

# Public Document Pack

## JOHN WARD

Director of Corporate Services

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A meeting of the **Corporate Governance & Audit Committee** will be held Virtually on **Tuesday 1 September 2020 at 2.00 pm**

MEMBERS: Mr A Dignum (Chairman), Dr K O'Kelly (Vice-Chairman), Mr T Johnson, Miss H Barrie, Mr J Brown, Mr F Hobbs, Mr D Palmer and Mr P Wilding

## AGENDA

### 1 **Chairman's Announcements**

Any apologies for absence that have been received will be noted at this point.

### 2 **Approval of Minutes** (Pages 1 - 7)

The committee is requested to approve the minutes of its ordinary meeting on 2 July 2020.

### 3 **Urgent items**

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

### 4 **Declarations of Interest**

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

### 5 **Public Question Time**

The procedure for submitting public questions in writing by no later than noon 2 working days before the meeting is available [here](#) or from the Democratic Services Officer (whose contact details appear on the front page of this agenda).

### 6 **Corporate Governance and Audit Work Programme 2020-2021** (Pages 9 - 13)

The Corporate Governance and Audit Committee is requested to consider and approve its work programme for 2020-2021

### 7 **2019-2020 Treasury Management Outturn Report** (Pages 15 - 34)

The Corporate Governance and Audit Committee is requested to consider the Treasury activity summarised in this report and provide comments to the Cabinet as necessary.

Members are also invited to review and comment to Cabinet on the assessment of the security of the Council's direct investments in commercial property.

### 8 **Local Authority Borrowing** (Pages 35 - 42)

The Committee is requested to note the briefing note on Local Authority borrowing

### 9 **Progress Report - 2019/20 Audit Plan & Audit Plan 2020/2021** (Pages 43 - 49)

The Committee is requested to note performance against the 2019/20 audit plan, and also the audit plan for 2020/21

10 **Fraud Prevention Report 2019/2020** (Pages 51 - 54)

The committee is requested to consider this report and the corporate approach to fighting fraud to ensure they fulfil their stewardship role and protect the public purse

The committee notes that the Council will actively pursue potential frauds identified through ongoing investigations by the Corporate Investigations Team (CIT)

11 **Appointment to the Strategic Risk Group -Verbal Report**

The Strategic Risk Group is set up with terms of reference 'to consider any strategic and operational risks (*to the Council*), the associated controls, management and any mitigation and to review previously identified strategic risks and give detailed consideration of any newly identified risks'. It meets at least twice a year and reports to this committee. Membership is three members of Cabinet, three members of the Corporate Governance & Audit Committee and the Strategic Leadership Team. Members are requested to agree the three representatives from this committee

The dates of the meetings to be held are Monday 5 October at 3.00pm and Monday 8 March 2021 at 2.00pm

12 **Exclusion of the Press and Public**

The Committee is asked to consider in respect of the following item(s) whether the public, including the press, should be excluded from the meeting on the grounds of exemption under Parts 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) and 5 (Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings) of Schedule 12A of the Local Government Act 1972, as indicated against the item and because, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information. **The reports dealt with under this part of the agenda are attached for members of the Corporate Governance & Audit Committee and senior officers only (salmon paper).**

13 **Income Strip and Wrapper Lease** (Pages 55 - 59)

Corporate Governance and Audit Committee is asked to consider the report and recommend to Cabinet the proposal set out in section 5

14 **Late items**

The committee will consider any late items as follows:

- a) Items added to the agenda papers and made available for public inspection
- b) Items that the chairman has agreed should be taken as a matter of urgency by reason of special circumstances to be reported at the meeting



Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Virtually on Thursday 2 July 2020 at 9.30 am

**Members Present:** Mr A Dignum (Chairman), Dr K O'Kelly (Vice-Chairman), Mr T Johnson, Miss H Barrie, Mr J Brown, Mr F Hobbs, Mr D Palmer and Mr P Wilding

**Members not present:**

**In attendance by invitation:** Mr K Suter (Ernst & Young LLP)

**Officers present:** Mrs H Belenger (Divisional Manager for Financial Services), Mr N Bennett (Divisional Manager for Democratic Services), Mr M Catlow (Group Accountant (Technical and Exchequer)), Mr D Cooper (Group Accountant), Miss K Davis (Democratic Services Officer), Mr S James (Internal Audit and Corporate Investigations Manager), Mrs M Rogers (Benefits Manager), Mr J Ward (Director of Corporate Services) and Mr K Gillett (Valuation and Estates Manager)

### 1 **Chairman's Announcements**

The Chairman thanked Dr O'Kelly for her previous chairmanship of the Committee. He was pleased that she was his Vice-Chairman.

### 2 **Approval of Minutes**

#### **RESOLVED**

The minutes of the meeting held on 23 January 2020 were agreed as a correct record.

### 3 **Urgent items**

There were no late items for urgent consideration at this meeting.

### 4 **Declarations of Interest**

There were no declarations of interests.

### 5 **Public Question Time**

There were no public questions.

## 6 Financial Impact of Covid-19

Mr Ward introduced the report. The Committee was asked to risk assess the financial impact of Covid 19 to the Council and make a recommendation to Cabinet who would then make a recommendation to Council.

It was noted that the Covid 19 Recovery Plan had been debated and endorsed by the Overview and Scrutiny Committee on 30 June 2020 and recommendation to Cabinet who would then make a recommendation to Council. He reminded the Committee of the exempt element of the report, concerning the Council's 5 year financial model at Appendix 1.

Earlier in the day the Government had announced a third round of financial assistance to councils specifically aimed at those losing income, which included this Council. The allocations to each individual Council were yet to be announced. However, the Government had advised that councils would pay the first 5% of any reduction in income and receive compensation at a rate of 75p in the pound for the remaining losses, which would assist the Council in the current financial year.

During the discussion Mr Ward responded to members' questions and comments:

- Insert "up to" before "£8,070,000" in recommendation 2.1 (b)
- With regard to the income generation, since the 2008 banking crisis the Council had taken more of a commercial approach. A lot of work had been undertaken to generate income and because the Council had been so successful in this approach this additional income generated from fees and changes was now under threat. This year's efficiency review with managers would look at ways to reduce the budget by looking at ways to reduce costs and increase income. It was unlikely that generating income on its own would solve the issue.
- The intention was to pause, not cancel, the capital programme for schemes funded by the Council only. Concern was raised by a member about the rationale for pausing these schemes as it would result in a decrease in investment in the community. Mr Ward confirmed that it was correct that these schemes would not impact the Council's £22.8 million reserves. He explained the reason for pausing was because the financial implications of Covid 19 were not currently known and could be worse than anticipated in the Council's financial model. It protected the Council's reserves beyond the £22.8 million until the exact financial implications were known.
- A list of paused projects was requested for circulation to members, as there may be some that members considered should not be delayed. Members were advised that the Accountancy Service was currently working on a definitive list of internal and external schemes.
- It was confirmed that the financial model was flexible and allowed the Council to match priorities against any level of resources available to determine the future shape of the Council. It would be for members to determine the amount of time available to achieve a balanced budget when the future services framework was brought before Council during 2021. However, if the adjustment period extended past five years it would run down reserves further.
- With regard to paragraph 12.1, clarification had been received from CIPFA who had advised that the Council has powers to borrow short term for cash management purposes. It could borrow for a longer term, taking the Council

into debt, under certain powers and must be for a specific capital scheme, not as a way to manage the Council's budget. It was unlawful to borrow for revenue or speculative purposes to generate a return. The revenue consequences of borrowing were explained, which would bring the revenue budget further into deficit if the Council borrows instead of using reserves to fund capital projects.

- The financial model assumed a £5 council tax increase annually, the maximum amount currently permitted by the Government.
- With regard to the Economic Impact study, agreed by Overview and Scrutiny Committee, Mr Ward undertook to provide a written answer concerning the need to use consultants.
- It was agreed that a paper on the Council's borrowing would be produced for all members of the Council. The report should include advice on the rules, the repayment schedules, how they could be applied in the context of the Council and whether or not a commitment to borrowing fit with the Council's overall structure and what it would mean for finances, including the minimum requirement. It should also include examples for members and benchmarking. Mr Ward undertook to produce a paper on the Council's borrowing to the next meeting of the Corporate Governance and Audit Committee, subject to being able to meet the agenda report deadline.

A proposal to include a further recommendation to Cabinet that the Council should prioritise the identification and development of new income generation ideas was made. Mr Ward advised that the proposal was straying into the Council's Recovery Plan. The point was well made but the Council had always had a focus on income generation. If a sound and robust business case for any income generating scheme was made, members would be asked if they wanted to implement it or not. If capital investment was funded to generate revenue it would either be via borrowing with revenue consequences or by liquidating the Council's investments resulting in lost interest. Risk mitigation would need to be taken into account. However, if members felt such a recommendation should be made to Cabinet they could do so and in any case officers were already considering new income generating ideas.

A vote to include a further recommendation to Cabinet that the Council, as set out above, was carried.

## **RESOLVED**

That the financial situation facing the Council be noted.

## **RECOMMENDATION TO CABINET**

That the Corporate Governance and Audit Committee:

- 1) Recommend to Cabinet that up to £8,070,000 be released from reserves to meet the in-year cost of the pandemic.
- 2) Recommend to Cabinet that in the current circumstances the minimum level of reserves be reduced from £6.3m to £4m.
- 3) Recommend to Cabinet that the Council should work towards achieving a balanced budget over the next 5 years, using reserves to help balance the intervening years.

- 4) Recommend to Cabinet that the Council should prioritise the identification and development of new income generation ideas.

## **7      Audit Planning Report Update Year Ended 31 March 2020 - EY**

Mr Suter of Ernst & Young LLP presented this report, which was an update to the report prepared for the cancelled March meeting before the Covid 19 pandemic.

He advised that with regard to the Financial Impact of Covid 19 report considered by the Committee earlier in the meeting, EY did not have any concerns with the Council continuing to look over the medium term in respect of its finances. He drew members' attention to page 27 of the report. EY considered that Covid 19 would impact its audit concerning the fair value of Property, Plant and Equipment, in particular the Council's land and buildings, and investment properties. This had resulted in a greater of uncertainty and therefore a need to increase the audit risk to significant and for EY to instruct their expert valuers, as the valuation could be materially wrong. The current position was that EY was waiting for the Council's valuers to complete a review of the valuations to enable EY to determine whether or not there is an impact. With regard to the concept of going concern in relation to disclosure, EY would have to ascertain whether or not the Council had looked at the assessment of its going concern arrangements, in particular around the level of reserves and cash flow liquidity. Cipfa had delayed the introduction of new accounting standards for IFRS16 relating to leases due to Covid 19, identified as a risk in the original report.

In response Mr Gillett reported that the provision of a valuation by 31 March 2020 had been difficult due to the Covid 19 outbreak. The Council's position was to report the valuations as they were with material valuation uncertainty, in keeping with the Royal Chartered Institute of Surveyors (RICS) guidance. The Council was comfortable that this position should still remain. Applying evidence not available at the valuation date went against valuation principles and at 31 March 2020 there was no new evidence available to suggest what impact the pandemic would have on the valuations. The RICS was still updating its recommendations up to mid-June. His recommendation was that the council should undertake a further valuation exercise later in the year when more evidence is known and could better understand the impact of not only the Council's own portfolio but generally the impact on property values. He had addressed further questions from EY on the matter in a supplemental report, with evidence to support the Council's position, which had not yet been seen by Mr Suter.

Mrs Belenger confirmed that any adjustments would impact the declaration on the balance sheet, but the accounting treatment applied would negate it into an unusable reserve. Any changes to the asset values would go into the capital adjustment account with no impact to the Council Tax payer.

Mr Suter confirmed that he had no issue with the Council's concept, but his position was that he was required to give an opinion as at 31 March 2020.

**RESOLVED**

That Ernst & Young LLP's Audit Planning Report update for the year ending 31 March 2020 be noted.

**8      2019-2020 Accounting Policies**

Mr Catlow introduced this report.

**RESOLVED**

That the accounting policies to be applied to prepare the Council's 2019-20 financial statements be approved.

