Chichester District Council

# NOTICE OF MEETING

East Pallant House Chichester West Sussex PO19 1TY

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| MEETING | **CORPORATE GOVERNANCE AND AUDIT COMMITTEE** |
| DATE / TIME | Thursday 27 November 2014 at 09.30am |
| VENUE | Committee Room 1 East Pallant House Chichester PO19 1TY |
| CONTACT | Bambi Jones – Principal Scrutiny Officer<br>Direct line: 01243 534685<br>Email: bjones@chichester.gov.uk |

Wednesday 19 November 2014

**JOHN WARD**
**Head of Finance & Governance Services**

# 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 5)
The Corporate Governance and Audit Committee is requested to approve the minutes of its ordinary meeting on Thursday 25 September 2014.

3. **Urgent items**
The chairman will announce any urgent items that due to special circumstances are to be dealt with under agenda item 14(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 26 November 2014 is available upon request to Member Services (the contact details for which appear on the front page of this agenda).

6. **Audit Commission Fraud briefing – Ernst & Young LLP**
The committee will receive a briefing from Mr S Mathers, Audit Manager for Chichester, Ernst & Young LLP.

7. **Audit Progress Report – Ernst & Young LLP** (pages 6 to 17)
The committee is requested to consider and note this report.

8. **Draft Treasury Management Strategy 2015/16** (pages 18 to 43)
That the Committee considers setting up a Task and Finish Group to consider the investment strategy for counterparty limits (Table 4), investment limits (Table 6) and principal sums invested for periods longer than 364 days (Table 9), and report back to the January Committee.

9. **Financial Strategy and Plan** (pages 44 to 59)
The committee is asked to consider the attached report and to make recommendations to Cabinet on the Council's five year financial strategy.

10. **S106 exceptions report** (pages 60 to 69)
The Committee is requested to note the contents of this report concerning section 106 agreements nearing their expenditure date and to raise any concerns.

11. **Business Continuity Management** (pages 70 to 71)
The Committee is requested to consider and note this report.

12. **Progress Report : Audit Plan** (pages 72 to 75)
To consider and note the audit reports and progress against the current year's Audit Plan.

13. **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

EXCLUSION OF THE PRESS AND PUBLIC

NONE

## NOTES

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

2. The press and public may view the agenda and appendices relating to reports under Part 1 of the agenda which are not included with their copy of the agenda on the Council’s website at http://www.chichester.gov.uk/committees.

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

4. Restrictions have been introduced on the distribution of paper copies of longer appendices to reports where those appendices are circulated separately from the agenda as follows:

   1) Members of the Corporate Governance & Audit Committee, the Cabinet and Senior Officers – receive paper copies including the appendices.
   2) Other Members of the Council – Appendices may be viewed via the Members’ Desktop and a paper copy will be available in the Members’ Room at East Pallant House.

## MEMBERS

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

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|---|---|
| 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 |

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Chichester District Council

Minutes of a meeting of the **Corporate Governance and Audit Committee** held in Committee Room 2, East Pallant House, 1 East Pallant, Chichester on Thursday 25 September 2014 at 09.30am.

## Members (10)

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

| | |
|---|---|
| Mr M Bell | Mr B Finch |
| Mr J Cherry | Mr G Hicks |
| | Mrs P Hardwick |

Present (7)

**Apologies for absence:**
Mrs C Apel
Mr T Dignum
Mr R Marshall

**Officers present for all agenda items**
Mrs B Jones, Principal Scrutiny Officer
Mr J Ward, Head of Finance & Governance Services

**Officers Present for Specific Items Only**
Mrs H Belenger, Accountancy Services Manager
Mr D Cooper, Group Accountant
Mrs J Dodsworth, Head of Business Improvement Services
Mr S James, Principal Auditor
Miss A Loaring, Partnerships Officer
Mrs T Murphy, Parking Services Manager
Mr P Over, Executive Director
Mr D Stewart, Legal Practice Manager

**Chichester District Council Members present as observers or contributors**
Mrs H Caird
Mr J Connor
Mrs C Purnell
Mr S Oakley
Mr N Thomas

**Invited Representatives Present for Agenda Items 6 and 7**
Mr Simon Mathers, Audit Manager, Ernst & Young LLP (EY)

195. **Chairman's announcements**
Apologies had been received from Mrs Apel, Mr Dignum and Mr Marshall.

196. **Minutes**

The minutes of the previous meeting were considered and agreed.

**RESOLVED**

That the minutes of the meeting held on 26 June 2014 be signed as a correct record.

197. **Urgent Items**

There were no urgent items for consideration at this meeting.

198. **Declarations of Interest**

There were no declarations of interest.

199. **Public Question Time**

No public questions had been submitted.

200 **Audit reports and progress report**

With the Chairman's agreement, this item was brought forward to allow officers to attend for two of the audit reports. Mrs Murphy confirmed that all recommendations in the Car Parks audit report had been dealt with.

**RESOLVED**

That the audit reports and progress against the audit plan be noted.

201 **Audit results report 2013/14 - Ernst & Young LLP (EY)**

Mr S Mathers from EY took the committee through the audit results report. He referred to the annual accounts and letter of representation which were to be presented at the next item on this agenda.

Two significant risks had been identified in the financial statement audit – the risk of management override and national non-domestic rates rateable value appeals provision. In respect of the first risk EY had received assurances and testing had not highlighted any significant issues. In respect of the second risk, a future methodology for calculating the estimate had been suggested.

Findings on the value for money (VfM) audit revealed that compared against statistical neighbours and all district councils, the authority had a high cost per capita. However income generated from fees brings the absolute level of net service spend down which then compares more favourably against comparative authorities.

The Council had a healthy level of reserves and medium term financial planning was robust. EY had issued an unqualified auditor's report in respect of the Council's financial statements and value for money conclusion.

The following questions were raised by the committee:

- How long do organisations have to appeal their business rates? *There is no cut-off date. Money can be made by large businesses if they claim and therefore there is a high degree of estimation and uncertainty.*
- Who picks the authorities in the statistical group? *It is a comparison used by CIPFA (Chartered Institute of Public Finance & Accountancy). In the past service managers have been challenged where there is high spend. Per capita is not a useful tool. In some instances services are working to historic high performance and quality standards. The Communities team is relatively high spend because they manage a very generous grants process. Housing is under review at present. Mr Mathers confirmed that this comparison was at high level only and that the council's work on research into and understanding why spend is high in certain areas is important.*

**RESOLVED**

That the Ernst & Young LLP Audit Results Report 2013/14 be noted.

202 **Audited Statement of Accounts 2013/14**

The committee considered the agenda report (copy attached to the official minutes). Mr Cooper drew the committee's attention to the two misstatements identified by EY during the audit and advised that these had been adjusted. The committee commended the accounting team for preparation of a clear set of accounts written in plain English.

**RESOLVED**

1) That the Statement of Accounts in Appendix 1 for the financial year ended 31 March 2014 be adopted.

2) That the Letter of Management Representation in Appendix 2 be agreed.

These documents were subsequently signed by the Chairman and the Head of Finance & Governance Services.

203 **Corporate Governance report to Full Council**

The committee considered the agenda report (copy attached to the official minutes). The following questions were raised by the committee:

- When would the business continuity plans be completed? *Critical plans were already complete; non critical plans would be finalised by the end of November. The committee was due to receive a report at its November meeting giving an update on this matter. The annual exercise would be tested before this meeting and reported back as part of the report.*
- What is the current state with emergency planning? *CMT agreed a trial with WSCC rather than replace the vacated post. There would be no cost to authority.*

- What is the current state with the Westgate CHP units? *The original tender was to replace three boilers. Three companies had expressed an interest but didn't tender. Following a review a revised tender for a single CHP unit had been prepared.*

Some changes were suggested to the Annual Governance Statement which Mr James undertook to revise. This document would be signed by the Leader and Chief Executive and attached to the Annual Accounts which would be displayed on the council's website prior to the deadline date 30 September 2014.

**RECOMMENDED TO COUNCIL**

That subject to amendments the Corporate Governance & Audit Committee report on the council's governance arrangements in Appendix 1 be approved by Full Council.

(Post meeting note: The revised Corporate Governance & Audit Committee report was subsequently signed by the Chairman)

204 **Annual Partnerships Report**

The committee considered the agenda report (copy attached to the official minutes). Miss Loaring reminded the committee in 2013 the committee had resolved that the Manhood Peninsula Partnership (MPP) and Healthier Chichester Partnership (HCP) be reviewed on completion of their annual action plans and any non-compliance issues be reported back to the committee.

A review of the HCP had been carried out following which this partnership was amalgamated with Chichester in Partnership (the Local Strategic Partnership) on 1 April 2014. A partnership health action plan had been developed as part of the LSP's projects. The MPP was currently reviewing its priorities and preparing an action plan.  Mr Finch made the observation that the aims of the MPP seemed to be out of sync with its achievements and this needed to be reviewed. The Better Together partnership had been dissolved.

The following questions were raised by the committee:

- How are the outcomes for the LSP monitored? *Outcomes are reviewed quarterly and a monitoring report is presented to each meeting of the LSP. Members requested that all outcomes are shown in full with high/low indicator.*
- Has more funding become available for the LSP? *As the partnership has grown new sources of funding have become available. A review of priorities is due to take place shortly.*

**RESOLVED**

1) That the annual report on partnerships be noted.

2) That the committee continue to receive an annual report on partnerships.

205 **Formal Complaints, Freedom of Information (FOI) Requests and Subject Access Requests Analysis 2013/14**

The committee considered the agenda report (copy attached to the official minutes). Mrs Dodsworth advised that this year, alongside the complaints information, the annual report also included information on FOIs and data protection requests.

Questions:

- Are there sanctions for not providing FOI information within 20 days? *The council does not get fined but an could be routed through the Information Commissioner. There is sometimes confusion about the difference between an FOI request and a subject access request.*
- Do we get repeat and/or vexatious requests? *Yes the council has received repeat requests. In one instance we wrote to the person stating that we would not be providing any further information who then took his claim to the ombudsman however this was not upheld.*
- As FOI requests have increased is this work factored in to the job descriptions of those who deal with them in each service? *FOIs are part of standard operating procedure and planned for, however they are not specifically mentioned in job specifications. In order to reduce repeat requests for the same information we have put some of these onto the council's website so that we can direct further requests to this information.*
- How is the cost of £450 calculated? *We can estimate the time spent to retrieve the information at £25 per hour.If it is £450 or over we would seek payment before going ahead.*
- Who would be asking for information on public health funerals and credit balances on non-domestic rates? *Once a person is deceased there is no protection under the data protection act. Agencies looking for business searching for heirs or identifying businesses to approach with refunds.*
- How does this information get monitored and reported? *A monthly report goes to SLT and Heads of Service identifying any trends.*

The committee commended Mrs Dodsworth on a very clear and useful report.

**RESOLVED**

1) That the report be noted.

2) That the committee continue to receive an annual report.

(Note: The meeting closed at 11.10am)

________________________________
(Chairman)

Date: ________________________________

Agenda item 7

# Chichester District Council

## Corporate Governance & Audit Committee Progress Report

27 November 2014

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INVESTOR IN PEOPLE

Corporate Governance & Audit Committee
Chichester District Council
East Pallant House
1 East Pallant
Chichester
West Sussex
PO19 1YT

27 November 2014

## Audit Progress Report

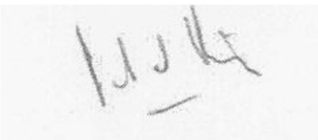
We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the 2013/14 and 2014/15 audits, and an indication of progress against our plans. This Progress Report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Audit Commission Standing Guidance, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you 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

# Contents

# 2013/14 audit

### Fee letter

We issued our 2013/14 fee letter to the 27 June 2013 meeting of the Corporate Governance & Audit Committee.

### Financial Statements

On 26 September 2014 we issued an unqualified audit opinion on the Council's financial statements. Detailed issues arising from our work were presented to the 25 September meeting of the Committee in our audit results report

### Value for money

On 26 September 2014 we issued an unqualified value for money conclusion. Detailed issues arising from our work were presented to the 25 September meeting of the Committee in our audit results report.

### Whole of government accounts

On 26 September 2014 we reported to the National Audit Office the results of our work performed in relation the accuracy of the Council's consolidation schedules. We found that the consolidation pack was consistent with the statutory financial statements.

### Annual Audit Letter

We are presenting our Annual Audit Letter to today's Committee meeting.

### Grant claim certification

As at 18 November we are auditing your housing benefit subsidy claim which has a certification deadline of the end of November. The approach we are required to take to the audit of the claim is prescribed by the Audit Commission by agreement with the Department of Work and Pensions (DWP) and set out in the 'collect once use numerous times' (HB COUNT) methodology issued to auditors. Under this approach no concept of materiality is applied and we must report any errors irrespective of size as part of a qualification letter unless we are satisfied that complete amendments can be made to the return.

Our work has detected a number of errors in the draft claim submitted for audit and a significant amount of additional testing has been required. Our initial testing of rent rebates for tenants of non-HRA properties identified errors in two out of 20 cases. Our initial testing of rent allowances identified errors in eight out of 20 cases. Officers have undertaken additional testing of 160 cases as a result of the errors identified and we have almost completed our re-performance of a sample of this work. We will use this work to estimate the financial impact of the errors detected on the draft claim and report our findings to the DWP in a qualification letter. Our testing has also identified a number of other issues that will need to be reported to the DWP as part of the qualification letter.

We plan to issue our annual report on the certification of claims and returns providing more details on the work undertaken and our detailed findings to the January 2015 meeting of the Committee. This will complete our work on the 2013/14 audit.

# 2014/15 audit

**Fee letter**

We have agreed our 2014/15 audit fee with the Chief Executive and Head of Finance and Governance Services. A copy of our fee letter was issued to the 26 June 2014 meeting of the Corporate Governance & Audit Committee.

**Financial Statements**

We adopt a risk based approach to the audit and as part of our ongoing continuous planning we regularly meet with key officers and other stakeholders:

- We will meet officers during December 2014 to evaluate the 2013/14 accounts production and audit process. We will continue to work with those officers to refine and improve arrangements for 2014/15 and arrive at a shared understanding of key deliverables early in the process.
- We are sharing our plans with Internal Audit on an ongoing basis to ensure that a properly integrated approach is taken to audit work at the Council.

Our work to identify the Council's material income and expenditure systems and to walk through these systems and controls is planned in December 2014. The detailed testing of the controls and critical path of each material system is planned for February and March 2015. We will maximise the reliance we place on the work of Internal Audit to support our work in this area.

