicle to support service expansion (+£112,800);

- Grounds maintenance service staff vacancy and materials savings. These posts remained vacant and have been removed from the 2014-15 budget as part of the service review. (-£41,400);
- Street Cleansing service staff savings due to posts being held vacant whilst the effect of a reduced service was reviewed. Posts have now removed from the 2014-15 base budget (-£27,700);
- Trade waste service operational savings and agency budget not required and this has been reduced for the 2014-15 base budget. (-£14,800);
- Additional income generated from the sale of second hand bins from the rationalisation of mini-recycling sites (-£26,800).
- Savings from the public convenience service review materialised earlier than expected (-£12,800).
- Recycling credits inflationary increase that was not expected (-£10,600).
- Income from the emptying and maintenance of litter and dog waste bins from Parishes, Highways and other organisations was higher than expected and has now been reflected in the 2014-15 base budget (-£11,500).

Of the total operating surplus achieved during 2013-14, some £204,200 is recurring and has already been reflected in the base budget for 2014-15.

During 2014-15, the efficiency performance of council vehicles and round reconfigurations will be reviewed to assess whether the additional fuel savings and vehicle maintenance savings achieved over and above the budget forecast and can be reflected in the 2015-16 base budget.

c) <u>Emergency Planning – A decrease in costs of £47,800:</u>
The Deficit Reduction Plan target of £10,000 has been exceeded and achieved ahead of schedule through a £15,100 staff saving. There were additional one-off savings during 2013-14 from a post being vacant during the year.

Finance and Governance

d) <u>Revenues and Housing Benefits – A decrease in costs of £423,600:</u>
There have been several significant variances within the revenues and housing benefits functions during 2013-14, they include the following:

- The Department for Work and Pensions (DWP) have assisted with the increasing demand on the welfare system through the provision of several one-off grants. This has meant the welfare reform contingency budget of £100,000 has not been required during 2013-14 and has been removed from the 2014-15 base budget.
- The residual effect of underpayments and overpayments from the old council tax benefit scheme was an underspend of £93,800, this has now been replaced by the council tax reduction scheme.
- The receipt of a higher rate of housing benefit subsidy than was budgeted for has meant additional income of £123,300, representing a variation of 0.35% on the £34.9m of gross expenditure.
- The funding mechanism for discretionary rate relief has now transferred in full to the Business Rate Retention Scheme, meaning this budget of £44,500 will no longer be required. This has been identified since the budget so will be a further saving during 2014-15 before being built into the 2015-16 base budget.

- Discretionary housing payments attract subsidy of £233,500 per annum, with a further £37,500 set aside from the Council's base budget in 2013-14. Actual awards during 2013-14 have been managed within the Government's subsidy figure, therefore the Council funded element was removed as part of the 2014-15 budget process.
- Staffing underspend of £38,100, primarily from a Benefits post being held vacant to fund external support when required, and the temporary secondment of a Cashiers post to cover maternity leave.

e) Business Rates Retention Scheme – Additional income of £270,000:
From 1 April 2013, the regime around the income that local councils collect from NNDR or Business Rates changed following the introduction of the Business Rates Retention Scheme. Instead of paying NNDR to the central pool, local authorities retain a proportion of the total collectable rates due. For Chichester the local share is 40%. The remainder is distributed to the other preceptors; central government (50%) and West Sussex County Council (10%).

When the Business Rates Retention Scheme was introduced, the government set a business rates baseline for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline funding amount. Tariffs payable to Central Government are used to pay the tops ups to those authorities who do not receive their baseline funding amount. In respect of Chichester, the business rates baseline was set at £16,694m, and the council was required to make a tariff payment of £14.727m from its General Fund in 2013-14. The net result is a business rates funding amount of £1.967m. Any business rates generated above the council's baseline funding amount is shared equally between central government and the council.
In addition to the top up, a safety net figure is calculated at 92.5% of the baseline funding amount which ensures that authorities are protected to this level of business rates income. The safety net figure for Chichester is £1.820m. The council did not qualify for a safety net payment in 2013-14.

The aim of the scheme is to give councils an incentive to grow businesses in their area but also increases the financial risk due to the volatility and non-collection of business rates. It was for these reasons that when the 2013-14 base budget was set, the council took the decision to budget at the safety net level of £1.820m.