**9      Housing Benefit Subsidy Audit Position**

Mrs Rogers presented this report.

The Committee expressed their thanks to the Benefits Team for the amount of work achieved over the last two years to resolve the issues.

**RESOLVED**

- 1) That the outcome of the 2018/19 Audit report be noted; and
- 2) That the final outcome of the 2017/18 Housing Benefit audit be noted.

**10     Motions Procedure**

The Chairman of the Motion Task and Finish Group, Mr Brown presented the draft amended Motions procedure for consideration.

Mr Bennett advised that the mechanism to be followed was similar to the previous procedure but included improved clarity and timelines, and greater scope for Chairmen to take the debate fully to enable free speech, whilst keeping the meeting effective. It was particularly important to have discipline in relation to remote meetings.

In advance of the meeting, Mr Johnson had submitted an amendment to 4.2 of the procedure. Mr Johnson advised that he had since made a further amendment as follows : "Should one or more political groups have not had the chance to speak they will be entitled to nominate, in keeping with "Wall and Exchange in 1981", one speaker to close the debate".

Mr Bennett provided legal advice with regard to Mr Johnson's further amendment. He advised that the ability to use a closure motion was narrow. The case law relating to "Wall and Exchange 1981" advised that once a closure motion was put the chairman has one decisions to make, which was, has there been sufficient debate?, and if so will move to closure. The Task and Finish Group had received advice on this matter. The wording in the Task and Finish Group's procedure before members today attempted to be clear. Retaining the ability for the Chairman to decide whether or not there had been enough speakers, but did not obligate anyone to speak if they did not feel the need to. His advice was that Mr Johnson's amendment did not do that and was not clearly within the legal requirement of a

closure motion. It created additional requirement for there to be further debate and did not fit in with the aim of the procedure, which gave the Chairman a general responsibility for the control of the meeting.

The Chairman of the Task and Finish Group asked that the advice notes include additional pointers to the Chairman to ask the Chairman to ensure the different political viewpoints had been represented, which would achieve Mr Johnsons request.

Mr Johnson withdrew his amendment to paragraph 4.2, subject to the inclusion of additional pointers to the Chairman on this matter in the advice note. He withdrew his amendment to paragraph 3.1, to clarify the meaning of “significantly change”, on the same basis.

Mr Bennett confirmed that once the procedure was adopted, advice notes on the procedure would be produced for members and training given to committee chairmen

The Committee agreed that “At the end of the debate or...” to be added to the beginning of paragraph 4.11.

The Chairman congratulated Mr Brown on how he had chaired the Task and Finish Group, which led to a good consensus.

## **RECOMMENDATION COUNCIL**

That the Motions procedure be recommended for adoption by Council.

### **11 Internal Audit - Individual Reports and Audit Plan Progress and New Audit Plan 2020-21**

Mr James introduced this report.

Mr James outlined the final audits undertaken since the previous meeting, in particular the Travel and Subsistence Audit that had received “limited assurance”, as well as setting out the impact of Covid-19 on the Audit Plan for 2020-21.

## **RESOLVED**

That the performance against the 2019/20 audit plan, and also the audit plan for 2020/21 be noted

### **12 Updates to the Constitution - Verbal report**

Mr Bennett presented the verbal report and outlined the amendments made to the Constitution. Details of the amendments were available to view on the Council's website.

It was agreed that a summary of changes made to the Constitution would be produced on an annual basis for all members of the Council.



## **RESOLVED**

That the amendments to the Constitution made by the Monitoring Officer be noted.

### **13 Amendment to Corporate Governance and Audit Committee Timings**

Miss Davis presented the report.

The proposed new date for the October meeting was corrected to read "Monday 10 October 2020".

Mr Johnson's additional recommendation that "The Committee requests Officers investigate the feasibility of: -

- Private Meetings, e.g. Panels, Task & Finish groups, continuing to be entirely held remotely or at least allowing participants the choice to take part in this way;
- Public Meetings, e.g. Full Council, Committees, being held on fewer different weekdays to increase the future letting potential if physical meetings resume in a building owned by the Council."

Mr Bennett advised members of the legal position concerning hybrid/blended meetings, which were currently unlawful. A meeting was due to take place on 7 July 2020 between the Association of Democratic Services Officers and the Local Government Lawyer on the legality of these types of meetings.

On being put to a vote, Mr Johnson's additional recommendation was carried.

## **RESOLVED**

- 1) That the proposed afternoon meeting start times, of 2.00pm for future Corporate Governance and Audit Committee to take place on Mondays be agreed; and
- 2) The Corporate Governance and Audit Committee requests Officers investigate the feasibility of: -
  - Private Meetings, e.g. Panels, Task & Finish groups, continuing to be entirely held remotely or at least allowing participants the choice to take part in this way;
  - Public Meetings, e.g. Full Council, Committees, being held on fewer different weekdays to increase the future letting potential if physical meetings resume in a building owned by the Council."

### **14 Late items**

There were no late items.

The meeting ended at 11.55 am

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CHAIRMAN

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Date:

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## Chichester District Council

### CORPORATE GOVERNANCE AND AUDIT COMMITTEE 1 October 2020

#### Corporate Governance and Audit Committee Work Programme 2020-2021

##### 1. **Contacts**

Tony Dignum - Chairman of the Corporate Governance & Audit Committee  
Telephone: 01243 538585  
E-mail: [tdignum@chichester.gov.uk](mailto:tdignum@chichester.gov.uk)

##### 2. **Recommendation**

**The committee is requested to consider and agree its work programme for 2020-21.**

##### 3. **Background**

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

3.2 At previous meetings of the committee the following principles were agreed:

- Task and Finish Groups can be used to take an issue off-line for deeper consultation and report back with recommendations.
- Where major documents (such as Treasury Management) are brought to the committee for approval, highlighting or underlining should be used to identify changes from previously approved versions.
- Reports should be shorter and more use should be made of executive summaries.
- High/medium priority internal audit reports would be included with the agenda and low priority audit reports would be emailed to members for information.

##### **Developing a Work Programme**

4.1 The 2020-2021 work programme has been developed in consultation with the Council's external auditors and with internal audit officers and taking into account suggestions for future focus discussed by the committee during the year.

4.2 The Business Routeing Panel met on 16 June 2020 to discuss the Council's full work plan and to agree those issues which should be considered by this committee. The Panel usually meets in March each year, but the meeting was delayed due to the need to update the Council Work Plan 2020-21 following the Covid-19 Pandemic. A further meeting of the Panel will take place on 10 November 2020 to consider items still to be confirmed in the Council Work Plan 2020-21. A special

meeting of the Committee was held on 2 July 2020 to enable the Committee to make a recommendation to Cabinet concerning the financial implications of Covid 19.

- 4.3 Members are requested to consider and approve this committee's work programme attached at Appendix 1.

5. **Implications**

**Are there any implications for the following?**

	Yes	No
<b>Crime &amp; Disorder</b>		x
<b>Climate Change</b>		x
<b>Human Rights and Equality Impact</b>		x
<b>Safeguarding</b>		x
<b>Other</b> (please specify) eg biodiversity		x

6. **Appendices**

Appendix 1 – Draft Work Programme 2020-2021

7. **Background Papers**

None

## Corporate Governance and Audit Committee 2020-21 Work Programme

Subject	Route	Lead Officer
<b>2 July 2020 9.30am (Special)</b>		
CGAAC meeting timings		Chairman
COVID-19 response, recovery phase	Cabinet	John Ward
Audit Planning Report 2019-20		EY
2019-2020 Accounting Policies		Mark Catlow
Housing Benefit Subsidy Audit		Marlene Rogers
Internal audit - individual reports and audit plan progress and new audit plan 2020-21		Stephen James
Motions report		Nick Bennett
Updates to the Constitution		Nick Bennett
Audit Planning Report 2019-20		EY
Corporate Health and Safety and Business Continuity Management (Circulated outside of meeting to members for information)		Warren Townsend
Fraud Prevention Management (Circulated outside of meeting to members for information)		Jeremy Todd
Partnerships Report 2019 Management (Circulated outside of meeting to members for information)		Amy Loaring
Risk Management Update Management (Circulated outside of meeting to members for information)		Helen Belenger
<b>1 September 2020 2.00pm</b>		
CGAC work programme 2020-21		Katherine Davis
Income Strip and Wrapper Lease		John Ward
Briefing note on borrowing and income generation (requested by Chairman)		Mark Catlow
2019-20 Treasury Management Outturn report	Cabinet	Mark Catlow
Internal audit - Progress report and 2019-20 audit plan & audit plan 2020-21		Stephen James
Fraud Prevention		Jeremy Todd

Subject	Route	Lead Officer
Strategic Risk Group - Appointment of three members of the committee – verbal report		Chairman
Potential liabilities of outstanding litigation (Part 2) (Circulate outside of meeting to members for information)		Nick Bennett
S106 and CIL Annual Monitoring report (Circulate outside of meeting to members for information)		Simon Davies
<b>20 October 2020 2.00pm</b>		
Annual Audit Letter 2019-20		EY
Strategic & Operational Risks 2020-21 – report back from SRG 1 October 2020		Helen Belenger
Financial Strategy & Plan 2021-22	Cabinet Council	Helen Belenger
S106 annual exceptions report		Simon Davies
Complaints, Freedom of Information requests and Data Protection Analysis 2019-20		Nick Bennett/Fiona Delahunty
Internal audit - individual reports and audit plan progress		Stephen James
Budget TFG - Appointment of three members of the committee		Helen Belenger
Audit Results Report for the year ended 31 March 2020		EY
Approval of the 2019-20 Audited accounts		David Cooper
2019/20 Annual Governance Statement and Corporate Governance report. (App 1 CGAC report to Full Council; App 2 Annual Governance Statement; App 3 Report on Partnerships; App 4 Effectiveness of Internal Audit section)	Council	Stephen James
<b>19 January 2021 2.00pm</b>		
Certification of claims and returns annual report 2019-20		EY
Capital Strategy		Mark Catlow
Audit Progress Report		EY
Mid- year review of the Treasury Management Strategy 2020-21	Cabinet	Mark Catlow
Corporate Debt and Write Off Policies	Cabinet	Helen Belenger

<b>Subject</b>	<b>Route</b>	<b>Lead Officer</b>
2021-22 Draft Treasury Management Strategy and Policy and Investment Strategies and Capital Strategy Update		Mark Catlow
Budget Review TFG – report back by members of the group		Helen Belenger/ TFG members
Internal audit - individual reports and audit plan progress		Stephen James
<b>23 March 2021 2.00pm</b>		
Audit Planning Report 2020-21		EY
Internal audit - individual reports and audit plan progress and new audit plan 2021-22		Stephen James
Accounting Policies		Mark Catlow
Strategic, Organisational and Programme Board Risk Registers Update		Helen Belenger
Internal audit - individual reports and audit plan progress		Stephen James
Carry forward requests	Cabinet	David Cooper
Report on potential liabilities of outstanding litigation (Part 2)		Nick Bennett

**Reports emailed to CGAC members for information:**

- Audit scopes – sent to committee members by Internal Audit
- Audits where recommendations are low risk – medium and high risk audits included on agenda
- Treasury Management monthly reports – sent to members by Financial Services
- Property Investment performance monthly reports – sent to members by Financial Services
- Employment Statistics annual report – November (reported as part of Equality Strategy update) – sent to members by Committee Clerk
- EY quarterly committee briefings – sent to committee members by Committee Clerk

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## Chichester District Council

Corporate Governance and Audit Committee

1 September 2020

### 2019-2020 Treasury Management outturn report

#### 1. Contacts

##### Report Author

Mark Catlow - Group Accountant

Telephone: 01243 521076 E-mail: [mcatlow@chichester.gov.uk](mailto:mcatlow@chichester.gov.uk)

#### 2. Recommendation

The Corporate Governance and Audit Committee is requested to consider the Treasury activity summarised in this report and provide comments to the Cabinet as necessary.

Members are also invited to review and comment to Cabinet on the assessment of the security of the Council's direct investments in commercial property.