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

**Value for money**

The Audit Commission has now issued its guidance on the 2014/15 value for money conclusion. The full guidance can be found at http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/08102014-VFM-guidance-2014-15.pdf

There are no planned changes to the approach in 2014/15. We will carry out our initial risk assessment in the new calendar year and report the risks we have identified and associated work we will carry out in our detailed audit plan.

# Timetable 2013/14

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2013/14 Corporate Governance & Audit Committee cycle. We will provide formal reports to the Committee throughout our audit process as outlined below.

| Audit phase | EY Timetable | Deliverable | Associated Corporate Governance & Audit Committee | Status |
|---|---|---|---|---|
| High level planning | **Ongoing** | Audit Fee Letter | June 2013 | Completed. Reported to the June 2013 meeting of the Corporate Governance & Audit Committee |
| Risk assessment and setting of scope of audit | **Feb – April 2014** | Audit Plan | June 2014 | Completed. Our assessment of the risks impacting on our financial statements and VFM conclusion audit is set out in our 2013/14 Audit Plan presented to the June 2014 meeting of the Corporate Governance & Audit Committee. |
| Testing of routine processes and controls | **Feb – April 2014** | Audit Plan | June 2014 | Completed. The results of our controls testing did not alter our risk assessment. |
| Year-end audit | **June - August 2014** | Audit results report to those charged with governance<br>Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources)<br>Whole of Government Accounts Submission to NAO based on their group audit instructions<br>Audit Completion certificate | September 2014 | Completed. The results of work were reported to the September 2014 meeting of the Corporate Governance & Audit Committee in our 2013/14 audit results report. |

| Audit phase | EY Timetable | Deliverable | Associated Corporate Governance & Audit Committee | Status |
|---|---|---|---|---|
| Annual Reporting | **October 2014** | Annual Audit Letter | November 2014 | Completed. The annual audit letter is presented to this November 2014 meeting of the Corporate Governance & Audit Committee. |
| Grant Claims | **September – November 2014** | Annual certification report | January 2015 | |

# Timetable 2014/15

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2014/15 Corporate Governance & Audit Committee cycle. We will provide formal reports to the Committee throughout our audit process as outlined below.

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| Year-end audit | **June - August 2015** | Audit results report to those charged with governance<br>Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources)<br>Whole of Government Accounts Submission to NAO based on their group audit instructions<br>Audit Completion certificate | September 2015 | . |

| Audit phase | EY Timetable | Deliverable | Associated Corporate Governance & Audit Committee | Status |
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| Annual Reporting | **October 2015** | Annual Audit Letter | November 2015 | |
| Grant Claims | **September – November 2015** | Annual certification report | January 2016 | |

**EY** | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP



Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

**Agenda Item 8**

# Chichester District Council

## CORPORATE GOVERNANCE & AUDIT COMMITTEE 27 November 2014

## Draft Treasury Management Strategy 2015-16

### 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 agrees to set up a Task and Finish Group to consider the investment strategy for counterparty limits (Table 4), investment limits (Table 6) and principal sums invested for periods longer than 364 days (Table 9), and report back to the January Committee.**

### 3. Background

3.1. Local authorities' treasury management activities are prescribed by statute i.e. the Local Government Act 2003, and the regulations issued under that Act. This is where the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice derives its legal status.

3.2. In March 2012 the Council adopted CIPFA's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code), which requires the Council to approve a treasury management strategy before the start of each financial year.

3.3. In addition, the Department for Communities and Local Government (DCLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

3.4. This report will fulfil the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG guidance, when considered by Full Council in March 2015.

3.5. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

### 4. Outcomes to be achieved

4.1. The Committee is asked to set up a Task and Finish Group to ensure our proposed Treasury Management Strategy is updated for 2015-16 taking into account the recommendations of our treasury advisors, and that it remains fit for purpose. In particular to consider the counterparty limits (Table 4), the investment limits (Table 6) and the principal sums invested for period longer than 364 days (Table 9). Once agreed the non-specified investment limits (Table 5) will need to be updated. The outcome of the Task and Finish will then need to be reported to the January Committee, and then onto Cabinet as part of the budget setting.

## 5. Proposal

5.1. The draft Treasury Management Strategy is attached to this report and has been amended and updated for the forthcoming financial year with the suggested changes from the Council's treasury adviser. These changes have been tracked to aid members. Appendix 1 sets out the Council's treasury management policy, treasury management strategy and investment strategy.

5.2. Due to the risks associated with investments that would be part of any bail-in arrangements which are expected to come into effect from July 2015, the adviser is suggesting some quite fundamental changes from the current investment strategy. The main indicator of this change can be seen in Table 4 (Appendix 1) which should set out the cash limits for each investment counterparty.

5.3. As this is a fundamental change from the current strategy, which was subject to a detailed examination by a Task and Finish Group, it is recommended that a new Task and Finish Group is set up to consider the impact of the suggested changes before the 2015-16 is considered by the Committee in January 2015, before going onto to be approved by Cabinet in February 2015.

5.4. The suggested changes also have a knock on effect on setting the limits for non-specified investments (Table 5 Appendix 1) and the investment limits (Table 6 appendix 1) and schedule A, which will also need to be updated after the Task and Finish Group review.

5.5. In managing the risks associated with the treasury management function the Council also needs to consider when setting investment limits the available uncommitted resources to cover any potential investment losses. In the previous strategy an investment limit of £5m per counterparty was set, however, the true available resources to cover any losses is now considered to be only £9.3m. This is comprised of the £5m minimum level of reserves, the £1.3m held to give revenue budget support (if necessary) and the current uncommitted resources of £3.3.m as indicated by the Financial Strategy being reported to Cabinet in December. The maximum level of investment per counterparty should also be reviewed by the Task and Finish Group as part of its assessment of the risk setting in the strategy.

5.6. The Treasury Management Practices Notes will also need to be updated to reflect the outcome of the Task and Finish Group review.

5.7. The rest of the changes in the strategy are updating the economic outlook, the investment interest rate forecasts and the detailed description of the different investment counterparties and the type of investments to reflect the new format for Table 4.

5.8. <u>Estimated Interest rates</u>

The financial strategy reflects the estimated rate of return for the current and future years:

Assumptions for 2015-16 Strategy

| Assumed Interest Rates | 2014/15 Revised | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|---|
| Investment Rates | 1.20% | 0.80% | 0.75% | 1.00% | 1.15% | 1.20% |

The view of the treasury advisor is that bank base rate will remain at 0.50% until September 2015. An average rate of return of 1.00% was built into the 2014-15 Treasury Management Strategy. However during the current year the investment balances have been a lot higher than the original estimated average investment balance and so a revised rate of return of 1.20% is assumed for resource planning only.

The advisor anticipates that the Bank Base Rate will be a gradual rise from September 2015, but the extent of rises limited, such that by March 2018 the rate will only be 1.75%.

5.9. The Treasury Management and Investment Strategies will be considered by Cabinet in February and Full Council in March.

## 6. Alternatives that have been considered

6.1. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Strategy is considered by the Corporate Governance and Audit Committee to comment on whether the strategy represents an appropriate balance between risk management and cost effectiveness.

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 | Lower chance of losses from credit related defaults, but any such losses will be greater. |
| 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, but any such losses will be smaller |

## 7. Resource and legal implications

7.1. The estimated rate of return for the forthcoming financial year and future financial years has been taken into account in the 5 year model under pinning the Council’s Financial Strategy and resources statement.

## 8. Consultation

**8.1.** In adhering to the CIPFA Code, the forthcoming financial year’s Treasury Management Strategy, Investment Strategy and TMP’s are required to be considered by those members charged with governance, before being considered by Cabinet and then Full Council for approval.

## 9. Community impact and corporate risks

9.1. 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.

9.2. Risk management is covered within the Treasury Management Strategy and specifically within TMP 1, an extract of which is shown in appendix 3.

## 10. 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. | ✓ | |

## 11. Appendices

11.1. Appendix 1- Treasury Management Policy Statement, Treasury Management Strategy Statement, and Annual Investment Strategy for 2015-16 and schedule A.

11.2. Appendix 2 – Treasury Management Practices (TMP's) Extract of TMP 1 Risk Management.

## 12. Background Papers

12.1. Financial Strategy Resources position 2015-16 updated.

# Treasury Management Policy Statement, Treasury Management Strategy Statement and Annual Investment Strategy for 2015-16

## 1. Treasury Management Policy Statement

Chichester District Council defines its treasury management activities as:

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

- The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

- The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

- The investment policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and the DCLG guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The generation of investment income to support the council's spending plans is an important, but secondary objective.

- The Council's borrowing objective, being debt free and with relatively substantial resources still available for its capital investment spending plans, means that it does not intend to borrow any monies, except for short term cash flow purposes for revenue and capital commitments.

## 2. Treasury Management Strategy Statement

The Treasury Management Strategy details the expected activities of the treasury function in the forthcoming year 2015-16. The publication of the strategy is a statutory requirement.

3. The Treasury Management Strategy Statement and Annual Investment Strategy are underpinned by the CIPFA Code of Practice and Treasury Management Practices (TMPs) which provide prescriptive information as to how the treasury management function should be carried out.

### 4. Risk Appetite Statement

As a debt free authority with substantial balances to invest the Council's highest priority in its treasury management function is the security of those investments in accordance with the priorities set out in the CIPFA Code. The investment interest earned is used to fund one-off expenditure or capital investment and not to balance the revenue budget. Sums are invested with a diversified range of counter parties using a wide range of instruments consistent with avoiding the risk of the capital sum being diminished through movements in prices.

This means that the Council whilst fundamentally risk adverse, will accept some modest degree of risk and will consider the range of risks as set out specifically in the Treasury Management Practices (TMP 1), and how to prudently manage those different risks, whilst ensuring that priority is given to security and liquidity when investing funds before seeking to optimise yield. The use of different investment instruments and the diversification of high credit quality counter parties including consideration of country, sector and group limits, as set out in the Strategy, enables the Council to balance the consideration of the different risks. One risk not set out in TMP1 which also needs to be considered when placing longer term investments is the political risk, such as in relation to a possible change of Government, the Scottish independence vote and any EU referendum, and their effect on the treasury management function.

In particular when investing surplus cash, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities, but may invest in other bodies including unrated building societies and money market funds. The Council may also invest surplus funds through tradable instruments such as gilts, treasury bills, certificates of deposit and corporate bonds. The duration of such investments will be limited so that they do not have to be sold (although they may be) prior to maturity, thus avoiding the risk of the capital sum being diminished through movements in prices.

## External Context

5. **Economic background**

There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant and nominal earnings growth remains weak and below inflation.

The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two MPC members having voted for a 0.25% increase in rates at each of the meetings August 2014 onwards, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August Inflation Report.

~~Growth in the past year in the UK has been robust such that output is now above its pre-crisis peak. This has meant that the Monetary Policy Committee (MPC) of the Bank of England have revised its expectation of growth to 3½% this year, after which it will ease back.~~

~~Inflation is forecast to remain at, or slightly below 2% and unemployment has fallen sharply and is now expected to drop below 6% by the end of the year, and to around 5.5% by the end of the forecast period, which is lower than expectations in May. However, pay growth has been remarkably weak. The latter has enabled firms to expand their margins despite the sharp increase in employment. Partly in response, the MPC has revised down its medium term equilibrium unemployment rate (the rate at which there is neither upward or downward pressure on wage growth) to 5.5%. Spare capacity has narrowed since May and is now estimated to be in the region of 1% of GDP. The MPC will be placing particular importance on the prospective paths for wages and unit labour costs, although the Committee does not have a particular threshold for wage growth.~~

~~The MPC's general guidance on the Bank Rate remains unchanged. Governor Mark Carney reiterated that increases in the Bank Rate, when they come are likely to gradual and limited. He also stated, "Even if spare capacity were to be eliminated at a stroke overnight, the appropriate level of Bank Rate would not be far from where it is today."~~

6. **Credit outlook**

The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.

The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Authority.

~~The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK, US and Europe to move away from the bank bail-outs of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. This is already manifest in relation to holders of subordinated debt issued by the Co-op which have suffered a "haircut", or a reduction in value of the debts following its conversion bail-in to alternative securities and/or equity. There are also proposals for EU regulatory reforms to Money Market Funds which will, in all probability, result in these funds moving to a VNAV (variable net asset value) basis and losing their 'triple-A' credit rating wrapper. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important in the light of these developments.~~

7. **Prospects for Interest Rates**

The Authority's treasury management advisor Arlingclose forecasts the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 3.40%.

A more detailed economic and interest rate forecast provided by the Arlingclose is attached at Appendix A.

~~As part of the service to the Council its appointed treasury adviser assist the Council to formulate a view on interest rates. The advisers forecast that the Bank Rate will remain flat until quarter 3 in 2015 and that the pace of interest rate rises will be gradual with the extent of rises limited The Bank of England Base Rate, the official base rate paid on commercial bank reserves has been 0.50% since March 2009.~~

8. The table below shows the August~~May~~ 2014 HM Treasury Survey Medium Term forecasts for the average annual Official Bank Rate.

Table 1: HM Treasury Survey Medium Term Forecasts for Average Annual Official Bank Rate

| | | Average Annual Official Bank Rate % | | | |
|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** |
| **Highest** | 0.60 | 1.70 | 2.50 | 3.00 ~~2.80~~ | 3.80 ~~3.50~~ |
| **Average** | 0.50 | 1.00 ~~0.90~~ | 1.70 ~~1.60~~ | 2.20 | 2.70 |
| **Lowest** | 0.50 | 0.80 ~~0.60~~ | 1.10 ~~1.20~~ | 1.40 ~~1.50~~ | 1.70 |

Source: HM Treasury Forecasts for the UK economy: August~~May~~ 2014

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.80% ~~1.00%~~ for 2015-16.