For 2013-14, the council's share of retained business rates has exceeded the baseline funding amount of £1.967m by £246k. The council is required under the scheme to pay 50% of this sum to central government in the form of a levy, resulting in an additional £123k being retained locally. The impact of these transactions results in £2,090m of business rates funding for 2013-14 which is £270k higher than the budget estimate of £1.820m.

f) Government Grants – Additional income of £39,400:
Additional grant can be paid to a local authority in England towards expenditure incurred or to be incurred by it, these grants are known as Section 31 grants under the Local Government Act 2003. During 2013-14 these included;
- Efficiency support for services in sparse areas (ESSSA) - £21,200.
- Transparency code setup grant - £2,600.
- Capitalisation provision redistribution grant - £15,600.

g) Fees and Charges Review – Additional income of £25,300:
Above inflation increases for trade and domestic waste income implemented ahead of the 2014-15 deficit reduction plan target.

h) Provisions for Bad Debts – An increase in costs of £272,100:
Adjustments to the various provisions held for debts owed to the Council, either because of a change in the value of the debt compared to 31st March 2012, or a change in the calculation to reflect a more appropriate value of provision based on the likelihood of the debt being repaid. The adjustments are as follows;

- General +£50,600
- Council tax and business rates court costs +£26,000
- Housing benefits +£205,300
- Rent deposits -£9,800

i) District Council Elections – An increase in costs of £40,000
An annual contribution of £30,000 is set aside to fund the District Council elections that are held every four years, with the next elections taking place in May 2015. This additional contribution is expected to cover the total expenditure without requiring any further revenue funding.

Housing and Planning

j) Planning Services – A decrease in costs of £99,900:
This includes additional income of £67,900 as a result of an increase in the number of planning applications received; this has been reflected in the 2014-15 budget. There was also a £45,700 underspend on Building Control staffing due to in year vacancies and one frozen post.

Leader

k) Approved Management Restructure – One off costs of £420,700
The Deficit Reduction Plan includes the restructure of management and the review of several Council services. These reviews have generated significant revenue savings, helping to keep council tax increases to a minimum. The one-off costs have been accommodated within the revenue budget for 2013-14, thereby removing the need to replenish the restructuring reserve.

Support Services

l) Estates – Additional income of £219,800:
Additional income has been received by the Estates service during 2013-14 from a variety of activities, the more significant ones being £153,300 of rental and licence income received during 2013-14, primarily due to £40,000 and £72,000 received from two plots at Terminus Road. A further £22,000 was received for the Estates service provided to Arun District Council. The Estates team also generated an additional £12,200 from charging fees for works completed for tenants.

m) Business Improvement – A decrease in costs of £142,200:
The Deficit Reduction Plan targeted various savings within the Business Improvement service with effect from 2014-15. These savings have been achieved ahead of schedule, primarily through staff savings within Public Relations, Office Support, Area Offices and the Print Room.

n) Corporate Training – A decrease in costs of £34,000:
A 20% reduction on all Council training budgets formed part of the Deficit Reduction Plan for 2014-15. This saving has been achieved ahead of schedule, with all staff training requirements still being funded.

Wellbeing and Community Services

o) Community Engagement and Development – A decrease in costs of £104,000:
The Deficit Reduction Plan included a £53,000 target for the review of the Communities functions. These savings have been achieved ahead of schedule. In addition, further staff savings have arisen within the Voluntary Sector and Youth services through a combination of staff vacancies and maternity leave.

p) Leisure and Wellbeing – A decrease in costs of £41,300
Reduction in Leisure and Wellbeing staffing budgets by a total of 1.40 full time equivalents (FTEs). These savings have been achieved across Health Development and Sports Development and have been accounted for within the 2014-15 base budget.

q) Careline – A shortfall in income of £65,800:
This includes the loss of £61,400 following the decision by West Sussex County Council to withdraw the Supporting People grant.

3.4.4 The impact of these variations will be taken into account while monitoring and forecasting the 2014-15 budget, and will also be considered when the setting the 2015-16 base budget.

3.5. Pension Costs

3.5.1 An IFRS accounting standard (IAS19) requires Councils (and businesses) to disclose the deficits/surpluses in their pension funds on an annual basis and to include the deficit within the Balance sheet. This necessitates actuaries identifying the assets and liabilities of the respective institutions investing within the fund at a point in time basis i.e. what the value of Pension Fund investments were worth on 31 March. It should be noted that this is a snap shot of the pension fund on just one day and that equities and bond prices go up and down on a daily basis.

3.5.2 The IAS19 calculation shows a deficit of £9.459million at the 31 March 2014 (£10.040million deficit at 31 March 2013) which represents the difference between the assets that the Council has within the fund (equities, bonds, property and cash) which amount to £121.57million (£110.67m at 31 March 2013) while liabilities amount to £131.03million (£120.71m at 31 March 2013).

3.5.3 The actual contributions payable by the Council are based on the Actuary's own assumptions in a valuation that is undertaken on a triennial basis. This valuation was last undertaken at 31 March 2013 and shows the council's share of the pension fund is currently funded to 99%. This takes a longer-term view of the pension fund rather than the annual adjustments required by IAS19.

3.6. Financial Strategy and Impact of the Recession

3.6.1 The Council's financial position remains strong relative to many local authorities. However, the Council will continue to face financial pressure for the foreseeable future.