#### 3. Background and Outcomes

- 3.1. This report provides the Committee with a summary of Treasury Management activity undertaken for the year to date. The objective is to provide Members with assurance over the effectiveness of Treasury activities undertaken during the reporting period and compliance with the Council's Treasury Management Strategy and Policy statement.

#### 4. Treasury management activity

- 4.1. On 31 March 2019, the Council had investments of £64.3m with no external borrowing (table 1, below). Across the year, the investments managed varied between £75m and £94m, reflecting the normal cyclical pattern of increasing until the new calendar year and falling back in February and March due to lower Council Tax receipts.
- 4.2. Benchmarks and red/ amber/ green risk ratings continue to be used across a series of indicators focussed on measuring security, liquidity and return. These are shown at appendix B with a short commentary against each.
- 4.3. During 2019-20 the main focus, at least until the start of the COVID-19 emergency, remained:
- (a) balancing short-term investments between high credit quality banks, local authorities and money market pooled funds; and,
  - (b) making further investments in external pooled funds in line with the Council's 2019-20 Treasury strategy.

4.4. Since February the Council's Treasury team has also focussed on:

- (a) maximising the amount of liquidity available to the Council, whilst remaining within approved institutional investment limits;
- (b) Securely managing the cashflows associated with Business Relief grants for which the Council was forward funded by the Government in early April 2020; and,
- (c) Scenario planning and modelling cashflows for the next 12 months based on the evolving effects of the national and local responses to COVID-19.

Table 1: Treasury Management Summary

<b>Investments £000</b>	<b>Balance 01/04/2019</b>	<b>Movement</b>	<b>Balance 31/03/2020</b>
Short term Investments	39,000	(4,000)	35,000
Money Market Funds	4,350	1,700	6,050
<b>Total liquid investments</b>	<b>43,350</b>	<b>(2,300)</b>	<b>41,050</b>
Long term Investments	3,000	(3,000)	-
Pooled Funds – External	7,950	16,050	24,000
Pooled funds – Local Authority	10,000	-	10,000
Property fund			
<b>Total investments</b>	<b>64,300</b>	<b>10,750</b>	<b>75,050</b>

Note: the figures in the table above exclude any movements in Fair value.

4.5. The overall performance and return of our external pooled investments is shown in table 2.

Table 2: Gains and losses from external pooled funds (£000) – 31 March 2020

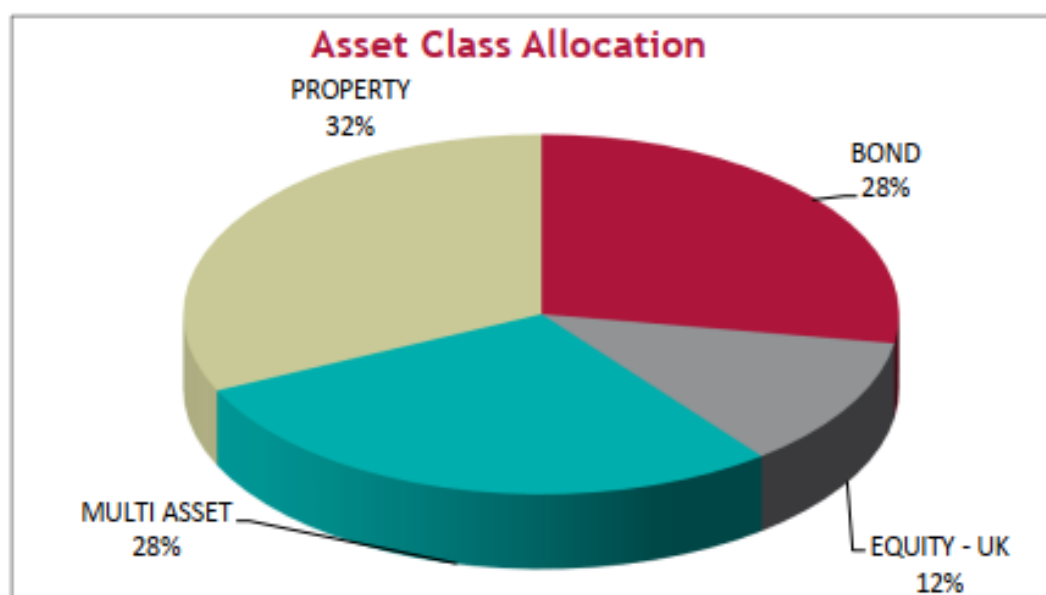
<b>Fund</b>	<b>Type of fund</b>	<b>Invested £000</b>	<b>Capital gain (loss)</b>	<b>31.3.20 Market Value</b>	<b>Latest Market Value 7 Aug 2020</b>	<b>Income 19-20 £k</b>	<b>Return (Income %)</b>
Local Authority Property Fund	Property	10,000	(485)	9,515	9,105	426	4.26
Ninety-One Diversified Income Fund	Multi Asset	5,000	(544)	4,456	4,786	163	4.10
Columbia Threadneedle Strategic Bond Fund	Bonds	2,650	(216)	2,434	2,682	65	2.48
Kames Diversified Income	Multi Asset	5,000	(960)	4,040	4,484	62	4.30
M&G Strategic Corporate Bond fund	Bonds	4,000	(419)	3,581	4,015	32	3.58
Schroder Income Maximiser	Equity	5,000	(1,470)	3,530	3,623	103	5.49
Columbia Threadneedle – short dated bond fund	Bonds	2,350	(154)	2,196	2,354	16	1.86
<b>Totals</b>		<b>34,000</b>	<b>(4,248)</b>	<b>29,752</b>	<b>31,049</b>	<b>865</b>	

4.6. Alongside other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities Property Fund was suspended in March 2020. The relative infrequency of property transactions in March as the pandemic intensified meant

that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty is re-established. The temporary suspension remains in force at the date of writing this report.

- 4.7. In addition to the income above, the Council also received £27,120 from the M&G Optimal Income Fund. This investment was sold during the year.
- 4.8. The Council's approach to these investments has been to develop a balanced portfolio of investments across asset types and using only those funds that projections showed were not required over the medium term (defined as 5 years). The Council's allocation of external investments across asset class is shown below.

Exhibit 1: Asset class allocation 31 March 2020 External Funds

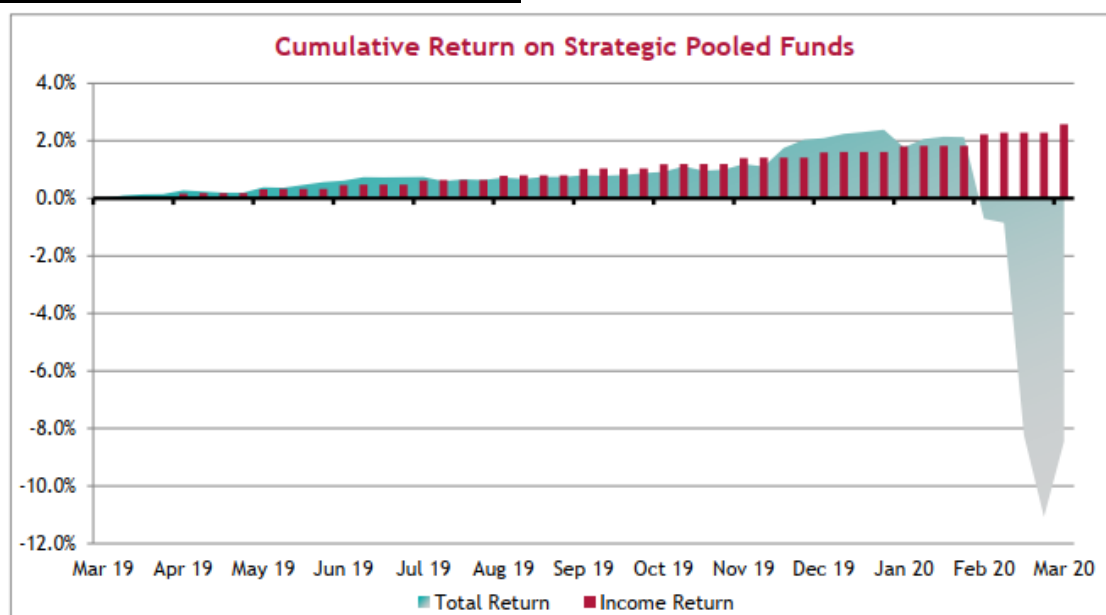


## 5. Impact of the COVID-19 pandemic

- 5.1. The Council's external pooled fund investments are showing significant carried losses at 31 March 2020, almost entirely due to the global market reaction to the COVID-19 emergency, illustrated by exhibit 2 (next page)
- 5.2. The events occurring since early 2020 have, at least over the short term, significantly affected the Council's main income streams and officers continue to forecast possible changes for the Council's Treasury returns and liquidity.
- 5.3. Depending on the length of disruption caused by COVID-19, it remains a possibility that additional liquidity will be sought sometime in 2020-21. The Council presently has the ability to borrow up to £10m for operational cashflow purposes, and up to £20m in emergencies. Officers are keeping these limits under review and they may need to be increased, subject to:

- (a) the scale of impact of COVID-19 on cashflows and services;
- (b) the Government's response to support Local Government;

## Exhibit 2: Funds cumulative return 2019-20



- 5.4. On a positive note, recent Government support for the Council, particularly in the form of reimbursement for Business Rate Reliefs awarded since March 2020, has eased some of the pressure on the overall liquidity position.
- 5.5. It is likely that returns from our internal and external investments will fall in 2020-21, mainly as a result of:
  - (c) A reduction in internal cash investments due to short-term cash burn;
  - (d) The Bank Base rate cut early in 2020; and,
  - (e) Reduced returns on external pooled funds of between 20 to 50% as the corporate world conserves cash and/or defers shareholder distributions
- 5.6. In total these factors are likely to reduce income from Treasury investments by £0.5m to £1m for 2020-21.
- 5.7. Further information on the individual movements in these funds can be found in appendix A

## **6. Other Non-Treasury Holdings and Activity**

- 6.1. Although not classed as treasury management activity, the 2017 CIPFA Code now requires the Authority to report on investments for policy reasons outside of normal treasury management.
- 6.2. The Authority continues to hold approximately £13.6m of investments in directly owned property.
- 6.3. The 31 March 2020 valuation of one commercial investment shows a modest decrease in value against the purchase price. In these circumstances, the

MHCLG's Investment Guidance requires an updated review of risks to the Council's ability to recover the invested principal for this investment.

- 6.4. The Council's risk assessment at present does not indicate any particular need to take action to mitigate the 'losses' at present. As with all investment valued on the basis of income generating potential, overall risk to security is subject to the market forces of supply and demand and the market conditions at the time of valuation. The short term risk to the Council remains the pressure on high street rents and the security of tenure.
- 6.5. In terms of recouping the principal of the investment, this is entirely dependent on how long we wish to hold the asset. The Council presently has no plans to dispose of the property which has an established tenant signed up to a long term lease. Theoretically, based on the income already received and the property's reported fair value, the aggregate value is higher than the capital initially invested.
- 6.6. Even prior to COVID-19 there were some vacant units within the Council's commercial property portfolio. Some retail premises, particularly Crane Street, have become partially vacant with three units unoccupied.
- 6.7. As part of a new Council initiative two vacant units were allocated for the purposes of 'pop up' shops and this was in the very short term successful, before the impact of the pandemic hit. The pop up initiative does not generate market rental income however and in the long term would have a negative impact on the investment if we were unable to secure a longer term interest.
- 6.8. This was all pre-Covid19 and as such, officers are mindful there may be further reductions in our occupancy levels. Businesses have been hit hard and it is possible that some tenants will not be able to survive this crisis, despite our best efforts. It could also impact our ability to attract new tenants as demand is likely to fall at least initially.
- 6.9. Further information on the performance of the Council's non-treasury investments is contained in appendix D.

## **7. Compliance Report**

- 7.1. How Treasury activities complied with the Council's main 2020-21 Treasury limits is disclosed at Appendix C. There are no exceptions for the reporting period.

## **8. Other Developments**

- 8.1. This section updates the Committee on relevant developments since the last report in earlier this year.