## 9. Current Portfolio Position

The Council's treasury portfolio position as at 14th November 2014 comprised:

Table 2: Current Investment Portfolio Position.

| Investments | Actual Portfolio £m | Annualised Average Rate % |
|---|---|---|
| Call Accounts | 4.85 | 0.48 |
| Short Term investments | 28.00 | 0.55 |
| Medium Term Investments | 11.00 | 1.54 |
| Long Term Investments | 1.00 | 3.00 |
| **Total Investments** | **44.85** | **0.84** |

Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Definitions of investment periods are:

(i) Short Term – up to one year (excluding call accounts with immediate access to funds)
(ii) Medium Term – One to four years
(iii) Long Term – Over four years

Table 3: Balance Sheet Summary and Forecast

| | 31.3.14 Actual £m | 31.3.15 Estimate £m | 31.3.16 Estimate £m | 31.3.17 Estimate £m | 31.3.18 Estimate £m | 31.3.19 Estimate £m |
|---|---|---|---|---|---|---|
| General Fund CFR | -1.440 | -1.440 | -1.440 | -1.440 | -1.440 | -1.440 |
| Internal borrowing | 0 | 0 | 0 | 0 | 0 | 0 |
| **Borrowing CFR** | **-1.440** | **-1.440** | **-1.440** | **-1.440** | **-1.440** | **-1.440** |
| **Fund Balances** | | | | | | |
| Usable reserves | -32.792 | -28.295 | -24.715 | -23.625 | -21.567 | -20.468 |
| Working capital | -2.718 | 0.049 | 0.455 | 0.471 | 0.381 | 0.322 |
| **Investments** | **36.950** | **29.686** | **25.700** | **24.594** | **22.626** | **21.586** |

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

The Council is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall to £21.586m as capital receipts and other revenue resources are used to finance capital expenditure, and reserves are used to finance the revenue budget.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 3 shows that the Authority expects to comply with this recommendation during 2015-16 as it maintains its debt free status.

**10. Borrowing Strategy**

As part of the Council's Financial Strategy the Resources and Capital Principles are stated as:

"**Borrowing could be used for "invest to save" projects providing the cost of servicing the debt is contained within the revenue savings/income the project generates. The payback period for invest to save projects should be shorter than the life of the asset.**

(a) At present, there are no plans to borrow to finance new capital expenditure in the current 5 year plan but this remains an option if deemed to be prudent. Short term internal borrowing (for schemes that pay back within the 5 year time frame of the capital programme) can be accommodated without incurring external interest charges, provided the resulting savings are recycled into reserves. Longer term pay back periods will have to accommodate both the external interest and a minimum revenue provision (MRP) in accordance with the Council's MRP policy, which links repayment of the debt to the life of the asset.

(b) Borrowing would add pressure on the revenue budget as MRP and interest would become payable. The capacity to make these payments would need to be identified in advance, namely the further efficiency savings generated by the investment in the assets."

**11. Investment Strategy**

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £34.8 and £55.5 million, but this is expected to reduce to lower levels in the forthcoming year due to the anticipated capital programme spending.

12. **Objectives**: Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

13. **Strategy**: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2015-16. This is especially the case for the estimated £15m that is available for longer-term investments. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits, and other local authorities. This diversification will therefore represent a substantial change in strategy over the coming year.

~~13.~~14. The Council may invest its surplus funds with any of the counterparties in table 4 below, subject to the cash limits (per counterparty) and time limits shown.

| Credit Rating | Banks Unsecured | Banks Secured | Government | Corporates | Registered Providers |
|---|---|---|---|---|---|
| UK Govt | n/a | n/a | £ Unlimited 50 years | n/a | n/a |
| AAA | £[e.g. 5%]m 5 years | £[e.g. 10%]m 20 years | £[e.g. 10%]m 50 years | £[e.g. 5%]m 20 years | £[e.g. 5%]m 20 years |
| AA+ | £[e.g. 5%]m 5 years | £[e.g. 10%]m 10 years | £[e.g. 10%]m 25 years | £[e.g. 5%]m 10 years | £[e.g. 5%]m 10 years |
| AA | £[e.g. 5%]m 4 years | £[e.g. 10%]m 5 years | £[e.g. 10%]m 15 years | £[e.g. 5%]m 5 years | £[e.g. 5%]m 10 years |
| AA- | £[e.g. 5%]m 3 years | £[e.g. 10%]m 4 years | £[e.g. 10%]m 10 years | £[e.g. 5%]m 4 years | £[e.g. 5%]m 10 years |
| A+ | £[e.g. 5%]m 2 years | £[e.g. 10%]m 3 years | £[e.g. 5%]m 5 years | £[e.g. 5%]m 3 years | £[e.g. 5%]m 5 years |
| A | £[e.g. 5%]m 13 months | £[e.g. 10%]m 2 years | £[e.g. 5%]m 5 years | £[e.g. 5%]m 2 years | £[e.g. 5%]m 5 years |
| A- | £[e.g. 5%]m 6 months | £[e.g. 10%]m 13 months | £[e.g. 5%]m 5 years | £[e.g. 5%]m 13 months | £[e.g. 5%]m 5 years |
| BBB+ | £[e.g. 2.5%]m 100 days | £[e.g. 5%]m 6 months | £[e.g. 2.5%]m 2 years | £[e.g. 2.5%]m 6 months | £[e.g. 2.5%]m 2 years |
| BBB or BBB- | £[e.g. 2.5%]m next day only | £[e.g. 5%]m 100 days | n/a | n/a | n/a |
| None | £[1]m 6 months | n/a | £[e.g. 5%]m 25 years | £[50],000 5 years | £[e.g. 5%]m 5 years |
| Pooled funds | £[e.g. 10%]m per fund | | | | |

This table must be read in conjunction with the notes below

**Table 4: Approved Investment Counterparties (Current)**

| Counterparty | | Cash limit | Time limit |
|---|---|---|---|
| Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is: | AAA | £5m each, of which no more than £3m over 1 year | 5 years |
| | AA+ | | 5 years |
| | AA | | 4 years |
| | AA- | | 3 years |
| | A+ | | 2 years |
| | A | £2m each | 1 year |
| | A- | | 6 months |
| UK Central Government (irrespective of credit rating) | | unlimited | 5 years |
| UK Local Authorities (irrespective of credit rating) | | £5m each | 5 years |
| UK Building Societies whose lowest published long-term credit rating is BBB or above, and societies without credit ratings with gross assets greater than £250m | | £2m each<br>£1m each (Unrated) | 6 months (Rated)<br>3 months (Unrated) |
| Money market funds | AAA | £4m each | 1 year |

15. Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

~~14. There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. This reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the *Banking Reform Act 2014* and the EU *Bank Recovery and Resolution Directive* are implemented.~~

~~15.~~16. **Current Account Bank**: Following a competitive tender exercise held in 2008, the Council's current accounts are held with HSBC plc which is currently rated above the minimum A- rating in table 4.

17. **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

18. **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the banks' assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will beused to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

19. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to the bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts up to 50 years.

20. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks. These investments are subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

21. **Pooled Funds:** Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares. These funds have the advantage of providing wide diversification of investment risk, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts.

~~16. **Building Societies**: UK building societies without credit ratings will be considered to be of "high credit quality", but subject to a shorter time limit than rated societies. The Council is aware of the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors, although the Government has plans to change this. The Council will therefore consider investing with unrated building societies where independent credit analysis shows them to be suitably creditworthy and with gross assets greater than £250m. As the Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, the investments in lower rated and unrated building societies will therefore be kept under continuous review.~~

~~17. **Money Market Funds**: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of~~

~~investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts. The AAA credit rating will apply for 2014-15 only, in the expectation that the EU Regulatory reforms referred to in paragraph 6, will result in these funds losing their 'triple A' credit rating wrapper.~~

~~18.~~22. **Risk Assessment and Credit Ratings**: The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Council's treasury advisor, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

If in the case of a decision to recall or sell an investment at a cost is over the approved virement limits, the Council's urgent action procedure in its Constitution would be invoked by officers.

~~19.~~23. Where a credit rating agency announces that a A- rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn in a timely manner will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

~~20.~~24. **Other Information on the Security of Investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

~~21.~~25. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

~~22.~~26. **Specified Investments**: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,

- a UK local authority, parish council or community council, or
- a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AAA. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

~~23.~~27. **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to medium and long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 5 below.

**Table 5: Non-Specified Investment Limits**

| | **Cash limit** |
|---|---|
| Total medium and long-term investments | £15m |
| Total investments without credit ratings or rated below A- | £10m |
| Total Limit on non-specified investments | £25m |

~~24.~~28. Use of Specified and Non-Specified Investments

The selection of specified and non-specified investments is limited to those set out in Schedule A. The Head of Finance and Governance will keep the making of such investments under continuous review in the light of risk, liquidity and return. No additions will be made without the approval of the Council, following appropriate consultation.

~~25.~~29. **Investment Limits**: The Authority's uncommitted revenue reserves available to cover investment losses are forecast to be £9.6 million on 31st March 2015. In order that no more than 20% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £ 2 m ~~£5 million~~. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts, foreign countries and industry sectors as below:

**Table 6: Investment Limits**

| | **Cash limit** |
|---|---|
| Any single organisation, except the UK Central Government | £5m each |
| UK Central Government | unlimited |
| Any group of organisations under the same ownership | £5m per group |
| Negotiable instruments held in a broker's nominee account | £5m per broker |
| Foreign countries | £5m per country |
| Unsecured investments with Building Societies | £8 m in total |
| Money Market Funds | £8 m in total |

~~26. **Approved Instruments:** The Council may lend or invest money using any of the following instruments:~~

- ~~interest-bearing bank accounts,~~
- ~~fixed term deposits and loans,~~
- ~~callable deposits and loans where the Council may demand repayment at any time (with or without notice),~~
- ~~callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £3 million in total,~~
- ~~certificates of deposit,~~
- ~~bonds, notes, bills, commercial paper and other marketable instruments, and~~
- ~~shares in money market funds .~~

~~Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.~~

~~27.~~30. **Liquidity management**: The Council uses spread sheets for cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on medium and long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

## ~~28.~~31. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

**a. Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

**Table 7: Portfolio Average Credit Rating**

| | Target |
|---|---|
| Portfolio average credit rating | A+ |

**b. Liquidity:** The method for cash flow forecasting is set out in paragraph 30.

The Council seeks to maintain its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments and minimising the use of its overdraft facility of £350,000.

The liquidity measure is to have a minimum of £3m available within 3 months.

**c. Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal of investments will be:

**Table 8**: **Upper Limits on Interest Rate Exposures**

| | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|
| Upper limit on fixed interest rate exposure of net investment principal | £24 ~~22~~m | £22 ~~20~~m | £20 ~~18~~m |
| Upper limit on variable interest rate exposure of net investment principal | £60 ~~5~~5m | £55 ~~50~~m | £50 ~~45~~m |

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Performance measure of a time weighted average v interest rate risk exposure, such that the investment portfolio should be in the range of below 5 ~~4 to 4.5~~ credit risk score.

**d. Maturity Profile of Borrowing**

As the Council is debt free it currently holds no fixed long term borrowing for which a maturity profile exists.

**e. Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

**Table 9: Principal Sums Invested for Periods Longer than 364 days**

| | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|
| Limit on principal invested beyond year end | £15 m | £9m | £6m |

Table 9 sets out the upper limit for each forward financial year period for the maturing of investments for periods longer than 364 days up to their final maturities beyond the end of the financial period. The limit for 2015-16 equals the total medium and long term investment limit stated in table 5. The next two financial year limits are smaller, effectively limiting the investments that can be made for longer than 2 years and 3 years. In essence this reflects a maturity pattern of the medium and long term debt, in that £6m should mature in 2016-17, and another £3m in 2017-18. The remaining balance would mature beyond 2017-18.

**~~29.~~32. Other Items**

There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

**~~30.~~33. Policy on Use of Financial Derivatives:**

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

~~31.~~34. **Investment Training:**

Member and officer training is an essential requirement in terms of understanding roles, responsibilities and keeping up to date with changes and in order to comply with the CIPFA Treasury Management Code of Practice.

The training needs of the officers involved on treasury management are identified through the annual performance and development appraisal process, and additionally when the responsibilities of individual members of staff change. Staff attend relevant training courses, seminars and conferences.

To address the training need of members, training will be provided to members of both Cabinet and the Corporate Governance and Audit Committee in advance of them considering the forthcoming year's strategies. The training was provided by the Council's treasury adviser in October 2014.

~~32.~~35. **Treasury Management Advisers:** The Council currently contracts with Arlingclose Limited as its treasury management advisers and receives specific advice on investment, debt and capital finance issues. However, responsibility for final decision making remains with the Council and its officers.

The quality of this service is controlled and monitored against the contract by the Accountancy Services Manager, which is in place until the 30th June 2018.

~~33.~~36. ~~The current contract ended on the 30th June 2014 after a two month extension. Following a procurement exercise, in accordance with the Council's Contract Standing Orders, a new contract was set up for 4 years until the 30th June 2018.~~

~~34.~~37. **Investment of Money Borrowed in Advance of Need**: As the Council does not anticipate the need to borrow in the foreseeable future, except in the short-term for cash flow purposes only, it is therefore not expecting to borrow in advance of need, and so does not need to set out any operational criteria for this situation in 2015-16 Strategy.