3.6.2 Although the Council has been able to achieve a balanced position over recent years, including 2013-14 outturn and 2014-15 budget, further government reductions in our settlement are expected and we are planning for the impact of that, as well as other budgetary pressures over the next five year period. The council's financial plan, approved by members in 2013, sets out the key principles to aid the council to achieve and maintain a balanced budget in the future. Additionally the financial plan includes a risk analysis of the major financial issues potentially impacting on the Council's finances over the next 5 years and beyond. In tandem with this the council has also approved a "Deficit Reduction Programme" which identifies how the anticipated budget deficit will be met over the medium term. Several of the initiatives identified in the programme have already been delivered ahead of schedule, and thereby contributing to the 2013-14 surplus.

3.6.3 The Council continues to track national events, quantifying local impact and taking early action to manage those impacts. It is prudent for the Council to take proactive management and continue preparing resilient budgets for future years. The objective is to put the Council in the best possible position to deal with the financial issues it faces. It is important that the issues and the scale of the financial problem are understood and the Council is committed to finding solutions that minimise the impact on residents.

3.6.4 The issues currently facing the Council include:

Government Issues

- Level of Government Funding
- Specific Government Grants
- Localisation of Business Rates
- Localisation of Council Tax Support
- Council Tax Capping
- Welfare Reform

Economic Issues

- Inflation
- Interest Rates

Local Issues

- Income Streams
- Use of Reserves

3.6.5 It is standard practice to analyse previous year underspends when determining the forthcoming budget. Therefore the 2013-14 outturn position will be taken into account in the forthcoming annual budget process when preparing the 2015-16 detailed revenue estimates, although many recurring variances that were identified early in last year via budget monitoring have already been removed from the 2014-15 budget as detailed in the variance analysis above.

3.7. Outstanding Litigation and Claims

3.7.1 It is considered good practice to report to those charged with governance in respect of outstanding litigation and claims at the year end. A report on outstanding litigation and claims will be reviewed by this Committee at this meeting. The report has been reviewed by officers and where required the financial impacts of such claims will have been reflected in the Council's Statement of Accounts. The details of these claims are disclosed in Note 33 to the Statement of Accounts.

4. Appendix

4.1. Appendix 1 – Draft Statement of Accounts 2013-14 (to follow)

4.2. Appendix 2 – Analysis of Expenditure 2013-14 (to follow)

5. Background Papers

5.1. None.

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 26 June 2014

Carry Forward Requests

1. Contacts

Report Author:
David Cooper, Group Accountant,
Tel: 01243 534733 E-mail: dcooper@chichester.gov.uk

2. Recommendation

2.1. To request the Cabinet to approve the requests totalling £214,600 for budgets to be carried forward in 2014-15.

3. Background

3.1. In accordance with Financial Regulations, at the end of each financial year the Committee may determine that unspent balances of a specific nature may be carried forward into the following financial year.

3.2. Unspent balances at the year-end normally revert to general balances and are taken into account when considering the budget strategy for future years. Exceptionally, however, the Committee may take the view that an underspend arises from circumstances outside the control of the budget manager and that it is in the Council's best interests to carry forward a budget.

3.3. The carry forward requests in Appendix 1 have been received from budget managers. The Committee is asked to consider the reasons behind each carry forward requested to satisfy itself that the underspends have not arisen due to poor performance, and request the Cabinet to approve their carry forward into 2014-15. For completeness, the statement also includes two carry forward requests that have already been approved by Cabinet.

4. Background Papers

4.1. None.

5. Appendices

5.1. Schedule of Carry Forwards Requests from 2013-14 to 2014-15.

Agenda Item 10

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 26 June 2014

Revised Treasury Management Strategy Statement 2014-15

1. Contacts

Report Authors:

Mr T Dignum, Chairman of Treasury Management Task & Finish Group
Tel: 01243 538585 Email: tonydignum@gmail.com

Helen Belenger, Accountancy Services Manager,
Tel: 01243 521045 Email: hbelenger@chichester.gov.uk

2. Recommendation

That the Committee considers and recommends to Cabinet the suggested changes to the Treasury Management Strategy Statement and the Investment Strategy for 2014-15 following the review carried out by the Treasury Management Task & Finish Group as set up by the Committee in January 2014.

3. Background

3.1. The Committee was unable to delay the approval of the Treasury Management Strategy Statement for 2014-15 due to the legal requirement to have an approved strategy in place before the start of the new financial year, and it could not be delegated, as it had to be determined by Council.

3.2. As such, the Committee made minor amendments to the draft strategy at its meeting on the 23 January 2014 which was then recommended for approval by Cabinet and Council as required before the 31 March 2014.