## **Review of external pooled fund investments**

- 8.2. During Autumn 2019 the Council, supported by Arlingclose Ltd, completed a review of its present external fund investments and increased its total investments in external pooled funds during the final quarter of 2019 by:
- Investing a further £5m in a new diversified asset fund, bringing the total in diversified asset funds to £10m
  - Investing £5m in a UK equities fund
  - Increasing the total invested in corporate bond funds from £4.3m to £10m
- 8.3. Whilst the effects of COVID-19 are keenly felt at present, the fundamental structure of the Council investment portfolio, comprising a well-diversified selection of funds selected to comply with the Council's appetite for risk has not changed. The biggest risk at present is liquidity as set out in section 5, although the long term effects of COVID-19 on market values may come more into focus as end of the 5-year statutory override in respect of IFRS9 approaches and the potential impact on the Council's 2023-24 General Fund.

## **Proportionality of Commercial Income**

- 8.4. During 2019-20 the Council reviewed potential indicators to measure the proportionality of commercial income generated by Chichester District Council. The Council determined that it expected income from commercial properties to remain below 10% of the Council's net cost of services.
- 8.5. In 2019-20 the Council's income from its commercial investments, net of direct costs was £963k, or 5.5% of the Council's net cost of services (£17,479k).

## **Treasury workshop for Members**

- 8.6. A Treasury workshop for all Members was delivered on 16 December 2019 to help inform Members of the issues facing the Council in advance of approving the 2020-21 Treasury and Investment Strategy. A similar event will be held in December 2020 in advance of the Council's consideration of the same for 2021-22.

## **9. Outlook for remainder of 2020-21 – Arlingclose Ltd (May 2020)**

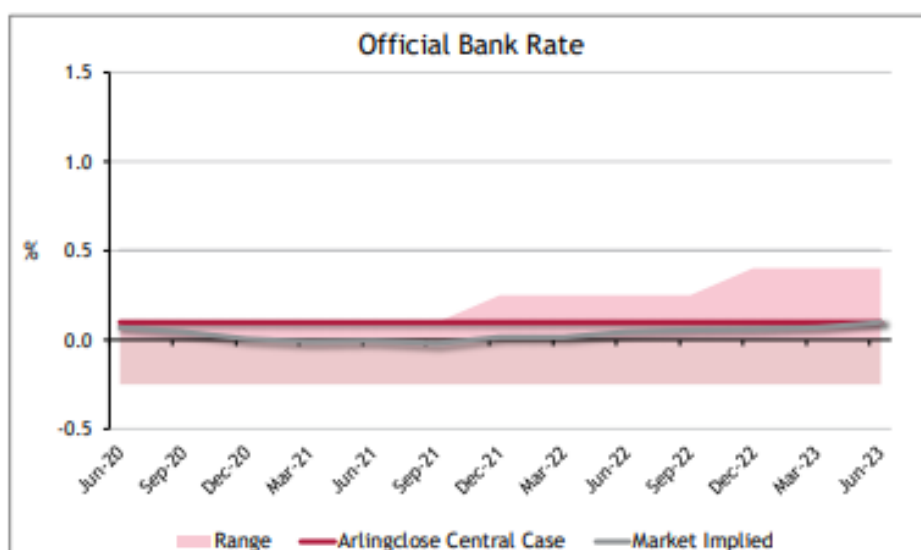
- 9.1. The medium-term global economic outlook is exceedingly weak. While containment measures taken by national governments in response to coronavirus (COVID-19) are being eased, it is likely to be some time before demand recovers to pre-crisis levels due to rises in unemployment, the on-going need for virus control measures and the impact on consumer/business confidence.
- 9.2. The responses from the Bank of England, HM Treasury as well as other central banks and governments have been significant and will act to support the recovery when it occurs, by keeping financial conditions stable and many businesses solvent/employees employed than would otherwise have been the case. There will be an economic bounce in the second half of the year, as businesses currently dormant begin production/supply services once more.

9.3. However, the scale of the economic shock to demand and the probable on-going social distancing measures necessary before a vaccine is produced will mean that the subsequent pace of recovery is limited.

9.4. Arlingclose expects that:

- (a) the Bank Rate to remain at the current 0.10% level. The central case for Bank Rate is no change, but further cuts to the Bank Rate to zero or even into negative territory cannot be ruled out.
- (b) Gilt yields will remain very low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth prospects improve.
- (c) Downside risks remain in the near term, as households and businesses react to an unprecedented set of economic circumstances.

Exhibit 3: Arlingclose Ltd interest rate forecast



9.5. Officers are mindful of the potential for negative base rates as, in this circumstances, the Council is likely to receive principal *minus* interest back for any investments.

9.6. The issue of negative interest rates was anticipated the Council's Treasury Strategy for 2020-21. If interest is deducted from a principal repayment, it does not meet the definition of a credit event indicating a lack of security.

## 10. Community impact and corporate risks

10.1. The Council is required by the Accounts and Audit Regulations to comply with CIPFA's Code of Practice for Treasury Management and the Prudential Code for Capital Finance.

## 11. Other Implications

	Yes	No
--	-----	----

<b>Crime and Disorder</b>		X
<b>Climate Change and Biodiversity</b>		X
<b>Human Rights and Equality Impact</b>		X
<b>Safeguarding and Early Help</b>		X
<b>General Data Protection Regulations (GDPR)</b>		X
<b>Health and Wellbeing</b>		X
<b>Other</b>		X

## 12. Appendices

- 12.1. A - Movements in Fund fair values and income – Pooled Funds
- 12.2. B - Benchmarking indicators
- 12.3. C - Compliance report
- 12.4. D - Non Treasury investments

## 13. Background Papers

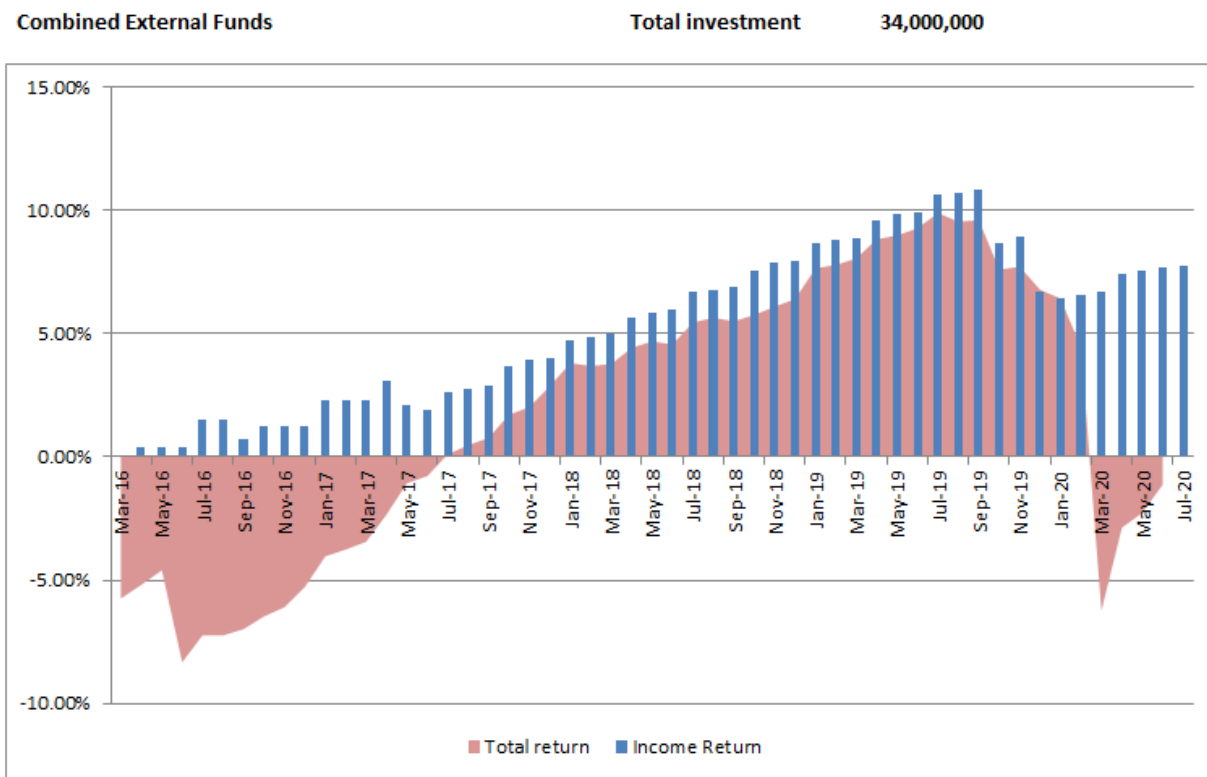
- 13.1. None.



## **Appendix A: Movements in Fund fair values and income – Pooled Funds**

### **Combined position (all funds)**

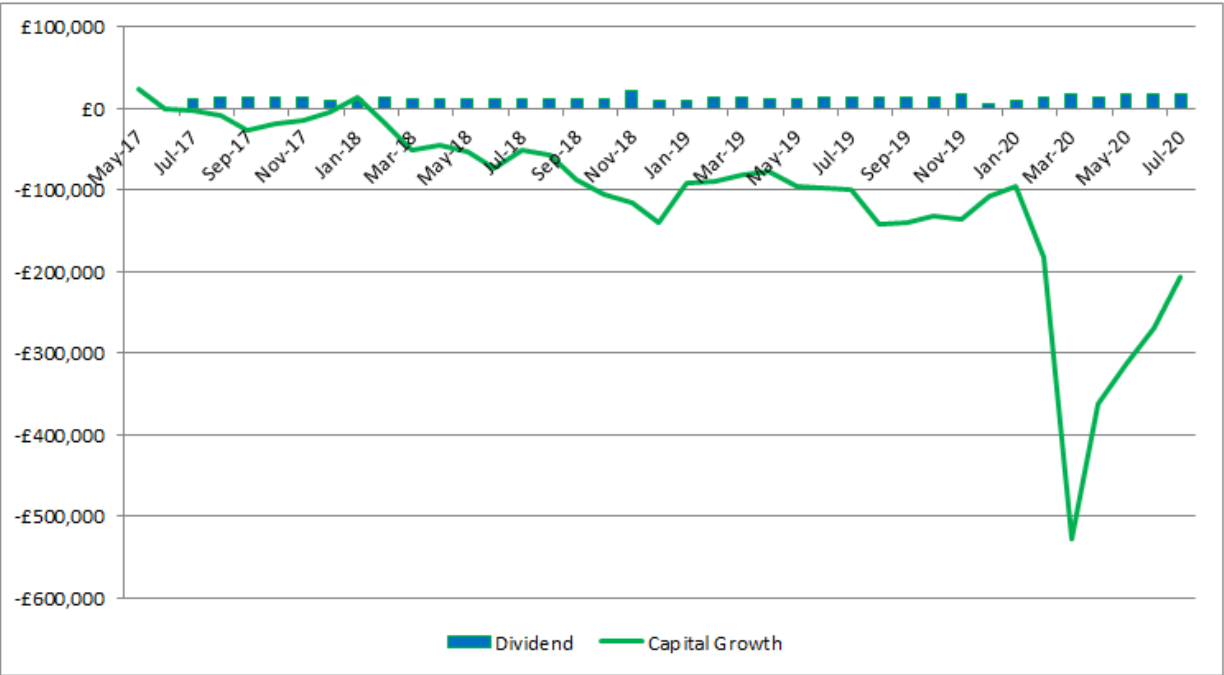
### **Cumulative returns – total and income only**