**~~35.~~38. Financial Implications**

The budget for investment income in 2015-16 is £0.269million, based on an average investment portfolio of £33.69 million at an interest rate of 0.80%. If actual levels of investments and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

## Investment Specified (up to 364 days) (Short Term) Schedule A

Specified investments as those denominated in sterling, with a maturity of no more than a year and invested with one of (i) the UK Government, (ii) a UK local authority, parish council or community council or (iii) a body or investment scheme of "high credit quality."

| Investment Type | Why use it?<br>Associated risks? | Repayable/redeemable within 12 months & Maximum Investment Period | Security / minimum credit rating | Maximum value |
|---|---|---|---|---|
| **Deposits and Term deposit structures** with credit rated deposit takers (banks and building societies) including structure deposits, with maturities up to 364 days | High quality credit rated counterparties. Includes use of call and notice accounts. Enables diversity, managing counter party risk and minimise impact if default occurs. Probability of default low. | Yes<br><br>364 day | Yes, apply strategy criteria as set out in Table 4. Including minimum country (Sovereign) rating of AAA if not a UK institution. | £5m per organisation / group |
| **Certificates of Deposits** issued by credit rated deposit takers (banks and building societies).<br><br>*Custodial arrangement required prior to purchase for Certificates of Deposits* | This is money market instrument which will be redeemed on the maturity date with interest. The difference between a certificate of deposit and a term deposit is that a certificate of deposit can be sold on in the money markets to other investors. Although in theory tradable, they are relatively illiquid. | Yes<br><br>364 days | Yes, apply strategy criteria as set out in Table 4. Including minimum country (Sovereign) rating of AAA if not a UK institution. | £5m per organisation / group |
| **Debt Management Agency Deposit Facility** (DMADF or DMO) | Used as deposit of last resort due to low rates.<br>Low risk | Yes<br><br>364 days | UK Government backed considered to be high security, irrespective of Sovereign credit rating. | Unlimited |
| **Term deposits** with UK local authorities (as defined by Section 23 of the 2003 Act and similar authorities in Scotland) | Enables diversity across a sector and number of counter parties available. | Yes<br><br>364 days | Considered to be linked to UK Government credit rating, if no individual credit rating applies. | £5m per authority |
| **Money Market Funds**<br>These are pooled investment vehicles consisting of instruments similar to those that can be used by the Council, these funds do not have any maturity date. | To assist with liquidity and for cash flow management. | Yes | Yes / AAA | £4m per fund |

| Investment Type | Why use it?<br>Associated risks? | Repayable/redeemable within 12 months & Maximum Investment Period | Security / minimum credit rating | Maximum value |
|---|---|---|---|---|
| **Forward Deals** with credit rated banks, building societies and other local authorities < 364 days i.e. forward deal period plus period of deposit must not exceed 364 days. | To assist with cash flow management and liquidity. | Yes | Apply strategy criteria as set out in Table 4. Including minimum country (Sovereign) rating of AAA if not a UK institution. | £5m |

## Non- specified Investments (Over 364 days) (Medium / Long Term) — Schedule A

Non-specified investments are long-term investments i.e. those that are due to mature 12 months or longer from the date of arrangement, unrated funds and unrated organisations.
All investments listed below must be sterling-denominated; the overall limit that can be held in non-specified investments is £15m.

| Investment Type | Why use it?<br>Associated risks? | Repayable / redeemable within 12 months | Security / minimum credit rating | Maximum value | Maximum Period |
|---|---|---|---|---|---|
| **Term deposits** with UK Central Government | Diversity of counter parties used and to achieve certainty over income from investments for a proportion of the portfolio. | Will depend on terms of the investment up to 5 years | UK government security | Unlimited | > 1 year, up to 5 years |
| **Term deposits** with UK local authorities (as defined by Section 23 of the 2003 Act and similar authorities in Scotland) | Enables diversity across a sector and used to achieve certainty over income from investments for a proportion of the portfolio.<br>New lending to Scottish local authorities limited to dates prior to the independence referendum decision. | Will depend on terms of investment up to 5 years | Considered to be linked to UK Government credit rating, if no individual credit rating applies | £5m per Council | > 1 year, up to 5 years |
| **Term deposits structures** with credit-rated deposit takers (banks and building societies), including deposits with maturities up to 5 years | To achieve certainty over income from investments for a proportion of the portfolio.<br>Credit rating risk mitigated by using rating agencies information, interest rate risk will need to be considered to manage exposure to fluctuations in interest rates and liquidity risk to ensure the Council has sufficient cash available. | Will depend on terms of investment up to 5 years | Yes<br><br>Apply strategy criteria as set out in Table 4. Including minimum country (Sovereign) rating of AAA if not a UK institution. | £3m per institution over a year | > 1 year, up to 5 years |

| Investment Type | Why use it?<br>Associated risks? | Repayable / redeemable within 12 months | Security / minimum credit rating | Maximum value | Maximum Period |
|---|---|---|---|---|---|
| **Certificates of Deposits** with credit rated deposit takers (banks and building societies).<br><br>*Custodial arrangement required prior to purchase for Certificates of Deposits* | This is money market instrument which will be redeemed on the maturity date with interest. The difference between a certificate of deposit and a term deposit is that a certificate of deposit can be sold on in the money markets to other investors. Although in theory tradable, they are relatively illiquid.<br>Yield subject to movement during the life of a certificate of the deposit which could negatively impact on its market price. | Will depend on the terms of the certificate up to 5 years | Yes<br><br>Apply strategy criteria as set out in Table 4. Including minimum country (Sovereign) rating of AAA if not a UK institution. | | Up to 5 years |
| **Forward Deals** for Term Deposit structures with credit rated deposit takers (banks and building societies) and UK local authorities, including structured deposits with maturities up to 5 years | To achieve certainty over income from investments for a proportion of the portfolio.<br>Credit rating risk mitigated by using rating agencies information, interest rate risk will need to be considered to manage exposure to fluctuations in interest rates and liquidity risk to ensure the Council has sufficient cash available. | Will depend on terms of investment up to 5 years | Yes<br><br>Apply strategy criteria as set out in Table 4. Including minimum country (Sovereign) rating of AAA if not a UK institution. | £3m per bank and building societies | The forward deal period plus the deal period should be > 1 year, but not exceed 5 years in aggregate |
| **UK Building Societies** with long term credit ratings of BBB and above | Increase diversity of counterparties.<br>Shorter maximum period to take account of lower rating | Yes | Yes<br><br>BBB and above subject to the information / advice from the Treasury Advisors. | £2m per institution | 184 days or 6 months |
| **UK Building Societies** without credit ratings, but with gross assets greater than £250m | Increase diversity of approved counterparties.<br>Lower rated counterparties so probability for default higher than high quality rated counterparties, so shorter maximum period. | Yes | Yes,<br><br>Unrated with gross assets greater than £250m and subject to the information / advice from the Treasury Advisors. | £1m per institution – *Change to £1m* | 92 days or 3 months |

| Investment Type | Why use it?<br>Associated risks? | Repayable / redeemable within 12 months | Security / minimum credit rating | Maximum value | Maximum Period |
|---|---|---|---|---|---|
| **Gilts**<br>*Custodial arrangement required prior to purchase* | Provide a high level of security in addition to yield, tradable and can be liquidated when it is advantageous to do so. | Will depend on terms of investment up to 10 years | Yes<br><br>UK government security | £15m | up to 10 years |
| **Covered Bonds**<br>Debt instrument issued by financial institution backed by pool of financial assets<br><br>*Custodial arrangement required prior to purchase* | High level of security as exempt from bail in arrangements.<br>Interest rate risk will need to be considered to manage exposure to fluctuations in interest rates and liquidity risk to ensure the Council has sufficient cash available. | Will depend on terms of investment up to 10 years | Yes<br>Instrument highly rated AAA to AA | £3m per institution | up to 10 years |
| **Corporate Bonds**<br>Unsecured tradable loans<br><br><br>*Custodial arrangement required prior to purchase* | Increase diversity of approved counterparties and sectors used. Exempt from bail-in arrangements.<br><br>Rate of return reflects a higher risk than Government or Covered Bonds.<br>Interest rate risk will need to be considered to manage exposure to fluctuations in interest rates and liquidity risk to ensure the Council has sufficient cash available. | Will depend on terms of investment up to 5 years | Yes<br>Minimum credit rating A | £3m per institution | up to 5 years |

# TREASURY MANAGEMENT PRACTICE NOTES

## TMP 1 – RISK MANAGEMENT

### General Statement

The Section 151 Officer will oversee the design, implementation and monitoring of all arrangements for the identification, management and control of treasury management risk. The Section 151 Officer will ensure that reports are presented at least annually, on the adequacy/suitability thereof and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the Council's objectives.

In respect of each of the following risks, the arrangements that seek to ensure compliance with these objectives are set out in this document and take into account the risk appetite statement in the Council's Treasury Management Strategy Statement.

### [1] Credit and Counter party risk management

The Office of the Deputy Prime Minister, (now Communities and Local Government), issued Investment Guidance in 2004, and also the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007 (SI 2007/573), which constrain the types of investments that local authorities can use, and so forms the structure of the Council's policy. The CLG issued further guidance effective from 1 April 2010, where the Council had to state its approach to assessing the risk of loss of investments; this has been incorporated into the Council's policy.

The key intention of the Guidance is to maintain the current requirement that councils invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires the Council to have regard to the CIPFA publications Treasury Management in Public Services: Code of Practice and Cross-Sectoral Guidance Notes and the sector specific guidance; Guidance Notes for Local Authorities including Police Authorities and Fire Authorities. The Council first adopted the TM Code in 2003, and adopted the revised 2009 TM Code in March 2010, and adopted the revised 2011 TM Code February 2012. Accordingly, the Council will ensure that its counter party lists and limits reflect a prudent attitude towards organisations with whom fund may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 (Approved instruments, methods and techniques) and listed in the schedule to this document.

It also recognises the need to have, and will therefore maintain, a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

### Monitoring Investment Counterparties

The assessment of credit worthiness or credit rating of investment counterparties will be monitored regularly. The Council obtains credit rating via its treasury advisers who monitors all 3 credit ratings (FITCH, Moody's and Standard and Poor's), and will notify any changes in ratings as they occur. This includes and takes account of changes, ratings watches and rating outlooks as necessary. In accordance with the revised TM Code the Council will need to have regard to the ratings issued by the three main agencies, and base its decisions on the lowest rating. The Council is already mindful of the other possible sources of information available to assess the credit worthiness of investment counterparties. This includes information direct from brokers, the Financial Times, news agencies and its treasury advisers monitoring the Credit Default Swaps (CDS) market. Officers assess trends of interest rates offered by counterparties.

Officers monitor the credit ratings via the information supplied by its treasury advisers, to ensure compliance to the rating criteria, and where necessary taking into account any other information which may influence the decision as to whether to exclude a counter party or not. Monthly counterparty lists matching the Council's criteria are supplied by its treasury advisers.

On occasions ratings may be downgraded after an investment has been made, however, the criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria or due to adverse information in the public domain, will be removed from the approved list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

**[2] Liquidity Risk Management**

The Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft facilities to enable it at all times to have a level of funds available to it which are necessary for the achievement of its business/service objectives.

The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme.

To maintain flexibility and liquidity  the maximum amount of medium and long term lending is set at £15m; the balance of surplus funds will be held short term, with a minimum of £3m available within a 3 month period.

**[3] Interest rate risk management**

The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 (Reporting requirements and managing information arrangements).

The effects of varying levels of inflation, in so far as they can be identified as impacting directly on its Treasury Management activities, will be controlled by the Council as an integral part of its strategy for managing its overall exposure to inflation.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required approval of any policy or budgetary implications.

To minimise the financial risk to which the Council is exposed in both cash deposits and borrowing i.e.

(i) to minimise the interest burden to the Council arising from any borrowing:
(ii) to optimise the interest earned. Unless otherwise directed by the Council whilst protecting capital sums deposited.

In order to achieve this objective the following specific policies should be adopted:

(i) to maintain the Council's debt free position and undertake no new borrowing unless the business case is proven for invest to save projects
(ii) to retain an appropriate minimum level of reserves in order to maintain flexibility in the use of interest earned from deposits
(iii) to lend surplus funds only to approved institutions in accordance with DCLG Investment Guidance. A list of Approved Cash Deposit Instruments is attached at TMP 4 [5] and schedule A.
(iv) To minimise short term borrowing by efficient cash flow management.
(v) To ensure that the use of any hedging tools such as derivatives are only used for the management of risk and prudent management of the financial affairs of the council, and that the policy for the use of derivatives is clearly detailed in the annual strategy.

In balancing risk against return, the Council should be primarily concerned with the security of the investment before seeking to maximise returns.

**[4] Exchange rate Risk Management**

Whilst the Council does not invest in foreign denominations, it does occasionally make payments to suppliers. In so doing it will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income expenditure levels. Any large contracts let by the Council must be denominated in £Sterling and the Section 151 Officer consulted on any proposed departure from this policy.

**[5] Refinancing risk management**

The Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the Council as can reasonably be achieved in the light of market conditions prevailing at the time.

The Council will actively manage its relationship with counter parties in these transactions in such a manner as to secure this objective, and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.

**[6] Legal and regulatory risk management**

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance if required to do so, to all parties with whom it deals in such activities. In framing its credit and counter party policy the Council will ensure that there is evidence of counter parties' powers, authority and compliance in transactions they may effect with the Council, particularly with regard to duty of care and fees charged.

The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, in so far as it is reasonable to do so, will seek to minimise the risk of these impacting adversely on the organisation.

### [7] Fraud error and corruption, and contingency management

The Council will ensure that it has identified the circumstances that may expose it to the loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly it will employ suitable systems and procedures and will maintain effective contingency management arrangements, to these ends.

### [8] Market Risk Management

The Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests. The Council limits itself to short term moderate fluctuations for investments principally held to manage market risk.

**Agenda Item 9**

# Chichester District Council

## CORPORATE GOVERNANCE & AUDIT COMMITTEE 27 November 2014

## Financial Strategy and Plan

1. **Contacts**

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2. **Executive Summary**

The purpose of this report is to assist Cabinet in updating the Council's financial strategy and action plan to help guide the management of the Council's finances during a period of diminishing resources, and to build upon the work already achieved in this area in previous years.

The Council currently anticipates further government funding reductions over the course of the next five years which, without intervention, would create a deficit in our revenue position that must be addressed if we are to comply with the legal requirement of setting a balanced budget each year. This report sets out the key financial principles and actions that will assist in this process.

The challenge facing the Council remains being able to provide services that meet community needs with a significantly reduced overall level of government resource.

The key recommendations from this report will help to formulate the 2015-16 budget, and level of Council Tax.

3. **Recommendation to Cabinet:**

3.1. **In the short to medium term the Council maintains a minimum level of reserves of £5m for general purposes.**

3.2. **To maintain the current provision of £1.3m of revenue support to smooth the impact of funding reductions, and volatility associated with localisation of Business Rates.**

3.3. **The New Homes Bonus should be reserved for use in accordance with the purposes identified in paragraph 6.10.**

3.4. **The current unallocated resource of £3.3m in Appendix 2, and its potential use as set out in paragraph 7.2 is noted.**

3.5. **The Council should continue to aim to set balanced budgets without the use of reserves, although some use of reserves in the short term may be necessary.**

3.6. **That in order to achieve a balanced budget over the medium term, the Council continues to monitor the delivery of the Deficit Reduction Programme and continues to monitor the five year Financial Model**

## 4. Background

4.1. The 5 year Financial Strategy and the principles contained within it underpin the forthcoming budget cycle. Whilst current economic projections appear to be on the up side, and inflation has been falling, public sector spending is still set to reduce for the foreseeable future. The government's 2013 spending review has delivered challenging settlements for 2014/15 and 2015/16. It is anticipated that, whatever the outcome of the parliamentary election in May 2015, the trend of reduced public sector spending is expected to continue for the remainder of the 5 year strategy period. Although in the current financial year we have witnessed a slight increase in some income streams through fees and charges, predominantly car parking and planning fees, these do not in themselves fully offset the anticipated reductions in government funding. The Council, therefore, has to manage increasing costs, with continuing reductions in available government resource.

### 4.2. The 2015/16 Settlement

In January 2014 alongside the 2014/15 settlement the Government published an indicative 2015/16 settlement. This indicates a reduction in government funding for next year of £653,000 or 15.2% of the combined Revenue Support Grant (RSG) and localised National Non-Domestic Rates (NNDR).