3.3. At the January meeting the committee also agreed that a review of the Treasury Management Strategy should be carried out by a task and finish group to ensure that all known issues were incorporated. The terms of reference for the group was to review the principles and details of the strategy in order to ensure that it was fit for purpose.

3.4. The recommendations from the group would then be considered by the Committee, and the revised Treasury Management Strategy 2014-15 would then need to go through the approval route to Council again.

3.5 The Treasury Management Task & Finish Group met twice - in early February and again in April 2014. Members of this group were Mr T Dignum, Mrs P Hardwick, Mr R Marshall, Mr G McAra and Mrs T Tull with Mr Dignum being voted in as Chairman. The group suggested a number of changes to the strategy and to the Treasury Management Practices. It also requested the incorporation of a matrix categorising the forms of investment, time periods and risks of each.

4. Outcomes to be achieved

4.1. The Committee recommends the revised Treasury Management Strategy Statement and Investment Strategy for 2014-15 to Cabinet.

4.2. The Committee notes the changes to the Treasury Management Practices (TMP's).

5. Proposal

5.1. The proposed changes to the treasury management strategy and investment strategy to be considered are detailed in Appendix 1. To assist members to identify the changes more easily, the document uses the following convention:

- New/additional wording is shown using underlining;
- Deleted wording is identified using a strikethrough.

6. Alternatives that have been considered

6.1. When considering the alternative investment vehicles the principle concern is the security of the initial capital and the management of the different risks associated with the variety of instruments available to be used.

6.2. The impact of alternative strategies, with their financial and risk management implications are listed below:

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults

7. Resource and legal implications

7.1. The estimated rate of return for 2014-15 was set at 1%, this will be kept under review and revised if necessary as part of the budget cycle.

7.2. The statutory and regulatory framework under which the treasury management function operates is very stringent, and each authority has to decide its own appetite for risk and the rate of return it could achieve.

7.3. Risk management is covered within the Treasury Management Strategy as a new statement of its risk appetite has been incorporated. Also specifically within TMP 1, an extract of which is shown in appendix 3.

8. Consultation

8.1. The membership of the Task and Finish Group included 4 members from this Committee, the Head of Finance and Governance (Section 151 Officer), the

Accountancy Services Manager (Deputy Section 151 officer), and a representative from the Council's treasury management advisors.

9. Other Implications

	Yes	No
Crime & Disorder:		✓
Climate Change:		✓
Human Rights and Equality Impact:		✓
Safeguarding:		✓
Other (Please specify): Non- compliance or loss of an investment due to default by a counterparty could affect the financial wellbeing of the council dependent on the size of the loss and the ability to fund losses from its unallocated reserves.	✓	

10. Appendices

10.1. Appendix 1 – Treasury Management Policy Statement, Treasury Management Strategy Statement and Annual Investment Strategy for 2014-15.

10.2. Appendix 2 – Schedule A for Specified and Non Specified Investments.

10.3. Appendix 3 – Treasury Management Practices (TMP's)

11. Background Papers

11.1. Task and finish group meeting notes 06.02.2014.

11.2. Task and finish group meeting notes 16.04.2014.

Agenda Item 11

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 26 June 2014

Strategic & Organisational Risk Registers Update

1. Contacts

Report Author:
Helen Belenger, Accountancy Services Manager,
Tel: 01243 521045 E-mail: hbelenger@chichester.gov.uk

2. Recommendation

2.1. That the Committee review the amended Risk Management Policy and Strategy, and make any recommendations to Cabinet.

2.2. That the Committee notes the current strategic risk register and the internal controls in place, plus any associated action plans to manage those risks, and raises any issues or concerns.

2.3. That the Committee notes the current high scoring organisational risks and the mitigation actions in place, and raises any issues or concerns.

3. Background

3.1. The Risk Management Policy and Strategy was approved by Council at its meeting of 5th March 2013.

3.2. In accordance with the governance arrangements set out in the Risk Management Strategy and Policy, the Strategic Risk Group (SRG) reviewed both the strategic and high scoring organisational risk registers at its meeting on 15th October 2013, which was subsequently reported to the Corporate Governance and Audit Committee on 28th November 2013.

3.3. CMT receive quarterly updates on both risk registers. The updated risk registers taking into account the Service Plans for 2014-15 were reported to CMT on the 26th March 2014, and CMT's next review is due on the 18th June 2014.

3.4. The SRG met on the 16th June 2014, to consider the updated Strategic Risk Register and the current high scoring operational risks. The Group's recommendations are set out in this report, along with the updated risk registers.

4. Outcomes to be achieved

4.1. To adhere with good practice, the Council's Risk Management Policy and Strategy is reviewed and updated as necessary.

4.2. The Strategic and Organisational Risk are current and relevant to the Council and its operation, and those risks are well managed in accordance with the Council's Risk Strategy and Policy.