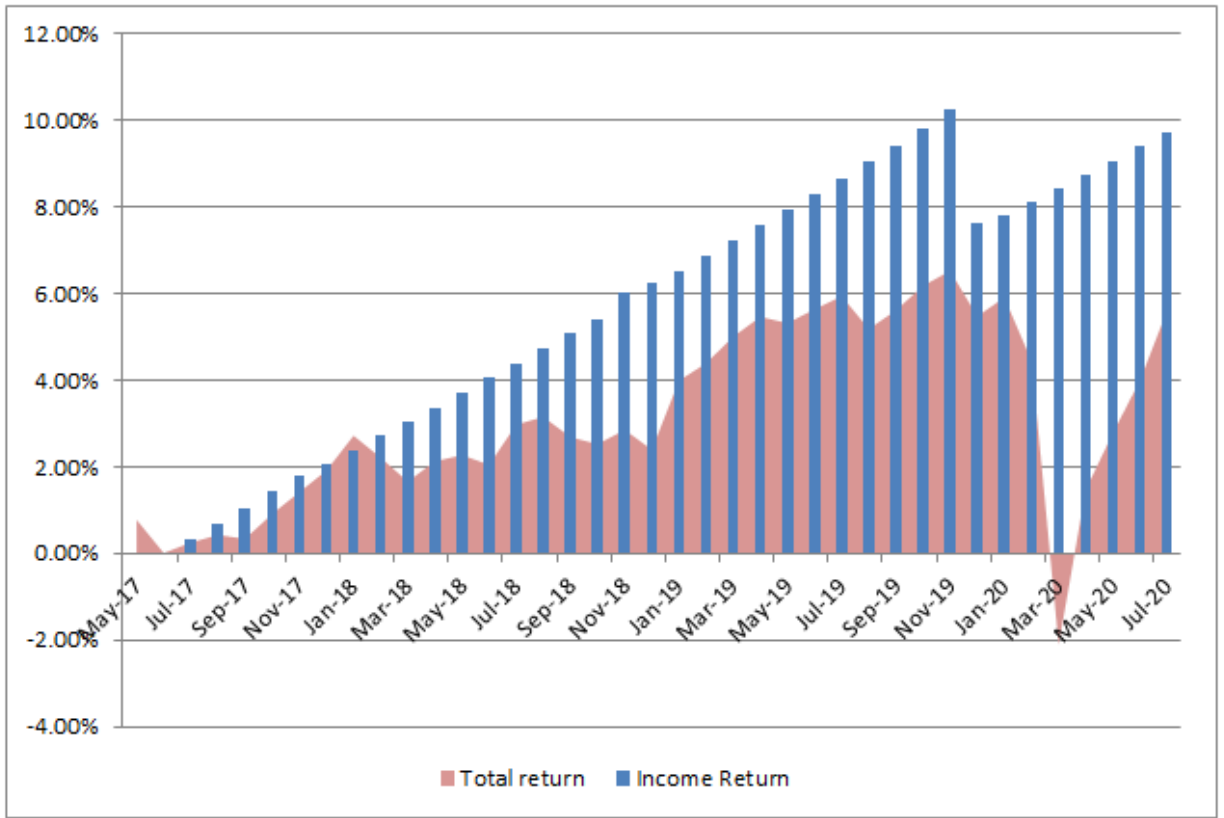
The income return (total distributions/ total investment) falls during late 2019 as a result of the additional investments made during this period.

Ninety One (Investec)

Month By Month



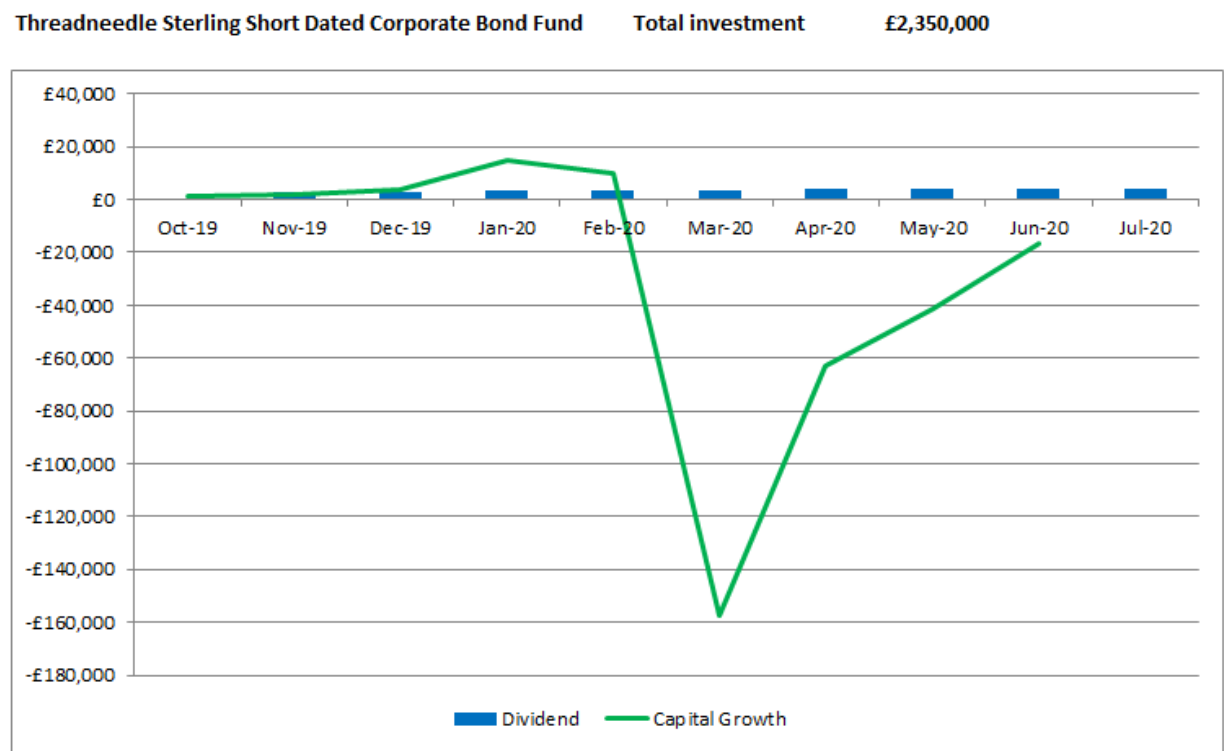
Cumulative



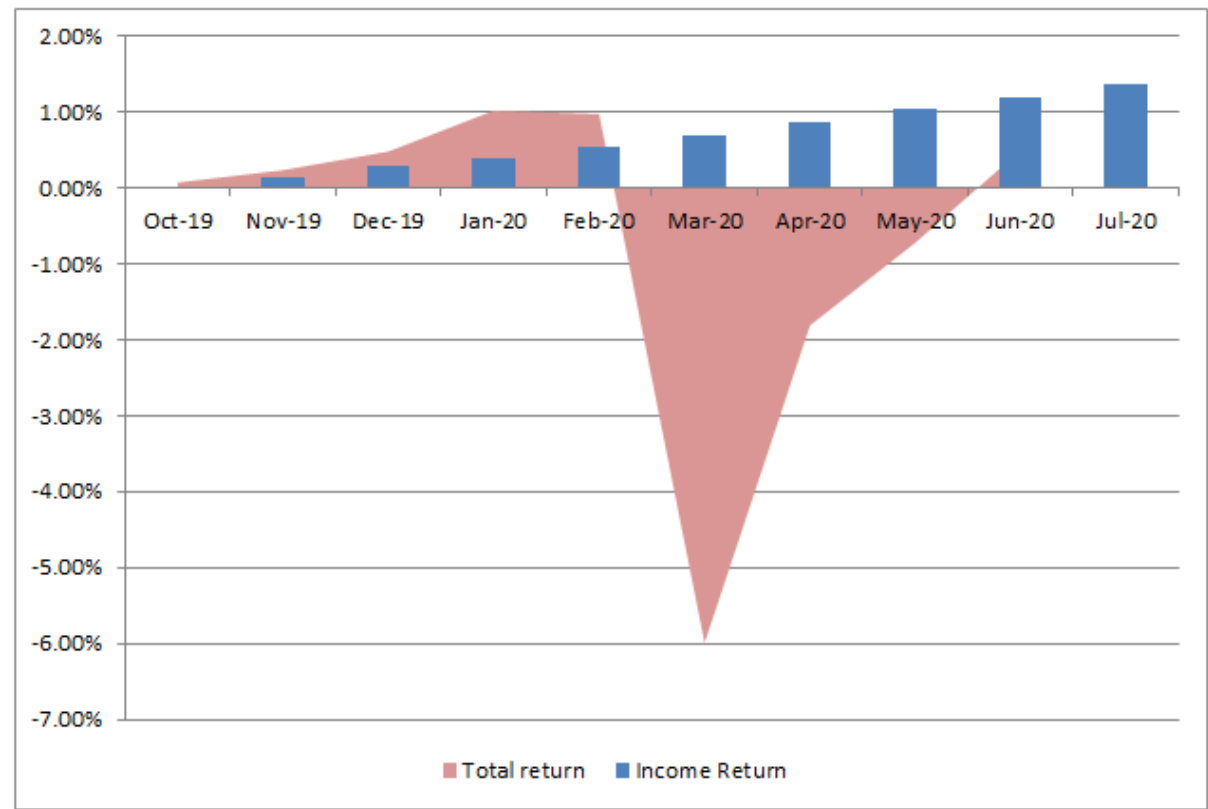
Further investments were made in this fund in late 2019.

Columbia Threadneedle Short Dated Corporate Bond Fund  
New Investment during 2019-20