It is generally expected that these figures will not change, significantly between now and the publication of the final settlement which is anticipated in mid-December. However, with a general election in May 2015, ministers may exercise certain discretions, and the Autumn Statement which is expected on 3 December may reveal some adjustments.

It is expected that the Chancellor will re-state the overall funding allocations for local government. He will have to respond to the latest budget forecasts from the Office for Budget Responsibility, which could confirm the most recent forecasts that the budget deficit is actually increasing, mainly because taxation receipts are not increasing as quickly as expected.

It seems likely that there will be a further cap on business rate increases (multiplier) in 2015/16 which will presumably attract another off-setting grant – and possibly other reliefs for small businesses. It is possible that the Chancellor will go further than capping business rate increases at, say, 2%, and freeze them entirely in 2015/16.

There is limited scope to alter the RSG formula, and for this authority any change is likely to be in connection with funding adjustments for rural sparse authorities, although this isn't expected to be significant.

It is expected that there will be another Council Tax freeze grant on offer for 2015/16, probably equivalent to a 1% increase in Council Tax. The way in which previous Council Tax freeze grants have been handled has not been consistent:

- 2011/12 now separately identified, permanent

- 2012/13 entirely one-off
- 2013/14 now separately identified, permanent
- 2014/15 1% paid in both 14/15 and 15/16
- 2015/16 is expected to be permanent

In this context, "permanent" actually means until the next General Election. There is no guarantee that this funding will be available beyond that. The alternative to taking the freeze grant is an increase in Council Tax. Although not yet confirmed it is likely that this will be capped at no more than 2% (£2.81 per year for a band D property). Such an increase would be a permanent, recurring increase in the tax base. Any increase above 2% would require a referendum, would be very expensive to carry out, and in all probability be unlikely to succeed.

4.3. **Beyond 2015/16**

The current coalition Government has pursued a very clear fiscal policy which has resulted in significant funding reductions for local government. Whatever political party (or parties) take in power after May 2015, it seems clear that this trend will continue for the foreseeable future. Certain aspects of state spending are likely to continue to receive a greater degree of protection, education and health for example, while others such as local government will be protected to a lesser extent. Welfare benefits may be being frozen rather than reduced so the pressure remains to find cashable savings. It is likely, therefore, that as it has so far weathered the storm relatively well, ministers may consider that local government can take further cuts in funding.

The future of New Homes Bonus (NHB) hangs in the balance and its continuation may well depend on who is in office after May 2015. It is generally accepted that this funding mechanism favoured areas in the south where tax bases are increasing faster than the national average. This Council has not relied on the NHB to balance its budget and has instead reserved these funds for community based projects. This has minimised our risk should this funding source be reduced or removed after 2015/16.

The 5 year financial model (Appendix 1) has been updated to reflect the current indicative settlement for 2015/16 and officers' best estimates of what may occur beyond that. The model assumes the deficit reduction plan will be delivered on schedule and it currently indicates a broadly balanced budget over the next 5 years. This will of course be kept under review so that the Council has time to respond should the situation, and government funding, deteriorate faster than currently predicted.

4.4. Beyond 2015/16 it is predicted that our RSG will continue to be progressively withdrawn, from £2.2m in 2014/15 to just £0.6m by 2019/20. It is therefore more important than ever that we look to maximise our ability to raise revenue locally. The Council's Estates Service has been pursuing a number of investment and asset realisation opportunities. In addition to the economic and community benefits that such investment brings to the district, they also help to reduce our dependence on central government funding. Appendix 2 sets out our current level of reserves, the commitments against those reserves, and therefore the potential sum available for Council to invest in new schemes such as those being pursued by the Estates Service.

4.5. **In addition to government funding, other uncertainties and risks still remain which will impact on the Council's financial position, and make forecasting budgets more difficult**. These include:

- **Income from Fees and Charges.** The Council currently relies on over £17m of income from its fees and charges to balance its budget. Over recent years we have witnessed a reduction in income from some service areas. However, in 2014/15 we have witnessed a slight increase in income, primarily in relation to car parks and planning fees of £0.2m each. Whilst planning fees are particularly difficult to predict and no allowance has been built into the 5 year model for these, we have assumed car parking income will continue to recover.

- **The effects of inflation**. Inflation has recently reduced to the lowest levels for 5 years. However, some services have struggled in recent years to pass on the effects of previously high inflation in setting their fees as customers are unable or unwilling to bear the increased cost. Fee levels have not kept pace with inflation in all services, such as in the Careline service.

- **Pay settlements.** Following repeated pay freezes, local government witnessed a 1% settlement last year and is currently awaiting the outcome of a 2.2% 2 year offer with some enhancements for lower grades (14/15 and 15/16 combined). While the current Government is still advocating pay restraint there is a risk over the longer term of increased pressure on national pay negotiations, especially if private sector pay increases outstrip the public sector. The current 5 year model assumes a further 1% increase in 16/17 and 2% per annum thereafter.

- **The localisation of Business Rates.** This development brought both opportunity and risk, as a change in the business rate base locally will directly impact our funding. Localisation brings with it significant volatility as losses on collection will largely fall on local councils in future rather than on the national pool. Of particular concern is the treatment of historic appeal refunds, which will be funded 40% by this council in future. The 5 year financial model assumes 1% per annum growth in NNDR, which equates to £80,000 per annum for this authority. As agreed at the October Cabinet we have submitted a pooling proposal with other West Sussex authorities to pool our business rates in 2015/16 in order to maximise the amount of growth that can be retained locally.

- **The localisation of Council Tax Support**. Currently, expenditure on this has fallen slightly since the 2014/15 budget was set. However, localisation means that any increase in demand for support will have to be met locally in full in future.

- **Welfare reform**, including changes to Housing Benefit and the phased introduction of Universal Credit, which will impact on certain services such as Benefits and Housing.

- **The New Homes Bonus** where funding is linked to growth in domestic properties, but is funded nationally by reducing the amount of government grant. This effectively, then, is a distribution of local government funding via a different mechanism, and is not new funding.

- **Amended Waste Regulations and increased recycling targets.** New and tougher recycling targets and the need to separate out types of recyclate materials may drive substantially increased waste costs.

- **Cultural grants to the Chichester Festival Theatre and Pallant House Gallery.** These are currently funded from earmarked reserves which will be exhausted in 2017/18.

4.6. The Council took early action as the current financial crisis started to emerge and has, from 2010/11 to 2014/15, achieved in excess of £7.8m of savings and increased income. In May 2013, members approved a £2.4m deficit reduction programme Achievement of the balance of this (£1.3m) is on course to help the Council achieve a balanced budget over the medium term (see Appendix 1). It has been via this medium term modelling that the Council has been able to plan ahead, and implement sensible and considered efficiencies in a timely fashion. This planning has helped to avoid making severe service cuts, yet thus far enabled us to balance our budgets. Additionally it has enabled us to preserve the NHB funding for community benefit. A further benefit of careful planning has been that we have been able to implement localised Council Tax Support in a way that has protected claimants.

4.7. The current 5 year financial model (Appendix 1) shows a balanced budget over the 5 years of the model, assuming: the current increase in car parking income continues; the Barnfield Drive project and deficit reduction programme are delivered, and subject to all of the other uncertainties set out above. It remains essential, therefore, that we sustain the sound platform we currently have, and keep under continuing review the projected 5 year position.

## 5. Outcomes to be achieved

5.1. The purpose of this report is to set out the key financial principles that should be applied over the short to medium term to help maintain a robust and balanced financial position for the Council, and which will be used to underpin the annual spending report in February to set the 2015-16 budget and Council Tax requirement.

## 6. Key Financial Principles

### 6.1. All key decisions of the Council should relate back to the Corporate Plan

(a) The Sustainable Community Strategy (SCS) is the overarching partnership document that sets out the long term vision for the District. The Strategy provides the background information to support the Council's priority setting, policies and resource allocation. The SCS will sit alongside the Local Plan Core Strategy in providing a framework for long-term public service delivery in the District.

(b) The Corporate Plan, which is the Council's contribution to the partnership SCS, is the driver for our decision making, including the allocation of resources, and sets the Council's work plan. Each year the Corporate Plan is reviewed. The affordability role of finance in the corporate planning process has evolved into an assessment of what resources are required to deliver the emerging Corporate Plan projects, whilst maintaining high quality provision of services wherever possible.

(c) So far, major service reductions have been largely avoided. However, with finite resources that are predicted to continue to reduce in the immediate future, the Council may not be able to deliver all of its aspirations whilst maintaining existing services to the current level provided. Members may have to make difficult decisions in the future about service provision and competing priorities.

(d) Actions:

(i) Members and the Senior Leadership Team (SLT) will need to develop a strategy to prioritise services should either they wish to redirect resources, or the financial position deteriorates to a point at which current service delivery becomes unsustainable.

6.2. **Ensure the revenue budget and capital programme remain balanced and sustainable over a rolling 5 year period.**

(a) There is a legal requirement to set a balanced revenue budget and ensure the capital programme is fully resourced. Over the last five years 2010/11 to 2014/15 the Council took action to balance the revenue budget without drawing on general reserves. The Statement of Resource Allocation (Appendix 2) demonstrates that the capital programme remains affordable. Within this, £1.3m has been earmarked as available to support the revenue budget should conditions dictate. Whilst the intention is to set a balanced budget over the medium term, this finite resource remains available to smooth the impact should there be any unanticipated adverse changes to our funding, or where service savings have been unavoidably delayed.

(b) The Council previously adopted a service transformation model, and much has been achieved in reducing Council resources used to support those services that we deemed to be "outside of the model". While that review focussed on front line service delivery, the principle adopted was that support services should also make a contribution, whilst acknowledging that some support activities are not variable, but are fixed and cannot be reduced beyond certain limits. The deficit reduction programme approved in May 2013 included support services as well as other efficiencies.

(c) The 5 year financial risk matrix has been updated as our current best estimate of the budget for the next five years, and is attached as Appendix 1. This indicates that, subject to all the uncertainties set out in part 4 of this report, and assuming that the deficit reduction programme is delivered on schedule, the budget for 2015/16, and beyond should be balanced.

(d) The Resources Allocation statement has been updated to reflect the current capital programme and is attached as Appendix 2. **The Corporate Governance and Audit Committee (CGAC) are asked to consider the appropriateness of the minimum level of reserves and make any recommendations to Cabinet.**

(e) Actions:

   (i) The five year financial model will continue to be monitored and updated, and Cabinet is given regular briefings on this throughout the year.

   (ii) Budget monitoring for revenue and capital schemes is completed on a monthly basis and reported via the Members' Knowledge Hub quarterly.

   (iii) CMT has commenced implementing the deficit reduction programme, but this too will be monitored and reported via the Knowledge Hub to ensure savings are delivered as approved. Currently this is on schedule to deliver savings slightly in excess of the target set.

6.3. **Over the next five years maintain a position of non-dependency on reserves.**

(a) Appropriate funding needs to be built into the revenue and capital budget, taking into account the whole life cost of the assets. With reserves being largely committed, the revenue budget will need to make an appropriate contribution to reserves to fund any future capital commitments.

(b) Base budgets incorporate repairs and maintenance to council buildings, thereby removing dependency on reserves for what is a recurring revenue cost. Similarly, other recurring items still funded from reserves must be built into future revenue budgets.

(c) Building Services have undertaken a full review of the existing asset base of the council and identified with service managers the need to reinvest in our existing essential assets. This is currently being updated to ensure the current asset base remains affordable over the long term.

(d) Since 2010-11 the degree to which the revenue budget was supported by interest on investments has been removed. This eliminated a key risk to the authority that large variances on interest receipts could have put immediate pressure on the revenue budget. Instead all interest receipts are recycled into funding the capital programme (interest receipts on S106 balances are ring-fenced to those funds). Any change in interest rates still impacts the overall position of the Council, but has a less immediate impact than it has had for authorities that continue to rely on interest receipts to fund day to day activities.

(e) Recent investment decisions in the Council’s property portfolio will generate further revenue receipts for the Council. It is proposed that some of this additional income is recycled via council reserves to enable further investment going forward, rather than taking all of the income into the revenue budget. The precise amount to be recycled in this way will be determined as part of the detailed budget proposals brought to Cabinet in February 2015. The 5 year financial model has so far only taken into account income from historic investment decisions such as Barnfield Drive and the Enterprise Hub.

(f) Actions:

   (i) To build future demands for recurring expenditure into the five year Financial Model, and thereby into any potential savings target.

(ii) To avoid funding recurring expenditure from reserves as a key financial principle.

(iii) To determine annually an amount of revenue income to set aside for property investment.

6.4. **In order to maintain a balanced budget in a climate of no growth, savings in the revenue budget or external funding will need to be identified before any new revenue expenditure, including capital expenditure that has revenue consequences, is approved.**

(a) The Council needs to have certainty about capital and revenue funding before entering into new commitments. This will require robust project management processes to ensure the full consequences; both revenue and capital, of embarking on particular projects are known and understood from the outset. The whole life costs of the project must be considered.

(b) Where projects are dependent on match funding, the funding partner may impose certain conditions. The Council needs to clearly understand what those conditions are and their possible financial consequences. Projects should only proceed once all funding has been secured, and the conditions have been assessed and evaluated. The relevant service should also consider, in advance, any costs that may arise at the end of the project and prepare an exit strategy so that the full consequences are known in advance. Whole life costing should be used. Copies of all funding agreements should be copied to financial services to ensure all possible future liabilities are considered and documentation retained.

(c) Action:

(i) All Project Initiation Documents (PIDs) are to be based on whole life costs, and include an exit strategy.

6.5 **Review costs in response to changes in service demands.**

(d) The call upon Council services is fluctuating more during a period of economic and financial uncertainty. Whilst short-term variances in demand can be accommodated, any longer term trends, i.e. beyond one year, will require the Council to respond by redirecting its resources in line with changes in demand. This is a key principle as future changes in demand on services are bound to occur.

(e) Prioritising the Council’s services will enable scarce resources to be directed to areas of need and priority over the medium term.

(f) Action:

(i) Essential services that experience an increase in demand will be recognised and supported. However, where there is an on-going reduction in demand beyond one year they should be reviewed in order to realign resource allocation.

6.6 **Where the Council has discretion over charging for services, consideration needs to be given as to the extent to which service users should bear the costs, and the proportion met by Council Tax.**

6.6.1 The Council has limited discretion to set fees and charges for some services. Clearly, the setting of charges should have regard to community needs for those services as well as affordability. Traditionally, many fees and charges have increased in line with inflation. The Council has a Fees & Charges Policy. This requires services that have discretion to charge, to attempt to at least break even, unless there is a clear approved policy reason for not doing so. The underlying principle is that the service user should pay the full cost of the services received.