5. Risk Management Policy & Strategy Updated

5.1. As the Council approved the Risk Management Policy & Strategy in March 2013, the governance arrangements need to be updated to reflect changes arising from the management restructure. The necessary changes are reflected in the current policy and strategy in Appendix 1.

5.2. The Committee are requested to review whether they consider any further changes are required. All changes will need to go through to Full Council for approval, after consideration by both the Corporate Governance and Audit Committee and Cabinet.

6. Update on the Strategic Risk Register

6.1. The risk register was considered by the relevant risk owner prior to a review by the Chief Executive on 29th May 2014. The discussions focussed on the risk scores, the current issues and any mitigating action plans that were being delivered to better manage the identified risks.

6.2. The SRG considered the updated risk register on 16th June 2014, and the following recommendations were made:

a. **CRR 1 Deficit Reduction (Balanced Budget)** – that the controls in place regarding expenditure should be added to how this risk is managed.

b. **CRR 4 Project Management** – the support for a key staff member on a number of major projects is noted.

c. **CRR 6 Partnerships & CRR 7 Cessation of Agency Arrangement for South Downs National Park** – That these strategic risks be removed from the strategic risk register. (The consequence of this recommendation moves the risks to the organisational risk register for the appropriate services to manage now.)

6.3. Appendix 2 shows the updated version of the register taking into account the SRG's comments and recommendations. Two of the controlled risks have now transferred to the organisational risk register.

6.4. Appendix 2 sets out the current situation of the 9 remaining Strategic Risks and any necessary action plans are shown in the latest position on the covalent report. The heat map below shows were the individual risks are placed, based on the current assessment against the risk scoring matrix:

LIKELIHOOD				
		1,4,8,	2, 9, 10	
			3,86	68
	IMPACT			

6.5. A new risk (CRR 86) has been identified relating to the risk perceived with the land transferred under the Large Scale Voluntary Transfer (LSVT) of the Council's housing stock where there may have been contamination. The Council took out insurance at the time of the disposal of housing stock. This insurance, covered claims made either directly by the RSL, or from third party occupiers of the land, in respect of contamination. Due to the way the law on the creation of RSL's was drafted, responsibility for any claims in respect of contamination and its effect upon land, individuals using the land, or clean- up costs remain with the Council.

6.6. Recently the insurer Allianz exercised a break clause in the original policy and the cover ceased on 12th April 2014. There was an extension clause available but the insurers decided to use their right to decline to continue the insurance. More positively the Council received over £100K which is now available to support any decisions made as to how to proceed following the end of the insurance policy.

6.7. The Local Plan risk (CRR2) is also considered by the Development Plan Panel, who last considered the risk register at its March 2014 meeting.

6.8. Other high scoring risks include business continuity (CRR9) and contract management (CRR10). The action plans are in the process of being delivered. Once these actions are complete the internal controls will move from improving to good, resulting in the risk being controlled rather than controls pending.

7. Update on the Organisation Risk register

7.1. During May the Accountancy Services Manager has met with all Heads of Service to review all the organisational risks to ascertain the current risk scores, and any necessary actions still to be put in place to manage those risks that may affect the successful delivery of their service plans.

7.2. The outcome of those meetings has now been reflected in the scorings reported to the SRG. It should be noted that a number of new risks were identified from the service plans for 2014-15. Also the number of high scoring organisational risks (i.e. 6 and above) has increased from the 11 previously reported, to 21.

7.3. The mitigation plans for the high scoring risks are shown in appendix 3.

7.4. The SRG agreed that risks CRR 40 to CRR 43 are all linked to the Novium's business plan which is currently being updated. In respect of risk CRR 53 it was felt that the Council's influence on this risk was limited.

8. Conclusion

8.1. The Committee are requested to review the updated Risk Management Strategy and Policy and make any recommendations to Cabinet, and to review the updated strategic risk register and comment, or make recommendations.

8.2. The Committee note the position on the high scoring organisational risks and the mitigation actions.

9. Appendices

9.1. Appendix 1 – Risk Management Policy & Strategy

9.2. Appendix 2 – Strategic Risk Register

9.3. Appendix 3 – Mitigation plans for high scoring organisational risks.

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 26 June 2014

S106 Annual Monitoring Report

1. Contacts

Report Author:
Beverley Bayliss, Planning Obligations Monitoring Officer
Tel: 01243 534758 Email: bbayliss@chichester.gov.uk

2. Executive Summary

1. Total contributions secured by new S106 agreements signed between 1st April 2013 and 31st March 2014 was £3,387,111

2. The value of contributions received from S106 Agreements between 1st April 2013 and 31st March 2014 was £872,942

3. The total expenditure on projects funded from S106 Contributions between 1st April 2013 and 31st March 2014 was £481,208

3. Recommendations

3.1. That the Committee notes the income and expenditure between 1st April 2013 and 31st March 2014 in respect of S106 contributions.