Month By Month

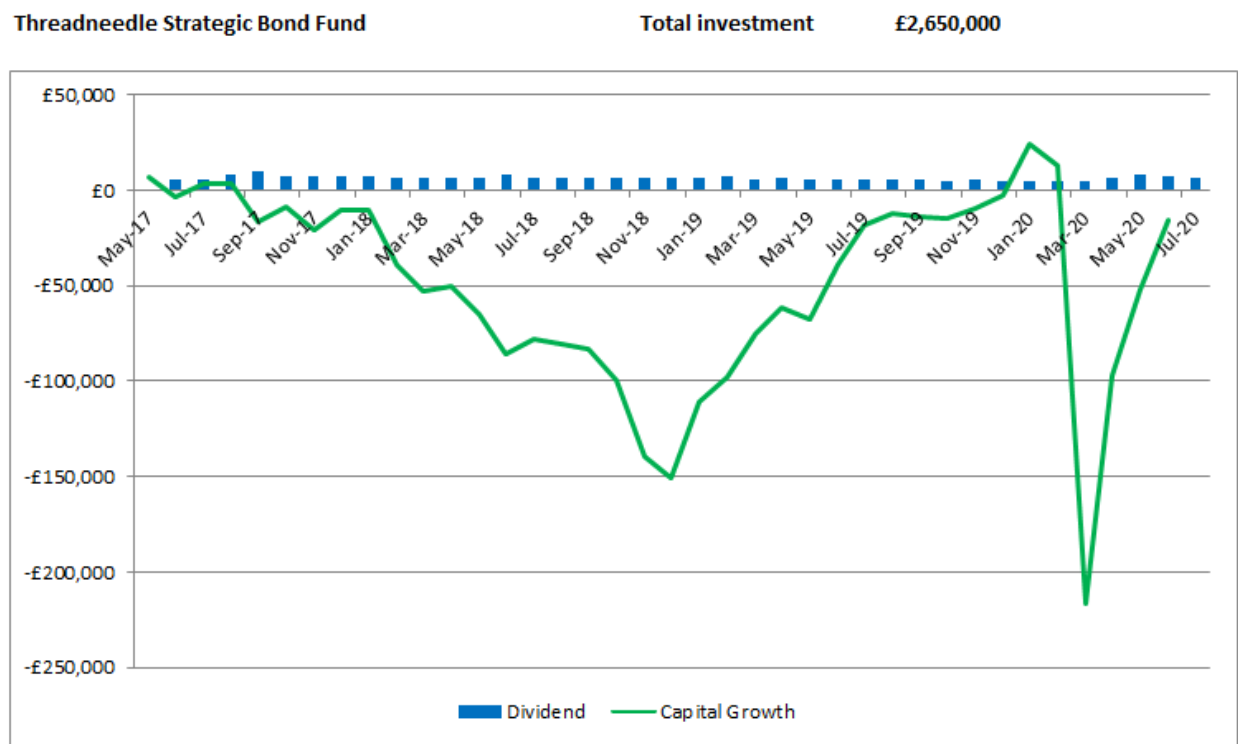


Cumulative

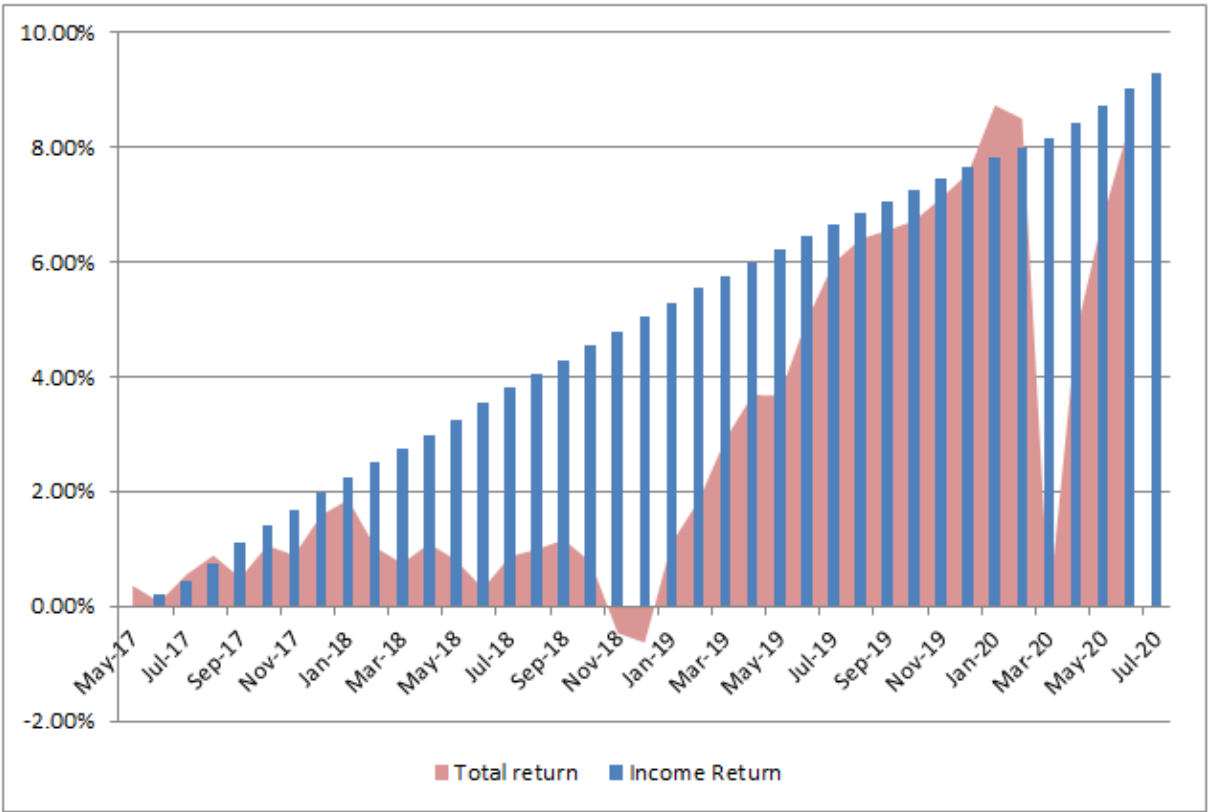


Columbia Threadneedle Strategic Bond Fund

Month By Month



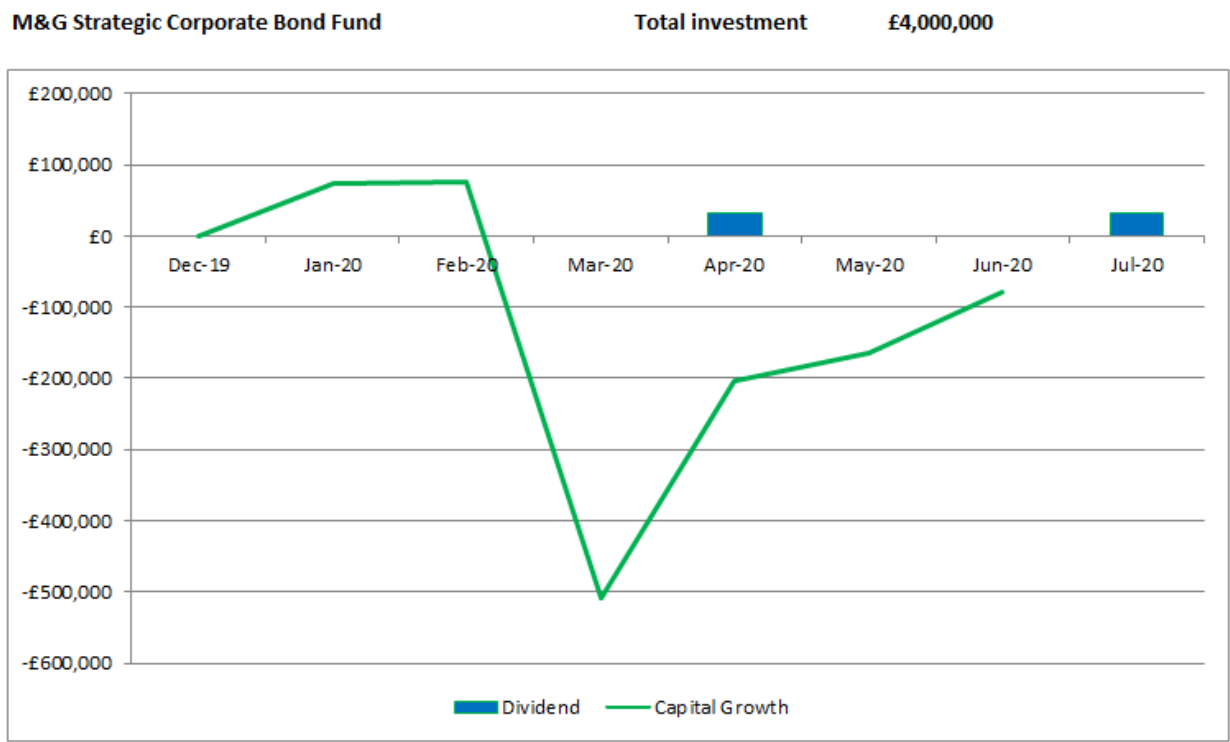
Cumulative



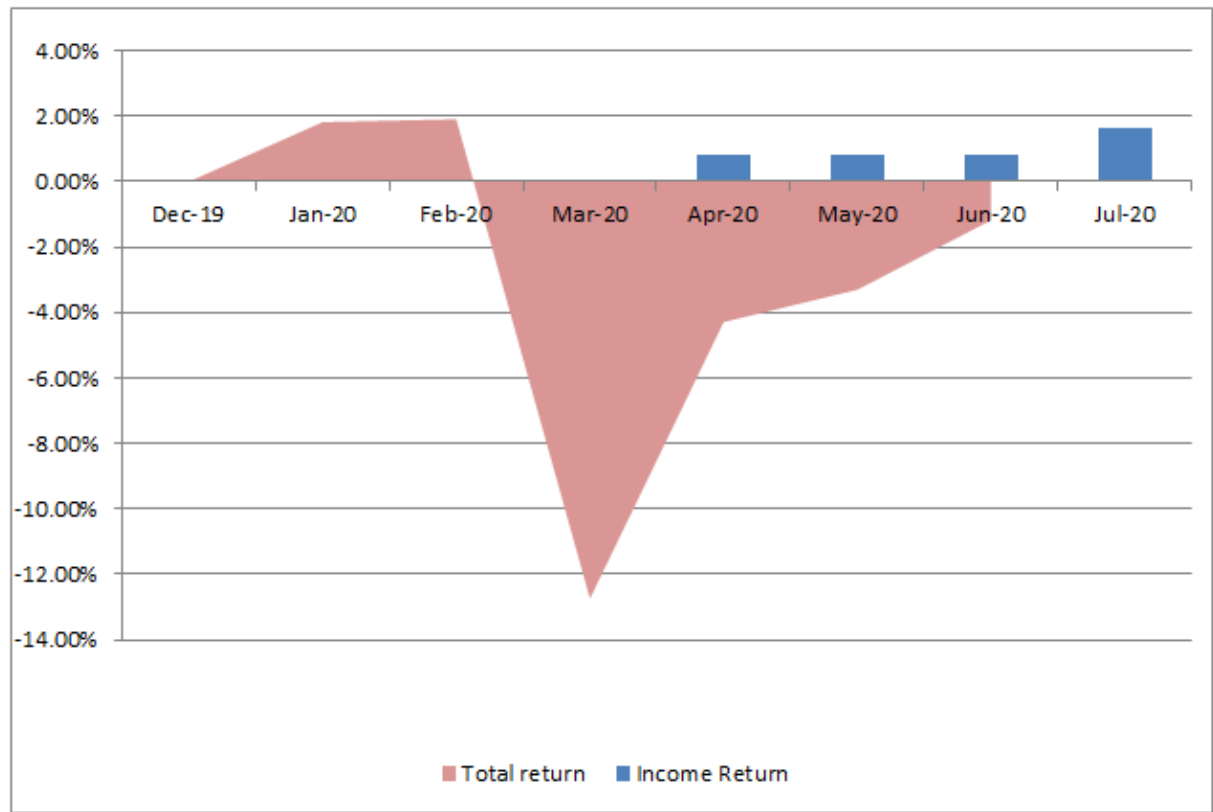
M&G Strategic Corporate Bond Fund

New Investment during 2019-20

Month By Month



Cumulative



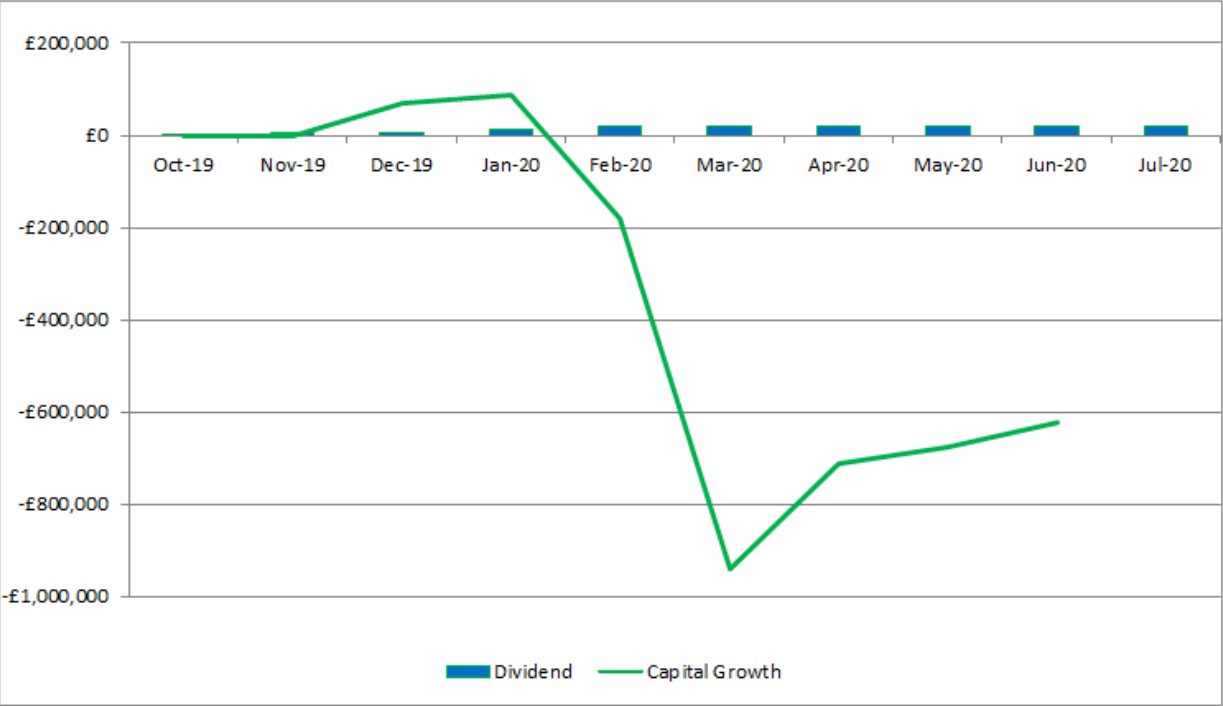


Kames Diversified Income Monthly Fund

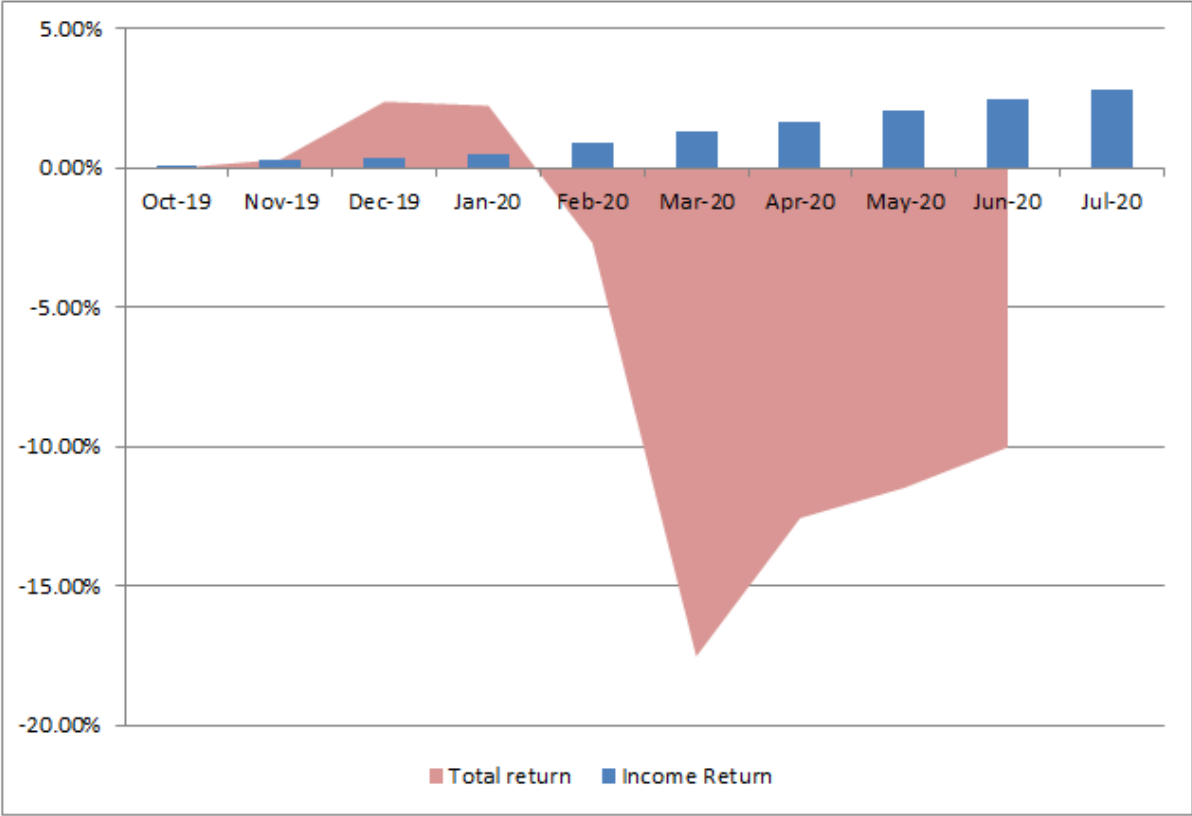
New Investment during 2019-20

Month By Month

Kames Diversified Monthly Income Fund                      Total investment                      £5,000,000

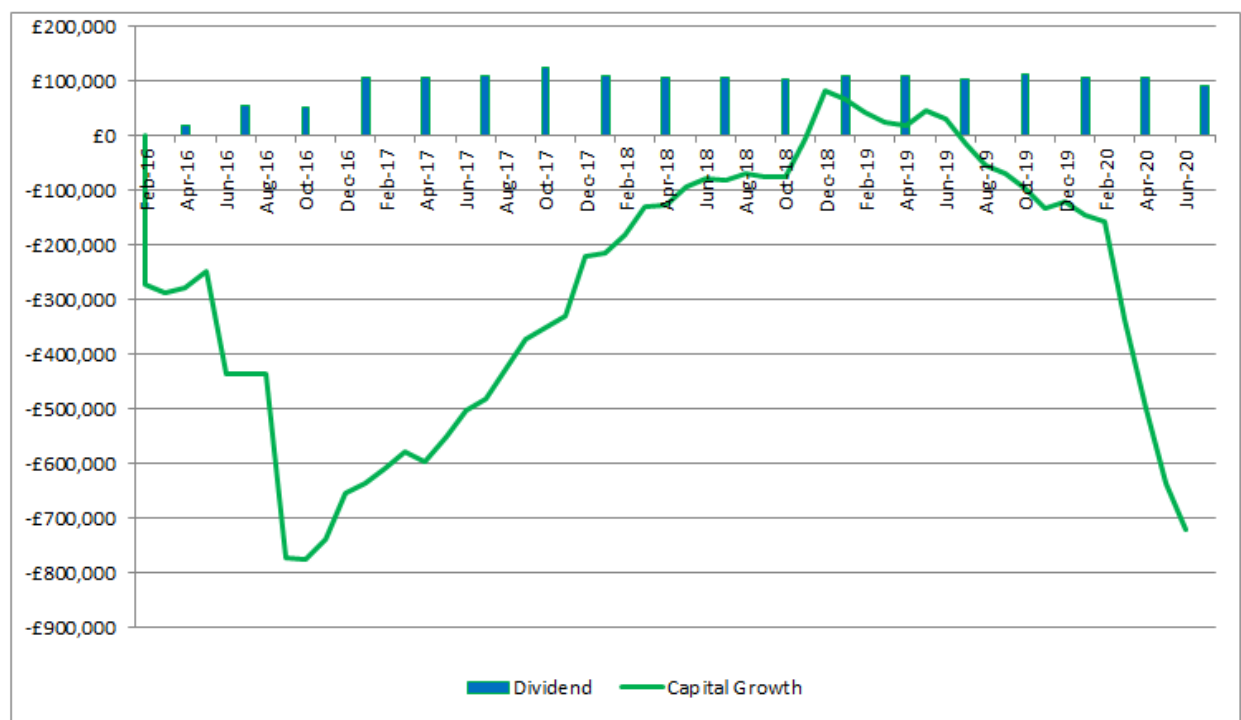


Cumulative

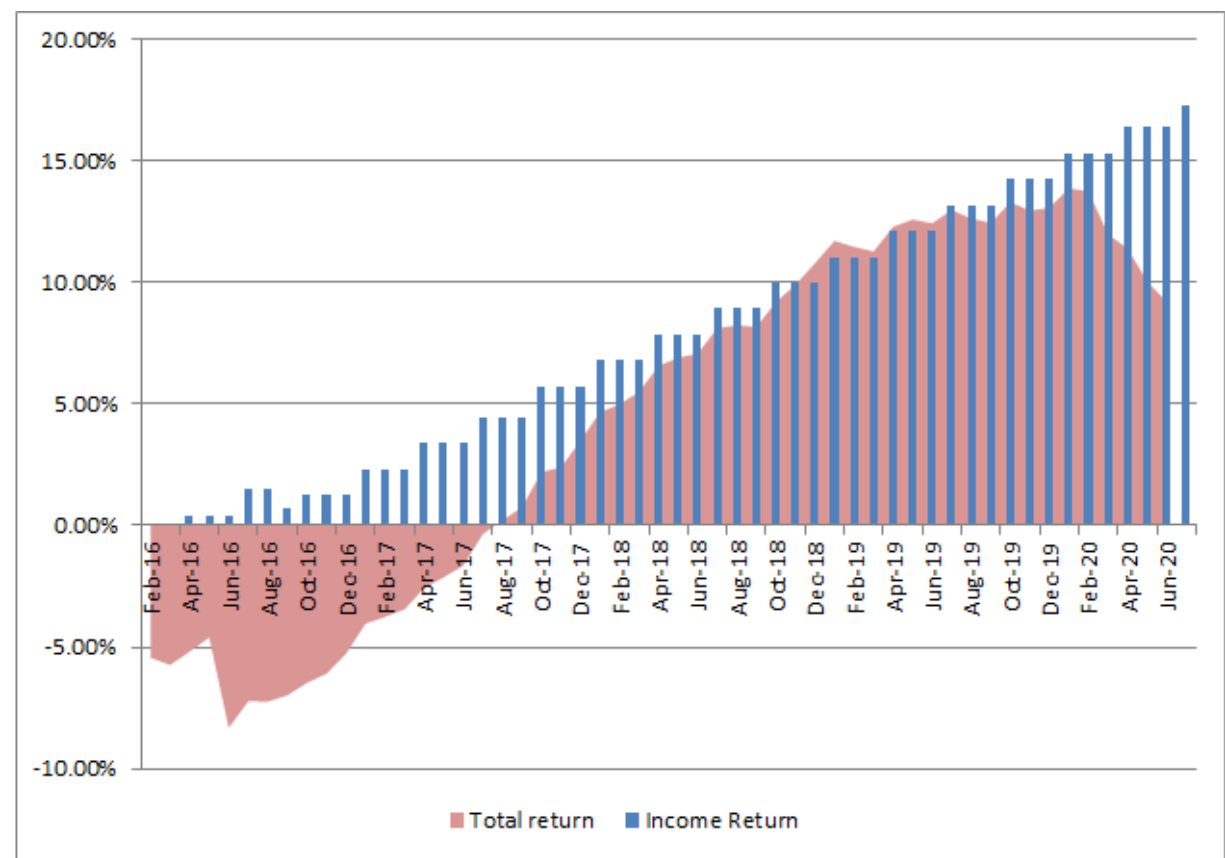


Local Authority Property Fund: Total Investment £10,000,000

Month by Month



Cumulative





## Appendix B: Treasury Management – Benchmarking indicators

### Return

Measure	Qtr. 1 19-20	Qtr2 19-20	Qtr 3 19-20	Qtr. 4 19-20	Non-met districts Q4 average	Rating
Internal investment return %	0.95	0.89	0.86	0.81	0.68	AMBER
External funds – income return %	4.08	3.86	3.92	3.97	3.84	AMBER
External funds – capital gains/losses %	0.83	0.33	0.48	-7.87	-7.26	AMBER
Total treasury Investments – income return %	1.70	1.52	1.96	2.14	1.55	AMBER

External fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. Despite this, an amber rating has been set due to:

1. The outlook for income return has deteriorated as set out in section 5