6.6.2 Actions:

6.6.2.1 Service managers need to consider their fees & charges in advance of the start of each financial year. Any individual services operating at a deficit should aim to break even unless there is an approved policy to support their on-going subsidy. This should be based on the whole cost of delivering the service, including use of assets.

6.7 **Continue to review the Council's costs in order to find further savings.**

6.7.1 The Council has already achieved significant savings in the last five years. However, the Council will continue to seek further efficiencies to help free up resources, ensure services are as efficient and effective as possible and support the community. The focus is to ensure services are delivered to an appropriate standard at a competitive unit cost.

6.7.2 In order create the capacity to undertake service reviews and implement improvements, the Council has approved a Corporate Improvement Programme. Future reviews will consider the most efficient ways of working, including working with partners, channel shift, sharing assets, shared services and outsourcing to deliver the best and most effective solutions for services and the community. Each review should also incorporate a commissioning challenge to ensure that the most effective and efficient procurement method is applied.

6.7.3 Aside from formal service reviews, service managers should normally be considering the best, most cost effective procurement methods in their service areas.

6.7.4 Action:

6.7.4.1 In order to assist the budget process for future periods, further efficiencies should be identified. Officers will need to review service costs to determine whether unit costs are appropriate and report back to members where service reviews are deemed necessary to reduce unit costs to an acceptable level.

6.7.4.2 An analysis will be undertaken of the Council's budgets relative to those of other authorities. This will assist us to direct reviews to those services where costs appear to be high.

6.8 **Match Council Tax increases to a realistic and affordable base budget.**

6.8.1 The objective is to limit increases in Council Tax to modest and affordable levels over the next 5 years, whilst accepting that such an objective may be impacted by national government policy. The Government has continued with its policy of offering temporary freeze grants. This is expected to be the case again for 2015/16, but the grant is only equivalent to a 1% rise i.e. about £70,000. This would be guaranteed for just one year after which the funding would be at risk (see para 4.2 which demonstrates how previous grants have been treated). The tax freeze is optional, and members need to determine whether they want a government funded tax freeze for 2015/16 with the knowledge that this grant may be withdrawn in 2016/17, or to actually increase the Council Tax. If members decide to recommend an increase in Council Tax, they should note that any increase over 2% would normally require a referendum. The 5 year financial model currently assumes an annual increase of 2%.

6.9 **Budgets should be pooled with other service providers to achieve more effective and cost efficient outcomes for the community.**

6.9.1 It is likely that in future the Council will become more involved in new ways of working, including greater partnership working, devolved budgets and pooling resources with other agencies. It is important that the Local Strategic Partnership strategic objectives and community outcomes are agreed from the outset when partnerships are formed so that the achievement of results can be measured and reported to members to ensure public funds are being used in the most efficient way to achieve greatest impact for the community.

6.9.2 A proposal to create an NNDR pool in West Sussex has been submitted to DCLG. This should, if approved, enable us to retain more of the NNDR growth locally. Any “surplus” growth retained under the pooling arrangement may be invested jointly with other pool member authorities.

6.9.3 Action:

6.9.3.1 Where appropriate we should commission services with other service providers and pool our budgets to provide more effective and efficient outcomes for the customer.

6.10 **New Homes Bonus (NHB) should be reserved to reward communities that have accepted growth, whilst also considering the fact that this is not new funding, and to some extent may have to be used to protect services. This should be allocated annually, and only committed once received.**

6.10.1 The NHB is not new funding. This is paid from local government funding that would otherwise have been distributed to councils. The grant is not ring-fenced, and as such the Council can choose how it wants to use this source of funding, although the Government pointed out that it expected it to be used to help “reward” communities that have taken housing growth. Further, the Government also stated that it expects councils to consult their communities on its use, and in areas where there is a national park as the planning authority, to also consult with the park authority.

6.10.2 The funding is paid as a grant in respect of each new domestic dwelling coming into the tax base (net of any long term empty properties) of the whole District, including the area within the National Park. The amount paid is based on the national average council tax, and is paid for the following six years, split 20% to the County Council and 80% to the Housing authority, i.e. CDC. Current estimates for 2015/16 indicate that the grant will be approximately £2.5m next year.

6.10.3 It should be noted that there is a risk that, following the 2015 general election should a new administration take office, the NHB may be amended or replaced. NHB should not, therefore, be relied upon long term to resolve our budget position, and should only be committed after it is received. The unallocated value of this fund, after sums allocated for Parish bids and to top up the grants fund, up to and including the 2015/16 financial year will be approximately £4.7m.

6.10.4 Many councils have already committed their NHB to help balance their revenue budget deficits. However, the approach CDC has adopted is that we should try in the first instance to balance our budget without needing to rely on NHB. However, we must recognise that as government support continues to dwindle, we may reach a point at which we cannot continue to provide the current level of service unless either some of the NHB is diverted to help rebalance the funding position of the council, or we make some difficult choices about reducing or discontinuing some services. Members may also want to allocate some of this remaining balance for other purposes benefitting the community in various ways, as indicated in last year’s Financial Strategy statement:

6.10.4.1 CDC bids for multi-parish or all-District community projects

6.10.4.2 CDC bids for employment generating bids like satellite Enterprise Gateways.

6.10.4.3 CDC opportunity purchases of non-domestic property and/or redevelopment of existing CDC properties to augment CDC rental income and foster community employment.

6.10.4.4 CDC top up grants to RSLs where these will bring forward additional social housing in new developments.

6.10.4.5 Bids from third parties including groups of parishes for projects benefitting communities

6.10.4.6 Helping to meet infrastructure priorities. As the Community Infrastructure (CIL) process has developed we are aware that there will be a significant infrastructure funding gap, and members may consider use of Council reserves, or borrowing, to help plug some of those gaps.

6.10.5 Action:

6.10.5.1 The NHB to be reserved for community and other uses after it has been received. It remains important, however, to allocate this funding taking into account the legal requirement to set a balanced budget for the council. As such this will be reviewed annually.

6.10.5.2 Consider other uses of NHB monies as listed above.

6.11 **Localisation of Business Rates. We should review the decision to pool our business rates annually after receipt of the government draft settlement to ensure that the Council is in the best possible financial position.**

6.11.1 For 2015/16 a pooling proposal has been submitted to DCLG.

6.11.2 Action:

6.11.2.1 The final decision on pooling for 2015/16 will be made once the settlement has been announced. Any decisions for subsequent years will be determined annually.

## 7. Resources and Capital Programme Principles

7.1. **Capital receipts, reserves and interest on investments will primarily be available for new investment of a non-recurring nature, thereby minimising the overall financial risk.**

(a) This is a long-established principle whereby non-recurring resources are used to meet non-recurring expenditure. The revenue budget is no longer reliant on reserves. Interest receipts are diverted to support the capital programme. The exception to this is the current allocation of £1.3m for temporary use in support of the revenue budget. This has provided some flexibility for members should government funding have been worse than anticipated, but this is a finite resource and cannot be relied upon longer term.

7.2. **Ensure that a sufficient level of reserves are maintained, as informed by the Financial Strategy, so that the Council can remain flexible and is able to respond to a changing local government environment.**

(a) The objective is to offer resilience against the unexpected and provide resources for new initiatives including one off costs to assist with reshaping the organisation.

(b) The Capital Programme is an estimate of the capital schemes' likely cost and the funding resources likely to be available to meet that need. This is always subject to amendment if, for example, a scheme cost is higher than anticipated or an anticipated capital receipt is less than expected. The capital programme is by its nature constantly changing and the resource position will be continuously monitored to ensure it remains affordable. The Resources Statement reflects the current level of reserves, anticipated receipts, and commitments, and this is attached at Appendix 2. This currently indicates a surplus of resource of £3.3m.

(c) The Resources Statement assumes a minimum level of general fund reserves of £5m as agreed by members in 2009 and reaffirmed in subsequent years.

(d) Although the Resources Statement indicates £3.3m as being available, further projects, possibly to supplement CIL or projects that produce revenue income to assist with the Council's revenue budget may be funded from the residual balance of this fund.

(e) Action:

(i) Routine monitoring of the capital schemes and the overall resources position will continue via the members' bulletin board to ensure the capital programme remains affordable.

7.3. **Borrowing could be used for capital schemes or "invest to save" projects providing the cost of servicing the debt is contained within the revenue savings/income the project generates. The payback period for invest to save projects should be shorter than the life of the asset.**

(a) At present, there are no plans to borrow to finance new capital expenditure in the current 5 year plan but this remains an option if deemed to be prudent. Short term internal borrowing (for schemes that pay back within the 5 year time frame of the capital programme) can be accommodated without incurring external interest charges, provided the resulting savings are recycled into reserves. Longer term pay back periods will have to accommodate both the external interest and a minimum revenue provision (MRP) in accordance with the Council's MRP policy, which links repayment of the debt to the life of the asset.

(b) Borrowing would add pressure on the revenue budget as MRP and interest would become payable. The capacity to make these payments would need to be identified in advance, namely the further efficiency savings generated by the investment in the assets.

7.4. **Treasury Management**

(a) The Council is required to agree its treasury management policy annually, and this year made further changes during the year, following a task and finish group review. Performance reports are also received during the year. The key objectives are security of the principal sums invested, and liquidity. Maximisation of investment return is a secondary objective. As such, removing revenue reliance on investment income not only strengthens the Council's financial position, but also reinforces the primary objective of the treasury management policy.

(b) The Treasury Management Policy, together with the MRP policy and Prudential Indicators are an integral part of the Financial Planning process, but they will be reported separately to Cabinet early in the New Year.

## 8. Alternatives that have been considered

8.1. The Financial Strategy is key to ensuring the Council continues to set a balanced budget even with all of the uncertainty and pressure faced by the Council in the current economic climate.

9. **Resource and legal implications**

9.1. The financial principles will help to guide the management of the Council's finances over the short to medium term, and will underpin the budget process that will be reported back to Cabinet in February.

10. **Consultation**

10.1. Corporate Governance and Audit Committee are asked to consider this report and make any recommendations as appropriate to Cabinet.

11. **Community impact and corporate risks**

11.1. The Council has taken action over the last five years to achieve a relatively strong financial position. However, there remains a great deal of uncertainty over the future with many different factors that may impact on the Council and change the financial forecast. The financial principles contained within this report will help the Council maintain its financial standing and protect valuable services to the community, whilst giving flexibility to respond to changes in the future.

12. **Other Implications**

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

13. **Appendices**

13.1. Appendix 1 - Five Year Financial Model.

13.2. Appendix 2 – Statement of Resources.

14. **Background Papers**

14.1. none

# 5 Year Financial Model

Appendix 1 to agenda item 9

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|---|---|---|---|---|---|---|
| Budget (including NHB) | 13,223 | 13,637 | 11,757 | 12,107 | 12,457 | 13,407 |
| NHB (assumed not to continue beyond 2015/16) | 2,100 | 2,500 | ? | ? | ? | ? |
| **Budget (excluding NHB)** | **11,123** | **11,137** | **11,757** | **12,107** | **12,457** | **13,407** |
| *(expenditure less fees from income)* | | | | | | |
| Funding: | | | | | | |
| **Revenue Support Grant** | **(2,282)** | **(1,573)** | **(1,229)** | **(951)** | **(788)** | **(600)** |
| **Retained Business Rates (National Non-Domestic Rates or NNDR)** | **(2,005)** | **(2,061)** | **(2,061)** | **(2,061)** | **(2,061)** | **(2,061)** |
| NNDR contingency/safety net (i.e. maximum loss we may incur in year) | 150 | - | - | - | - | - |
| NNDR growth (@1% Per Annum) | | (80) | (160) | (240) | (320) | (400) |
| **Total Government Settlement (excluding NHB)** | **(4,137)** | **(3,714)** | **(3,450)** | **(3,252)** | **(3,169)** | **(3,061)** |
| | | | | | | |
| **Balance funded by Council Tax Payers** | **(7,007)** | **(7,147)** | **(7,327)** | **(7,519)** | **(7,715)** | **(7,915)** |
| Council Tax Growth (@ 1/2%) | | (36) | (45) | (45) | (45) | (45) |
| Council Tax Collection Fund Provision | 21 | | | | | |
| | | | | | | |
| **Deficit after Gov. Funding & Council Tax** | | **240** | **935** | **1,291** | **1,528** | **2,386** |
| | | | | | | |
| **Barnfield Drive Income** | | **-** | **(424)** | **(600)** | **(600)** | **(600)** |
| **Deficit Reduction Programme - May '13 Cabinet** | | **(337)** | **(847)** | **(867)** | **(887)** | **(1,287)** |
| | | | | | | |
| **<u>Other Probable Costs / (Savings):</u>** | | | | | | |
| **Planning policy Staffing (subject to review for 16/17)** | | **43** | **43** | **43** | **43** | **43** |
| **Waste Disposal Costs** | | **126** | **126** | **126** | **126** | **126** |
| **SDNP reduced funding** | | **25** | **50** | **50** | **50** | **50** |
| **Authorised Testing Facility** | | **-** | **-** | **-** | **-** | **-** |
| **CPZ increased contribution from WSCC** | | **(35)** | **(35)** | **(35)** | **(35)** | **(35)** |
| **Estates Investment - Plot 21 Terminus Road** | | **-** | **(20)** | **(20)** | **(20)** | **(20)** |
| **Plot 12 Enterprise Hub** | | **-** | **(295)** | **(295)** | **(295)** | **(295)** |
| **Car Parks Service Review** | | **(120)** | **(160)** | **(160)** | **(160)** | **(160)** |
| **Car Parks Volume/Demand increase** | | **(200)** | **(200)** | **(200)** | **(200)** | **(200)** |
| **Remaining shortfall / (surplus)** | | **(258)** | **(827)** | **(667)** | **(450)** | **8** |

**Appendix 2 to agenda item 9**

## Statement of Resources 2014-15 to 2019-20

| | **£m** |
|---|---:|
| **Reserves at April 2014** | **32.8** |
| New Resources | |
| o Right to Buy (RTB) receipts | +0.5 |
| o Asset Sales | +5.2 |
| o Interest on Investments | +1.7 |
| o New Homes Bonus Scheme | +4.7 |
| Other Reserves (grants, s106, revenue contributions etc) | +6.0 |
| **Total Resources** | **50.9** |
| Less Commitments: | |
| Revenue Budget Support | -1.3 |
| Provision for one-off costs of future service reductions | -0.6 |
| Cultural Grants | -1.4 |
| Minimum level of reserves | -5.0 |
| Other Earmarked Funding | -10.8 |
| **Available Resources** | **31.8** |
| | |
| **Current Capital & Projects Programme** | **-25.0** |
| | |
| **Current Asset Replacement Programme** | **-3.5** |
| | |
| **Uncommitted Resource** | **3.3** |

Agenda item 10

# Chichester District Council

## CORPORATE GOVERNANCE & AUDIT COMMITTEE 27 November 2014

## S106 Exceptions Report

### 1. Contacts

**Report Author:**
Beverley Bayliss, Planning Obligations Monitoring and Implementation Officer
Tel: 01243 534758 E-mail: bbayliss@chichester.gov.uk

### 2. Recommendation

**2.1. That the Committee notes the contents of this report concerning section 106 agreements nearing their expenditure date (as set out in section 6 of this report) and raises any concerns.**

### 3. Background

3.1. Section 106 financial receipts nearing the expiry date for expenditure need additional monitoring and input from officers and managers of the departments concerned with spending S.106 money. This is in accordance with the Section 106 Protocol approved by Corporate Governance and Audit Committee at its meeting of 15th September 2011. Under the protocol the Committee is due to receive an exceptions report each November detailing all contributions due to be spent within a two-year deadline.