3.2. Note the information on agreements within 2 years of expenditure target date.

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

3.4. Note the update on Consultation Software set out in Section 6.

3.5. Note the current situation with respect to the Implementation of the Community Infrastructure Levy (CIL) set out in Section 9.

4. Background

4.1 At its meeting on 19 September 2013, the Corporate Governance and Audit Committee considered a report following up on the recommendations agreed by this committee in November 2012 on the review of the planning application consultation process between development management and other Council services. The committee requested a further progress report following the implementation of new software that is expected to enhance the process.

4.2 At the meeting of 28 November 2013 Members further requested that West Sussex County Council (WSCC) be contacted to consider the possible re-targeting of existing unallocated S106 monies, possibly taking this through the County Local Committees (CLCs) for agreement. It was agreed that WSCC officers would be requested to attend the June 2014 meeting of the committee when the annual S106 report will be discussed.

4.3 Brief information about indexation has been included in the report to provide an indication of the potential increase in sums that can be expected due to indexation. It should be noted that the amounts indicated as due in Appendix 3 are the sums specified in the agreements. Further details and a graph have been included in Section 7.

4.4 In accordance with previous requests, this year's report again includes the information on non-financial contributions (Appendix 5). Members are reminded that some non-financial obligations are operational and do not have expiry or trigger dates.

4.5 The committee also receives an annual exception report detailing all contributions due to be spent within a two-year deadline in November/December each year and Ward members are provided with information electronically on a six monthly basis (in March and September each year) detailing new S106 agreements, income and receipts, actual and anticipated spend dates, use of monies and non-financial obligations detailed by ward.

4.6 Officers from WSCC and the South Downs National Park Authority (SDNPA) will also be in attendance at the meeting to respond to Members enquiries.

5. Outcomes to be achieved

5.1. Effective monitoring of Section 106 Agreements.

6. Update on Software upgrade in relation to Consultee Consultations

6.1 The Consultee Access Module for Uniform was purchased in November 2013 and was rolled out first to Members to assist with Pre application enquiries. The new module is currently being introduced to Parishes to facilitate electronic consultation and the next step is to use the module to enhance consultation with other council services i.e. Sports and Leisure, Parks and Green Spaces by August 2014. Once implemented, consultee responses will automatically update the Uniform planning application record, making the manual checking process by the Planning Case Officer for outstanding responses simpler.

7. S106 Progress & Developers' Infrastructure Contributions

7.1 New Section 106 Agreements completed 2013/14

Financial obligations secured by way of Agreement between 1 April 2013 and 31 March 2014 are outlined at Appendix 1 and provide a total of £3,387,111.

- 35 new S106 Agreements were completed.
- 26 contained financial contributions to CDC.

- 5 contained only non-financial obligations to CDC.
- 4 contained contributions to WSCC only.

7. 2 **Contributions expected by CDC (including 2013/14 above)**

There are still S106 contributions expected from signed Agreements where the trigger point for collection of monies has not yet been reached for a development that has commenced, or for developments that have not yet started. It is important to note that the exact amount of money expected is not known until the relevant trigger date is received. Changes affecting these figures include indexation that can increase the sum due. Graph 1 shows the indexation values between 2009 and 2014 for the three indexes used by the Council to calculate indexation. In addition, a Developer could seek to renegotiate the terms of an Agreement including the level of obligations due. Where applications are received to vary an original Agreement this would be reported to the Planning Committee. Table 1 shows the contributions expected by CDC, and those unspent, broken down by service.

Table 1: Expected Contributions by Service

As of 02 May 2014		
Contribution Type	**To be received**	**Unspent**
Affordable Housing	£1,083,823	£1,106,797
CCTV	£0	£16,749
Chichester Harbour	£167,748	£166,348
Community Facilities	£2,698,090	£737,546
Ecology Mitigation	£4,000	£0
Interest	£0	£59,069
Sport and Leisure	£1,435,417	£327,530
Public Open Space	£914,495	£171,855
Park and Ride	£0	£108,125
Public Art	£241,806	£11,986
Recreation Disturbance	£54,560	£7,960
Sustainable Transport	£0	£41,998
Transport	£100,000	£0
Waste and Recycling	£36,157	£16,199
	£6,736,096	**£2,772,162**

7. 3 **Indexation used by Chichester District Council**

An explanation of the three sets of Indices and how they are used in our S106 Agreements is as follows:-