2. the significant unrealised capital losses incurred in the last quarter of 2019-20.

### Security

	Average Credit Score (higher = better)	Average Credit Rating	Bail-in exposure (lower = better)	
31 March 2019	4.16	AA-	31%	
31 March 2020	3.85	AA-	29%	GREEN
Similar Local Authorities	3.95	AA-	59%	

The Council has maintained a low exposure to bail-in risk throughout 2019-20.

### Liquidity

	7 day liquidity	100 day liquidity	Average maturity	
31 March 2019	15%	51%	101 days	
31 March 2020	13%	43%	52 days	GREEN
Similar Local Authorities	43%	62%	53 days	

Pressures on liquidity due to the effects on cashflows of COVID-19 relief measures have eased significantly. Various Government measures have helped, including grant funding of the COVID-19 business rate reliefs awarded to certain sectors of the local economy.

## **Appendix C – Compliance report**

### **Compliance with investment limits**

	<b>2019/20 Limit</b>	<b>Complied/ Exception Ref</b>
Banks unsecured, total	£30m	<b>Complied</b>
Corporates, total	£10m	<b>Complied</b>
Local Authority property fund, total	£10m	<b>Complied</b>
Other pooled investment funds, total	£25m	<b>Complied</b>
Council's own bank, total max 7 days	£2.5m	<b>Complied</b>
Money market Funds, total	£24m	<b>Complied</b>
Counterparty ratings	various	<b>Complied</b>

### **Interest rate exposure**

This indicator is set to control the Authority's exposure to interest rate risk.