3.2. The report also identifies, under Section 6, contributions that have not been received where the trigger date has been reached and provides an update on the current position with respect to securing the payment of the financial contributions due.

3.3. This report refers to financial contributions only. Non-financial obligations are included in the full report to Corporate Governance and Audit Committee in June each year.

### 4. Outcomes to be achieved

4.1. The main outcomes for the community, environment and the Council, are improvements and greater clarity in the way money obtained from S106 agreements is monitored and spent.

4.2. That S106 Financial receipts are spent in accordance with the agreements and within the agreed targets to reduce the risk of developers seeking to amend agreements and/or the return of the funding.

4.3. The Planning Obligations Monitoring and Implementation Officer and Conservation and Design Manager will monitor the outcomes.

## 5. The updated position on those contributions received that will reach their target expenditure by end of November 2016

5.1. This report outlines those contributions that need additional monitoring. The first section of Appendix 1 to this report shows those contributions reaching their target expenditure date within the next two years. This is in line with the recommendation from the Overview & Scrutiny Committee, as agreed by Cabinet on 8 September 2011 now incorporated into the Protocol. The second section of Appendix 1 identifies the contributions where spending targets are now overdue.

5.2. Definitions used in the report are as follows:

(a) Received: financial obligation received from the developer by cheque or BACS, usually following the issue of an invoice by CDC.

(b) Allocated: formal approval of fund allocation by the Corporate Management Team (CMT)

(c) Spent: outgoing expenditure already approved and undertaken

(d) Remaining: money/monies unspent and held by CDC

## 6. Outstanding receipts

6.1. There are no outstanding contributions due at the time of writing.

6.2. Other contributions

None of the contributions paid to Waste and Recycling; Recreation Disturbance Mitigation or CCTV reach their expenditure date by the end of November 2016.

## 7. Update on Implementation of CIL

7.1. As a result of the objections received on the CIL Preliminary Draft Charging Schedule, Peter Brett Associates were 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, in particular the need for more fine-grained testing of the Strategic Development Locations.

7.2. The revised study has been completed and has concluded that the Strategic Development Locations could afford to pay for the site-specific infrastructure through s106, as well as the full CIL charge. As a result a separate charging zone will not be introduced for the strategic development locations. The revised study advised that the charge for purpose built student housing be reduced from £60 $m^2$ to £30 $m^2$. This change has been made to the Draft Charging Schedule. The study advised that no changes were necessary to the retail charges.

7.3. Changes have been made to the draft regulation 123 list, and the threshold for the payment by instalments policy has been lowered to start at £50,000.

7.4. A new timetable for introducing the CIL has been agreed by Cabinet as follows:

- Public consultation on the Draft Charging Schedule will run from 21 November 2014 until 5 January 2015.
- Submission for Examination in March 2015
- Estimated date for adoption in July 2015.

7.5 Officers have been working on the procedures involved in implementing CIL including calculation, collection, enforcement processes and governance arrangements. Cabinet considered a report on governance arrangements at the meeting of 14 October 2014 and agreed the proposed CIL governance structure and the preparation of an Infrastructure Business Plan, to be drawn up jointly by officers of the Council and the County Council, based on local discussions with parish councils, infrastructure providers and developers and refreshed annually, which will inform the way CIL income will be spent. Once all processes have been mapped and procedures prepared the resource implications will be able to be quantified to enable work to progress on allocating responsibility for specific CIL tasks.

## 8. Resource and legal implications

8.1. Section 106 of the Town and Country Planning Act 1990 (as amended) permits local planning authorities to enter into agreements with applicants for planning permission to regulate the use and development of land. This may involve the payment of a financial contribution for off site works.

8.2. The Community Infrastructure Regulations 2010 that came in to force on 6 April 2010 set out new statutory tests on what can reasonably be sought under section106, replacing the Circular 05/2005 guidance.

8.3. Staffing implications – there is a requirement for a Planning Obligations Monitoring and Implementation Officer and Conservation and Design Manager to oversee the process.

8.4. IT requirements – on-going maintenance of the S.106 Access database by the Planning Obligations Monitoring and Implementation Officer, and further investigation into alternative S.106 Monitoring systems. The adoption of a CIL charging schedule by the Council will require additional resources and software, and will need to run parallel with the current monitoring system. Up to 5% of CIL receipts can be spent by the Council to support the administration of the scheme.

8.5. Property implications - none

## 9. Consultation

9.1. Internal CDC officers involved with the S.106 process were consulted, and report approved by the S.106 Monitoring and Liaison Group for referral to CMT and CGAC.

## 10. Community impact and corporate risks

10.1. Improved monitoring of how S.106 contributions are spent will improve the leisure, amenity, health and well-being of local communities.

10.2. The risks that the proposal will not deliver projects and schemes paid for using S.106 funds should be small.

10.3. Funds must be spent within the time limit specified in the agreements, otherwise the Council is liable to return the money. In addition, a developer may apply to have the agreement varied after five years from the date of the agreement, and if the Council refuses such application, there is a right of appeal.

## 11. Other Implications

| | Yes | No |
|---|---|---|
| **Crime & Disorder**: | | ✔ |
| **Climate Change:** | | ✔ |
| **Human Rights and Equality Impact:** | | ✔ |
| **Safeguarding:** | | ✔ |

## 12. Appendices

12.1. Appendix 1: Expiry dates within 2 years and expiry dates overdue

## 13. Background Papers

13.1. None

**Details of receipts reaching their expenditure target by contribution**

In the column 'Expires' an asterisk (*) indicates a notional 5 year repayment date. It shows that a repayment date was not specified in the S106 agreement, but CDC Service Departments aim to spend the Contribution within 5 years, the point at which a developer can ask to vary the agreement if the contribution has not been spent. This includes asking for the contribution to be returned if it has not been spent because the need for it has not been justified.

# Expiry date within 2 years of 14/10/2014

## Affordable Housing

| **FB/07/05319/FUL - Caspian Close, Fishbourne Caspian Close** | | Proposed Development |
|---|---|---|
| S106 Date : 18/12/2007 | | Land south of Caspian Close, Fishbourne. Residential development of 2 no. four bed detached houses and 4 no. two bed terraced houses - one of which will be a new build homebuy / shared ownership (2 bed) house. |
| Received : £15,600.00 | Spending officer – Linda Grange. The single affordable unit to be taken as a discounted sale at 65% of market value. No spend on the remaining £15,600.00. All to be used to partly fund the provision of 3 affordable rented units at Nicholsfield Loxwood (£49,200 in total) by Hyde Martlet as approved by Cabinet on 8th October 2013. October 2014 – To achieve efficiencies this scheme has been jointly tendered with the scheme at the fire station site at Bosham and Hyde Martlet have advised that they expect to start on site and draw down these funds in November. | |
| Remaining : £15,600.00 | | |
| Allocated : £15,600.00 | | |
| Spent : £0.00 | | |
| Expires : 04-Jan-15 * | | |

| **WE/08/01208/FUL - Abbeyfield House, Westbourne 30 Crockford Road** | | Proposed Development |
|---|---|---|
| S106 Date : 03/06/2010 | | Abbeyfield House, Westbourne. Demolition of existing building and erection of 6 no. 1 bedroom and 2 no.studio maisonettes. |
| Received : £67,200.00 | Spending officer – Linda Grange. 20/08/14 £720 spent from this contribution to make up the £68,306 spent on - £45,806 towards 4 affordable rented units at Manor Way, Southbourne and £22,500 towards 5 affordable rented units at Garson's Road, Southbourne. The remaining £66,480 has been re-allocated towards funding three affordable rented units at the fire station at Bosham as approved by Cabinet on 14th October. Hyde Martlet have advised they expect to start on site and draw down these funds in November. | |
| Remaining : £66,480.00 | | |
| Allocated : £66,480.00 | | |
| Spent : £720.00 | | |
| Expires : 24-May-15 * | | |

## Leisure

| | | | |
|---|---|---|---|
| **BX/10/05085/FUL - Land at Windmill Park, Halnaker Halnaker** | | | Proposed Development |
| S106 Date : | 23/05/2011 | | Erection of 31 no. residential dwellings with associated access, car parking, landscaping and highway works. |
| Received : | £28,537.00 | Spending officer – Sarah Peyman. 13/05/13 Met with Boxgrove PC clerk to discuss funds and this is to be discussed at their annual meeting. 19/08/14 Boxgrove Parish Council have now identified a number of potential projects to improve sport and leisure provision. They have now been asked to prioritise their proposals and provide 3 quotations for the works in order to obtain authorisation for the spend. | |
| Remaining : | £27,110.15 | | |
| Allocated : | £0.00 | | |
| Spent : | £0.00 | | |
| Expires : | 04-Aug-16 * | | |

## Public Open Space

| | | | |
|---|---|---|---|
| **CH/10/01013/FUL - Land at 30 The Avenue, Hambrook, Chidham 30 The Avenue** | | | Proposed Development |
| S106 Date : | 10/11/2010 | | Land at 30 The Avenue, Hambrook. Erection of 23 residential dwellings with associated garages and car parking, landscaping and highways work. |
| Received : | £6,000.00 | Spending officer – Sarah Peyman. Chidham and Hambrook PC has been approached and made aware of the deadlines for the spend. We are awaiting a response and spend will then be authorised under delegated powers. | |
| Remaining : | £5,878.88 | | |
| Allocated : | £0.00 | | |
| Spent : | £0.00 | | |
| Expires : | 14-Mar-16 * | | |

| | | | |
|---|---|---|---|
| **BX/10/05085/FUL - Land at Windmill Park, Halnaker Halnaker** | | | Proposed Development |
| S106 Date : | 23/05/2011 | | Erection of 31 no. residential dwellings with associated access, car parking, landscaping and highway works. |
| Received : | £8,000.00 | Spending officer – Sarah Peyman. 13/05/13 Met with Boxgrove PC clerk to discuss funds and this is to be discussed at their annual meeting. 19/08/14 Boxgrove Parish Council has now identified a number of potential projects to improve sport and leisure provision. They have now been asked to prioritise their proposals and provide 3 quotations for the works in order to obtain authorisation for the spend. | |
| Remaining : | £7,600.00 | | |
| Allocated : | £0.00 | | |
| Spent : | £0.00 | | |
| Expires : | 04-Aug-16 * | | |

| D/07/04732/FUL - Stockbridge Garage 1 Birdham Road | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 17/12/2007 | | Stockbridge Garage, 1 Birdham Road. The erection of 6 no three bed houses and 4 no two bed houses together with parking and associated external works. |
| Received : | £2,034.00 | Spending officer – Sarah Peyman. Discussions will take place with the Parish Council to identify potential projects. | |
| Remaining : | £2,034.00 | | |
| Allocated : | £0.00 | | |
| Spent : | £0.00 | | |
| Expires : | 26-Jul-16 * | | |

## Community Facilities

| BX/10/05085/FUL - Land at Windmill Park, Halnaker Halnaker | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 23/05/2011 | | Erection of 31 no. residential dwellings with associated access, car parking, landscaping and highway works. |
| Received : | £45,725.00 | Spending officer - David Hyland. All contributions received, but no spend to date. In discussion with Parish Council and the Village Hall. | |
| Remaining : | £43,438.75 | | |
| Allocated : | £43,438.75 | | |
| Spent : | £0.00 | | |
| Expires : | 04-Aug-16 * | | |

| D/07/04732/FUL - Stockbridge Garage 1 Birdham Road | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 17/12/2007 | | Stockbridge Garage, 1 Birdham Road. The erection of 6 no three bed houses and 4 no two bed houses together with parking and associated external works. |
| Received : | £7,500.00 | Spending officer - David Hyland. October2014 - £5,710 spent towards the extension and tables at Donnington Parish Hall. Remainder to be towards this project. | |
| Remaining : | £1,790.00 | | |
| Allocated : | £1,790.00 | | |
| Spent : | £5,710.00 | | |
| Expires : | 26-Jul-16 * | | |

| FB/10/00994/FUL - Land North of Clay Lane | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 04/11/2010 | | Land North of Clay Lane. Erection of 50 residential dwellings with associated garages and car parking, landscaping and highway works. |
| Received : | £73,750.00 | Spending officer - David Hyland. £64,989.77 has been paid to Fishbourne Parish Council towards various works at the Fishbourne Centre. The balance has been identified for other improvements at the Fishbourne Centre, which includes a possible extension to this and the Church Hall (to be rebuilt and relocated near St Peter and St Mary's Church). | |
| Remaining : | £5,072.73 | | |
| Allocated : | £5,072.73 | | |
| Spent : | £64,989.77 | | |
| Expires : | 13-Nov-15 * | | |