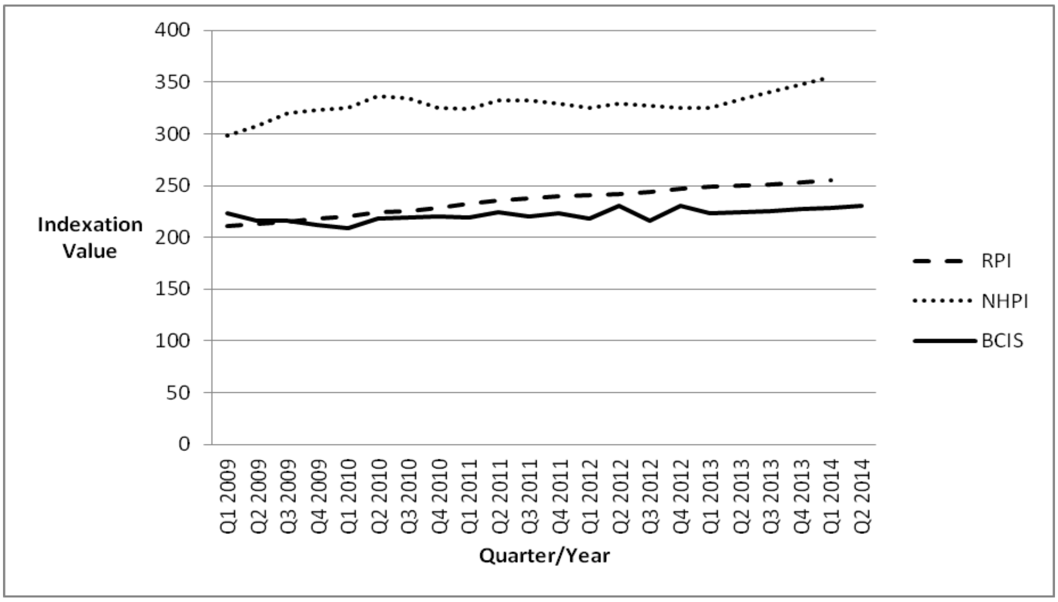
a) **Building Costs and Information Service** (BCIS, i.e. the All in Tender Price Index): This has only been used in a limited number of agreements; most of our agreements use RPI. However, we will be required to use BCIS for CIL when this is introduced.

b) **Nationwide House Price Index** (NHPI): Used to update commuted sums payments for Affordable Housing.

c) **Retail Price Index** (i.e. the All Items Index): This is used for both the uplift in the Supplementary Planning Guidance (SPG) document tariffs on which agreements are negotiated as well as any changes in payments due between the time the agreements were negotiated and payments become due. The Indices for the last 4 quarters, updated on 20 May 2014, are set out below (the figures represent the change from January 1987 which has been set at 100):-

2013 Q2	249.7
2013 Q3	250.9
2013 Q4	252.5
2014 Q1	253.9

Graph 1 – Indexation values 2009 - 2014



These indices constantly change, as illustrated in Graph 1 above.

This serves as an indication of indexation that may be applied when payment is due. The actual amounts will be calculated on a case by case basis at the time payment does become due.

7.4 Contributions received 2013/14

Appendix 2 sets out details of contributions received between 1 April 2013 and 31 March 2014 amounting to £872,942

7.5 Agreements completed between 2003 and 2014

The number of recent new agreements signed and the expected total receipts, can be compared with previous years as shown in the following table:

Table 2: Completed Agreements by year

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
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
2008 – 2007	22	5	£475,697
2007 - 2006	40	16	£491,451
2006 - 2005	33	14	£855,333
2005 - 2004	29	12	£1,486,987
2004 - 2003	36	9	£267,982

The financial value of new S106 agreements can be seen to fluctuate annually. The trend between 2008/09 and 2012/13 was downwards which was attributable to the economic climate. The financial year 2013/14 shows a significant increase which is likely to be due to the economic situation improving and a significant increase in the number of applications for major housing schemes being submitted to the Council. There was also a peak in 2009/10 due to the Graylingwell development which resulted in a large income figure for that year.

The relationship between the numbers of agreements and expected contributions reflects the scale of the developments involved which have larger contributions as a result.

7.6 S106 Payments received by each spending department

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

7.7 S106 Monitoring Contributions

The Government's Circular 05/2005 (Para B50) advises Local Authorities to carefully monitor all legal agreements. Since 2008 the Council has charged a 5% monitoring fee for recording and monitoring of S.106 Agreements. During 2013 and 2014 the Council collected £34,028 in monitoring fees. A small number of current agreements pre-date this arrangement and do not include the monitoring fee, therefore money collected from them in this time period will be the original contribution only.

7.8 SDNPA

The protocol adopted by SDNPA and CDC applies to S106 Agreements signed on or after 1 April 2011. Currently there are seven Agreements that are being monitored by SDNPA and details of the contributions due can be found in Appendix

3. While these will be monitored by SDNPA, CDC expects to be informed when funding has been received in relation to the services provided.

8. S106 agreements nearing their expenditure target date

8.1. Financial obligations nearing their expenditure target date need additional monitoring and input from officers and managers of the departments concerned with spending S106 contributions.

8.2. Appendix 4 shows those contributions reaching their expenditure target date within the next two years by Ward along with those that have reached their spending deadline. This is in line with the recent recommendation from the Overview & Scrutiny Committee, as agreed by Cabinet on 8 September 2011 now incorporated into the Protocol. No contributions have been returned to Developers over the last financial year.

9. Update on Implementation of CIL

9.1. The consultation on the Community Infrastructure Levy Preliminary Draft Charging Schedule; draft regulation 123 list; and draft payment by instalments policy took place from 17 March until 23 April 2014. The consultation generated responses from 41 individual respondents and raised some fundamental challenges that were not expected.

9.2. Objections were received from the following individual supermarkets: (Morrisons, Aldi, Sainsbury's and Asda. In summary they challenged the draft retail charge on the basis that the viability assessment had not undertaken sufficient fine-grained sampling to justify the charge. An objection was received from the University of Chichester on the grounds that the viability assessment had taken a generic approach in setting the charge rather than taking into account the local circumstances in Chichester. Significant objections were made by the housebuilders/land owners (Martin Grant Homes, Church Commissioners, Eurequity Ltd, Commercial Estates Group and DC Heaver, Rydon Homes, Burhill Group Ltd, Hallam Land Management Ltd), particularly those promoting the strategic site allocations at Tangmere and West of Chichester. The latter strategic site promoters employed Savills who submitted a tome of evidence challenging the viability assessment undertaken by PBA. They believe that the infrastructure required on the strategic sites should continue to be delivered through S106 rather than through the CIL. In part, some of these challenges were based on the latest regulatory changes to the CIL, which were brought in at the end of February just before the consultation, and thus too late to have influenced the viability evidence.

9.3. As a result of the objections highlighted in paragraph 9.2 above, Peter Brett Associates have recently been commissioned to bring the viability report into line with the amendments to the CIL Regulations, and to consider the issues raised in relation to the viability challenges. This additional work was not anticipated, and may have implications for the CIL timetable. If the strategic sites are subject to a separate charging zone (either removing them from CIL completely, or having a lower CIL charge) this will require changes being made to the Regulation 123 list, which could have knock on effects for the Planning Obligations SPD. The length of delay to the timetable will depend on how many changes are required, and this will not be known until the consultants have concluded their additional work.

10. Community impact and corporate risks

10.1. Improved monitoring of S106 contributions will improve the leisure, amenity, health and well-being of local communities.

10.2. The risks that development will not deliver projects and schemes is reduced.

10.3. The risk of returning unused contributions is reduced.

11. Other Implications

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

12 Appendices

12.1 Appendix 1 – Details of new S106 Agreements signed between 1 April 2013 and 31 March 2014

12.2 Appendix 2 – Details of income received between 1 April 2013 and 31 March 2014

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

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

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

Agenda Item 13

Chichester District Council

CORPORATE GOVERNANCE AND AUDIT COMMITTEE 26 June 2014

Audit Reports & Progress Report

1. Contact

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

2. Recommendations

That the committee notes the audit reports and audit plan progress.

3. Main Report

3.1. Records Management & Data Quality in the Contact Centre

This audit focussed on the records management of the Customer Services Centre as they are the first port of call for customers contacting the council whether over the phone or face to face. Internal Audit was satisfied with records management in the Customer Services Centre and has made one low risk recommendation to strengthen the control in place.

3.2. Freedom of Information / Data Protection

Internal Audit carried out a review of the council's practices and procedures for dealing with Freedom of Information requests and Data Protection subject access requests.

The review found that the council was meeting its obligation under the respective legislation.

The council has recently made procedural changes to the way it deals with Freedom of Information requests. This has given more responsibility for the service's to deal with requests in their areas. However, the monitoring and administration is being carried out centrally by the Customer Services team. This team will be producing an annual report to the Corporate Governance & Audit Committee detailing annual activity across the council.

Internal Audit believe the new practices, once fully implemented will strengthen the governance arrangements.

No recommendations have been made, and no report has been prepared.

3.3. Fraud Prevention Report

A review has been undertaken on the arrangements in place for Fraud Prevention in the Council. The review found that the arrangements in place are working satisfactorily, and found the Council is adequately protected.

3.4. Three Year Plan

Following the meeting on the 20 March 2014 when members requested that changes were made to the Three Year Plan, the plan has been amended to include all services of the council and columns to reflect the risk element, the value and the complexity of the systems being audited.

4. Climate Change Implications

None

5. Human Rights and Equality Impact

None

6. Background Papers

The audits mentioned above - Records Management and Data Quality in the Contact Centre and Fraud Prevention – have been emailed to members of this committee.

7. Appendices

Appendix 1 – Progress Report, Audit Plan
Appendix 2 – Amended Three Year Plan 2014 – 2017