## Public Art

| CCN/05/00430/FUL - Shippams Factory (Roman Quarter) And Social Club East Street | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 03/03/2006 | | Shippams Factory and social club (Roman Quarter). Comprehensive mixed-use redevelopment, comprising of retail and residential accommodation, together with associated car parking landscape and highway works (after demolition of existing factory and former social club building).<br>Phase N1: The social club site<br>Phase N2: Retail and residential block<br>Phase N3: Listed buildings<br>Phase N4: Inland residentail block<br>Phase N5: Residential block facing East Walls |
| Received : | £25,000.00 | Spending officer – Lone Le Vay. Art work is now installed, this obligation is complete. The possibility of using the outstanding sum for interpretation will be explored. | |
| Remaining : | £305.00 | | |
| Allocated : | £0.00 | | |
| Spent : | £24,695.00 | | |
| Expires : | 07-Jun-15 | | |

| CCS/07/01527/FUL - Osborne House Stockbridge Road | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 11/06/2008 | | Osborne House. Demolition of existing buildings. 83 new dwellings; Canal Trust/ commercial building; new access; landscaping; parking. |
| Received : | £45,000.00 | Spending officer – Lone Le Vay. Artwork now installed. £20,000 additional funding from unspent WSCC contributions was transferred to CDC and used to commission additional artwork and artist design commemorative bench. Discussions are being held with WSCC and Canal Basin Liaison Group about using some of the unspent WSCC public realm money together with residual commissioning funds for some interpretation panels for the artwork. | |
| Remaining : | £305.00 | | |
| Allocated : | £0.00 | | |
| Spent : | £44,695.00 | | |
| Expires : | 02-Sep-16 * | | |

## Chichester Harbour

| CH/10/01013/FUL - Land at 30 The Avenue, Hambrook, Chidham 30 The Avenue | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 10/11/2010 | | Land at 30 The Avenue, Hambrook. Erection of 23 residential dwellings with associated garages and car parking, landscaping and highways work. |
| Received : | £9,890.00 | Spending officer – Tom Day. The Manhood Wildlife and Heritage Group is taking on some parts of the Graylingwell work directly so freeing up 1 day a week of Sarah Hughes' time for work on the three s106 agreements in the Bournes (Land North of Clay Lane, Fishbourne, Marshalls). The initial allocation of time has been a day a week on the Bournes. | |
| Remaining : | £9,690.35 | | |
| Allocated : | £0.00 | | |
| Spent : | £0.00 | | |
| Expires : | 14-Mar-16 * | | |

| CCN/08/03533/OUT - Graylingwell Hospital College Lane | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 28/05/2009 | | A hybrid outline application for the comprehensive phased residential and mixed use regeneration and change of use for 750 market and affordable dwellings, care home, commercial accommodation within use classes B1, A1, A2, A3, A4, A5, D1, community facilities including use classes D1 and D2. A combined heat and power energy centre, car parking, public open space, sports pitches, art and culture strategy, landscaping, vehicular access and earthworks.<br>Phase 1 fully detailed application for 110 new dwellings, a temporary sales centre/sports changing room to be converted to changing rooms and cafe later, 251sq m energy centre, associated SUDS and landscaping relating to the heart space. |
| Received : | £322,500.00 | Spending officer – Tom Day. Chi Harbour Interpretation; SPA; Education contributions. Progress on the mitigation project is monitored jointly with the Manhood Wildlife and Heritage Group through monthly Service Level Agreement meetings and is on track to spend the remaining sum by October 2015. July 2014 - Current hybrid outline application for balance of site remaining to be developed. Now includes Kingsmead Avenue site. This will attract a new S106 carrying forward the existing obligations with amended triggers. | |
| Remaining : | £89,811.00 | | |
| Allocated : | £0.00 | | |
| Spent : | £216,564.00 | | |
| Expires : | 21-Oct-15 | | |

| FB/10/00994/FUL - Land North of Clay Lane | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 04/11/2010 | | Land North of Clay Lane. Erection of 50 residential dwellings with associated garages and car parking, landscaping and highway works. |
| Received : | £21,500.00 | Spending officer – Tom Day. The Manhood Wildlife and Heritage Group is taking on some parts of the Graylingwell work directly so freeing up 1 day a week of Sarah Hughes' time for work on the three s106 agreements in the Bournes (Land North of Clay Lane, Fishbourne, Marshalls). The initial allocation of time has been a day a week on the Bournes. Initial spending is from this s106 out of the three) as it has the closest re- payment date. When this contribution is fully spent the arrangement for one day a week of officer time will continue to be funded by the contribution from agreement CH/10/01013/FUL referred to above. | |
| Remaining : | £1,915.00 | | |
| Allocated : | £0.00 | | |
| Spent : | £18,510.00 | | |
| Expires : | 13-Nov-15 * | | |

# Expiry Date prior to 14/10/2014

## Affordable Housing

| LX/09/02451/FUL - Hall Hurst Farm, Loxwood 2 | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 24/09/2009 | | Hall Hurst Farm, Loxwood, Billingshurst. Substitution of plot 20 and erection of one additional unit and associated works in lieu of the public car park. This (LX/09/02451/FUL) is a supplemental agreement to the original agreement numbered LX/07/05855/FUL |
| Received : | £33,600.00 | Spending Officer - Linda Grange. All to be used to partly fund the provision of 3 affordable rented units at Nicholsfield, Loxwood (£49,200 in total) by Hyde Martlet. As approved by Cabinet on 8th October 2013. October 2014 – To achieve efficiencies this scheme has been jointly tendered with the scheme at the fire station site Bosham. Hyde Martlet have advised that they expect to start on site and draw down these funds in November. | |
| Remaining : | £33,600.00 | | |
| Allocated : | £33,600.00 | | |
| Spent : | £0.00 | | |
| Expires : | 24-Sep-14 * | | |

## Leisure

| CCE/00/01073/FUL - Farrs Field, Swanfield Drive Swanfield Drive | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 06/09/2002 | | The erection of 54 no. 2 bedroom apartments, access roads and parking spaces (61 no. parking spaces). |
| Received : | £25,000.00 | Spending Officer - Sarah Peyman. The contribution was specifically for a bus shelter costing £25,000 and was paid in two instalments of £12,500 each. The first was paid in October 2001 and the final payment was made on 29th January 2008. The full amount has been allocated for spending on a bus shelter as part of an on-going building programme.<br>19/08/2014 CMT Issues and Options Paper discussed and agreed that discussions would take place with Chichester City Council to discuss the installation and future maintenance of this and other shelters within Chichester. Following this, similar discussions will take place with other Parish and Town Council's about transfer of other shelters. | |
| Remaining : | £25,000.00 | | |
| Allocated : | £25,000.00 | | |
| Spent : | £0.00 | | |
| Expires : | 29-Jan-13 * | | |

## Public Open Space

| CCS/05/00876/FUL - St Georges Hall Cleveland Road | | | Proposed Development |
|---|---|---|---|
| S106 Date : | 28/11/2005 | | St Georges Hall, Cleveland Road. Demolition of redundant hall and construction of 7 no. one bedroom flats and 3 no. two bedroom flats. |
| Received : | £3,051.00 | Spending Officer - Sarah Peyman. The contribution has been spent in Florence Park on benches; Remaining funds are being used to provide a new interpretation board at Whyke Amphitheatre. Amphitheatre illustration completed. Next steps; commission graphic design services, obtain scheduled monument consent, produce panel, fit to City Walls lectern frame and install. | |
| Remaining : | £856.75 | | |
| Allocated : | £0.00 | | |
| Spent : | £2,194.25 | | |
| Expires : | 02-Oct-11 | | |

Agenda Item 11

# Chichester District Council

## CORPORATE GOVERNANCE & AUDIT COMMITTEE 27 November 2014

## Business Continuity Management

**1. Contacts**

**Report Author:**
Warren Townsend, Health and Safety Manager
Tel: 01243 534605 E-mail: wtownsend@chichester.gov.uk

**2. Recommendation**

**The Committee is requested to consider and note this report.**

**3. Background**

3.1. This report provides details on the progress and current position of Business Continuity (BC) management arrangements within CDC. The last position update was given to the Corporate Governance Committee In March 2014.

**4. Outcomes to be achieved**

4.1. To ensure that Chichester District Council has a robust business continuity management system that is simple to use in the event of a business interruption.

**5. Progress Report**

5.1 **Business Continuity Plans**

The plans for Council services that are critical and must be operating within the first 3 days, of there being a business interruption, have been written and agreed by SLT. Heads of Service have been given until the end of November to complete their plans for Council activities that must be in operation following the first 3 days of their being a business interruption.

5.2 **Critical Staff List**

The Council now has an up-to-date list of all ‘critical’ staff. The critical staff have recently signed-up to the email continuity system. This means that in the event of the loss of IT they will continue to be able to send and receive work emails, using their non-work email address.

5.3 **Storage of Plans and other critical documentation**

The critical staff list, first 3 day plans and any critical documents needed for service delivery are stored on a the Council’s X drive and also on the desktop of SLT and all Heads of Service. The same documents will also be available on their android mobile phone devices.  The over 3-day activities will also be added once they have been completed at the end of November.

Off-site/cloud storage solutions will be investigated further as part of a bigger project by the newly appointed IT manager who commences employment with CDC in early November.

5.4 **Business Continuity Plan Testing**

A test has been arranged to take place in the next 2 months. SLT and heads of service will be involved in this test and they will not be given advanced notice. Therefore, the date has not been published in this report. The result and any corrective actions taken following the test will be confirmed to the Corporate Governance and Audit Committee in a future report.

## 6. Alternatives that have been considered

Not applicable

## 7. Resource and legal implications

7.1 There could be legal implications of not having a robust business continuity management system.  If the Council is not adequately prepared for a business interruption then some of its statutory functions may be capable of being performed.

## 8. Consultation

Not applicable

## 9. Community impact and corporate risks

9.1. There is a corporate risk of not having a robust business continuity management system as there would be financial, reputational and legal implications of not being capable of continuing to provide a service to the public.

## 10. Other Implications

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

## 11. Appendices

Not applicable

## 12. Background Papers

Not applicable

Agenda Item 13

# Chichester District Council

## CORPORATE GOVERNANCE & AUDIT COMMITTEE 27 November 2014

## Progress Report – Audit Plan

### 1. Contacts

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

### 2. Recommendation

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

### 3. Main Report

3.1. On this occasion there are currently no audit reports to present to Committee.

### 4. Background

4.1. Not Applicable

### 5. Outcomes to be achieved

5.1. Not Applicable

### 6. Proposal

6.1. Not Applicable

### 7. Alternatives that have been considered

7.1. Not Applicable

### 8. Resource and legal implications

8.1. Not Applicable

### 9. Consultation

9.1. Not Applicable

### 10. Community impact and corporate risks

10.1. Not Applicable

## 11. Other Implications

| | Yes | No |
|---|---|---|
| **Crime & Disorder**: | | √ |
| **Climate Change:** | | √ |
| **Human Rights and Equality Impact:** | | √ |
| **Safeguarding:** | | √ |
| **Other (Please specify):** | | √ |

## 12. Appendices

12.1. Progress Report – Audit Plan

## 13. Background Papers

13.1 None

# Progress Report – Audit Plan

As at 31st October 2014

Appendix 1 of agenda item 12

| Audits | Auditor | No of Days | Days Remaining | Position with Audit |
|---|---|---|---|---|
| Customer Services Centre - Customer Care | Stephen James | 20 | 20 | |
| Contract Compliance - Assurance Testing | Sarah Hornsby | 10 | 10 | |
| Key Financial Systems - See below for details | Sue Shipway / Ann Kirk / Julie Ball / Sarah Hornsby | 110 | 34 | On-going |
| Data Collection - How do we treat data | Sarah Hornsby / Ann Kirk / Julie Ball | 15 | 11 | Background |
| Budgetary Control | Ann Kirk / Julie Ball | 15 | 14.5 | Background |
| Trade Waste | Sue Shipway | 15 | 9.5 | Final Report |
| Post Implementation Testing - FMS - CIVICA | Sue Shipway / Sarah Hornsby / Ann Kirk / Julie Ball | 40 | 29 | On-going |
| Section 106/CIL | Sarah Hornsby | 20 | 20 | |
| Cash Management (Banking Arrangements & Collection) | Sue Shipway | 20 | 19 | Background |
| Disclosure Barring Scheme | Julie Ball | 10 | 5 | Draft Report |
| Service Reviews | Ann Kirk | 15 | 15 | |
| Business Continuity | Sarah Hornsby | 10 | 10 | |
| Emergency Planning | Sue Shipway | 15 | 14.5 | |
| Procurement | Sue Shipway | 15 | 15 | |
| Carry Forwards | Stephen James / Sue Shipway | 10 | 9 | |
| **Other Audit Activities** | **Auditor** | **No of Days** | **Days Remaining** | **Position with Audit** |
| Audit Reviews | Stephen James | 10 | 0 | |
| Chichester Contract Services Quality Audits | Stephen James | 20 | 17 | |
| Corporate Advice | Stephen James / Sue Shipway / Ann Kirk / Julie Ball | 10 | 8 | |
| Contingency | Stephen James / Sue Shipway / Ann Kirk / Julie Ball | 84 | 40.5 | |

| | | | | |
|---|---|---|---|---|
| Partnership & AGS | Stephen James | 20 | 1 | On-going |
| AGS Evidence | Stephen James | 10 | 6 | On-going |
| PSIAS | Stephen James | 20 | 2 | On-going |
| Individual Service Risk Register & Corporate Risk Register | Stephen James | 10 | 10 | |
| Internet & E-mail | Julie Ball | 5 | 4.5 | |
| Performance Standard | Ann Kirk / Julie Ball | 15 | 15 | |
| NFI | Ann Kirk | 20 | 1 | |
| Mileage | Sarah Hornsby | 10 | 7 | Testing |
| Follow Ups | Ann Kirk / Julie Ball | 20 | 9 | On-going |
| **Completed Audits** | | | | |
| Fraud Review | Sue Shipway | 0 | 0 | |
| Car Parks, PCN | Julie Ball / Ann Kirk | 18 | 0 | |
| Complaints Customer Care | Ann Kirk | 5 | 0 | |
| Income Management | Sue Shipway / Sarah Hornsby | 30 | 0 | |
| **Inclusion in Key Financial Systems** | | | | |
| Walkthroughs | Sue Shipway / Ann Kirk / Julie Ball / Sarah Hornsby | 33 | | |
| Creditors | Sue Shipway / Ann Kirk / Julie Ball / Sarah Hornsby | 11 | | |
| Debtors | Sue Shipway / Ann Kirk / Julie Ball / Sarah Hornsby | 11 | | |
| Payroll | Sue Shipway / Ann Kirk / Julie Ball / Sarah Hornsby | 11 | | |
| NNDR | Sue Shipway / Ann Kirk / Julie Ball / Sarah Hornsby | 11 | | |
| Council Tax | Sue Shipway / Ann Kirk / Julie Ball / Sarah Hornsby | 11 | | |
| Bank Reconciliation | Sue Shipway / Ann Kirk / Julie Ball / Sarah Hornsby | 11 | | |
| Budgetary Control | Sue Shipway / Ann Kirk / Julie Ball / Sarah Hornsby | 11 | | |