To measure this, the Council calculates the effect of a 1% change in interest rates and has set a reportable exception level where the impact of this exceeds 50% of the Council's individual counterparty limit (£3m).

	<b>31.3. 20 Actual</b>	<b>2019/20 Limit</b>	
Upper limit on one-year revenue impact of a 1% change in interest rates	0.42m	£3m	<b>Complied</b>

The figure above excludes any effect on returns from the external pooled fund which are subject to a large diverse asset base of differing securities and investments.

### **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 long-term principal sums invested to final maturities beyond the period end were:

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Actual principal invested beyond year end	£34.0m	£34.0m	£34.0mm
Limit on principal invested beyond year end	£50m	£50m	£50m
	<b>Complied</b>	<b>Complied</b>	<b>Complied</b>

## **Appendix D: Non-Treasury investment indicators**

The Council has set the following indicators to measure its exposure to risk associated with non-treasury investments.

Measure	Description	31 March 2020
Commercial income to net service expenditure	This indicator measures the Council's dependence on income from its commercial property investments as a proportion of the net cost of services	In 2019-20 the Council's income from its commercial investments, net of direct costs was £963k, or 5.5% of the Council's net cost of services (£17,479k). The upper limit for this indicator is 10%.
Net operating surplus	This indicator measures the contribution received from the investment portfolio at a net level (income less costs) over time.	Net rental income from the Council's Investment Property portfolio for 2019-20 was £963k, giving a return of approximately 8.0% (7.7% 2018-19) against the initial investment (book cost).
Vacancy levels and tenant exposure	Monitoring vacancy levels to ensure the property portfolio is being managed productively.	Void level for the investment properties is currently at 14.0 %. This is monitoring and managed by the Council's Property and Growth team.
Exposure to credit default events for loans made	This will measure the Council's exposure to loss through default for non-treasury loans made to third parties	<p>Commercial Properties</p> <p>One credit default event occurred during 2019-20 involving approximately £20,000 in rental and service charge arrears. Action was taken to recover the amount and although this was initially successful at the end of February we commenced enforcement forfeiture proceedings were subsequently taken against the tenant. In the wider sense, monthly monitoring of debtors is undertaken, designed to provide an early flag of any potential debt issues.</p> <p>The Council incurred a small loss on an assisted house purchase loan made under the Councils recruitment and retention policy.</p>
Market value of commercial properties	This indicator will track the Council's ability to recover its investment in any commercial investment should the need arise.	<p>Commercial investment valuations were prepared as at 31st March 2020 and the Council's statement of accounts discloses a value of £13.6m for the Council's investment properties on that date.</p> <p>During that period, there was the start of the coronavirus pandemic, which has had and will have an impact on the global and national economy. CDC's valuations comply with RICS guidelines and the methodology and caveats are set out in the Council's statement of accounts.</p> <p>See section 6 of the main report for further discussion of this item.</p>



## Chichester District Council

### Corporate Governance and Audit Committee

1 September 2020

### Local Authority Borrowing

#### 1. Contacts

##### Report Author

Mark Catlow – Group Accountant

Telephone: 01243 521076 E-mail: [mcatlow@chichester.gov.uk](mailto:mcatlow@chichester.gov.uk)

#### 2. Recommendation

The Corporate Governance and Audit Committee is requested to note this report.

#### 3. Background

- 3.1 Over the last 20 years the Council has funded its Capital Programme and Asset Renewal Programme from the Council's own resources. A resources statement is prepared alongside the Council's financial projections each year and presented to this Committee to demonstrate that capital plans remain affordable.
- 3.2 The principles underpinning the Council's financial strategy do not require only internal resources to be used, and the Council's current Treasury Strategy does allow for a limited amount of borrowing, principally for operational cash management purposes.
- 3.3 The Council's key financial principles do, however, contain a requirement to identify revenue savings or external funding before any capital expenditure that has revenue consequences, is approved is important. Any new external borrowing will impose additional revenue pressures and this is explored below.

#### 4. Borrowing

- 4.1 Local councils have long been able to borrow to fund capital expenditure, but all long term borrowing must be both 'affordable' and 'prudent', as well as being lawful.
- 4.2 Affordable would include an assessment of both the annual cost of interest on the loan and also the annual cost of setting aside a prudent sum to repay the debt (i.e. the minimum revenue provision, MRP), which is covered separately below.
- 4.3 To be prudent, we must demonstrate and justify the need to borrow. We could not borrow £20m to invest in something that is still being developed and considered. Any borrowing needs to be based on an approved viable scheme that is included in the Council's capital programme and one that is expected to proceed with reasonable certainty.
- 4.4 Other important points include:

- The Council must ensure that its total external debt (including leases) does not exceed its calculated capital financing requirement (CFR) and its authorised borrowing ceiling;
- The Council can borrow in advance of need, but only within reason. In this context “Need” is determined by the forward capital programme as approved by Members;
- The Council cannot borrow purely for speculation or return. This is unlawful. Any borrowing must be within the Council’s CFR projections;
- Borrowing cannot be undertaken to fund revenue expenditure. It is possible however temporarily borrow pending the receipt of income (e.g. paying a precept pending receipt of council tax);
- The Council is prevented by law from using Council property as collateral for loans.

## **5. The Capital Financing Requirement (CFR)**

- 5.1 The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue. Put simply, it is an indication of the Council’s underlying need to borrow for capital purposes.
- 5.2 In short, if the total capital expenditure in any year is greater than the internal resources applied to fund it (revenue, capital receipts or grants), the capital financing requirement increases by the difference.
- 5.3 If the Council borrows an amount greater than its calculated CFR, this would indicate it is borrowing more than it needs to and this would potentially be unlawful.

## **6. Revenue costs**

- 6.1 If the Council has financed capital expenditure by external borrowing, it is required to make a minimum revenue provision (MRP) charge each year against its revenue budget.
- 6.2 MRP ensures that the Council’s CFR does not increase indefinitely. In effect, MRP largely reduces the borrowing in line with each asset’s life, and so charges the economic consumption of capital assets as they are used.
- 6.3 There are four options specified to calculate MRP but broadly, the aim is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits.
- 6.4 In practical terms there are lots of similarities between MRP and depreciation, although they are not the same. The key message is that MRP would be an additional ongoing charge against the Council’s revenue budget alongside the borrowing interest costs.

6.5 To summarise the revenue impact of borrowing, comparing public and private sectors;

- A company with long term assets financed by debt would charge external interest and depreciation against its Profit and Loss account;
- A local authority with the same asset financed by the same debt would suffer Interest and MRP.

## **7. Sources of external finance**

7.1 The Council's Treasury Strategy sets out the approved sources of external finance available to the Council. These are:

- The Public Works Loans Board (PWLB) and any successor body;
- Any institution approved for investments;
- Any other bank or building society authorised to operate in the UK;
- UK public and private sector pension funds (except the West Sussex Pension Fund); and,
- Any other UK public sector body

7.2 The use of alternative or unfamiliar sources of capital finance, such as Tax Increment Financing, or the new Municipal Bonds Agency, would need prior confirmation that they fall within the approved categories above, or an amendment made to the Council's Treasury Strategy.

7.3 The rationales for choosing between these different sources of borrowing would include the administrative ease, interest rates offered by the lender(s) and the repayment period sought by the Council.

## **8. The Public Works Loan Board**

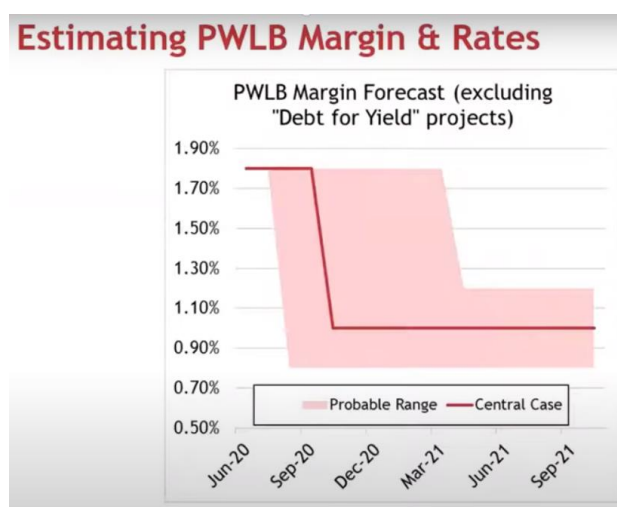
8.1 In recent years the majority of loans taken out by local authorities have been supplied by the Public Works Loan Board (PWLB). This is by far the simplest way for the Council to access loan finance, and up until October 2019, it was also often the cheapest source of finance.

8.2 The PWLB offer 3 types of borrowing; Maturity, EIP and Annuity, each have their own structure and associated rate:

- Maturity: interest payments are made throughout the period of the loan, and the principal borrowed is repaid at maturity;
- EIP: Equal Instalments of Principal pays back principal over the life of the loan, and the interest associated with the loan goes down as the principal outstanding reduces; and,
- Annuity: Equal payments over the course of the loan, with principal paid back over the course of the loan in an increasing amount.

8.3 Worked examples for both EIP and Annuity borrowing is included at Appendix A

- 8.4 On 9 October 2019 the Government announced a decision to raise the interest rate on new loans from the PWLB by 1% over gilts over and above existing interest rates. This increased the cost of PWLB lending with the intention of discouraging commercial investment by Local Authorities.
- 8.5 Proposals are currently being consulted on that may reverse some of the increase in interest rates imposed in 2019, subject to Local Government accepting the PWLB limiting (and perhaps ceasing) lending to finance 'commercial income' (debt for yield) type capital expenditure.
- 8.6 Given the likely and relatively substantial cut in the margin in the relative near term, illustrated by the projection below, the Council's Treasury advisor, Arlingclose Ltd, advises that Chichester holds off long term borrowing until the new PWLB terms are published. In the meantime, borrowing requirements could be met by short term borrowing from other local authorities.



- 8.7 Even if present margins do not reduce PWLB lending is almost certainly the most straight forward and lowest risk source of capital finance available to the Council.

## 9. Local Authority Bonds

- 9.1 UK local authorities have always had the power to issue bonds, although they do require sufficient scale to be worthwhile and cheaper than the PWLB.
- 9.2 Issues with bond financing include the time taken to issue a bond, the added costs to the local authority (these include acquiring a rating from a rating agency, legal fees, broker fees). Given this, and that the PWLB is readily available, the admin involved in issuing a bond is relatively cumbersome.

## 10. Local Authority lending

- 10.1 The Council has frequently lent money to other local authorities. The growth in lending between local authorities is not hard to understand, as they offer some of the best credit risk available to any investor.
- 10.2 Typically this type of borrowing is short term in nature. Treasury statistics reveal that of £14bn inter LA lending at 31 March 2020, only £2.5bn was long term.



## 11. Resource and Legal Implications

11.1 None – this paper is for briefing purposes only

## 12. Consultation

12.1 Not applicable

## 13. Community Impact and Corporate Risks

13.1 Not applicable

## 14. Other Implications

<b>Are there any implications for the following?</b> If you tick "Yes", list your impact assessment as a background paper in paragraph 13 and explain any major risks in paragraph 9		
	Yes	No
<b>Crime and Disorder</b> The Council has a duty "to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area". Do the proposals in the report have any implications for increasing or reducing crime and disorder?		X
<b>Climate Change and Biodiversity</b> Are there any implications for the mitigation of/adaptation to climate change or biodiversity issues? If in doubt, seek advice from the Environmental Strategy Unit (ESU).		X
<b>Human Rights and Equality Impact</b> You should complete an Equality Impact Assessment when developing new services, policies or projects or significantly changing existing ones. For more information, see Equalities FAQs and guidance on the intranet or contact Corporate Policy.		X
<b>Safeguarding and Early Help</b> The Council has a duty to cooperate with others to safeguard children and adults at risk. Do these proposals have any implication for either increasing or reducing the levels of risk to children or adults at risk? The Council has committed to dealing with issues at the earliest opportunity, do these proposals have any implication in reducing or increasing demand on Council services?		
<b>General Data Protection Regulations (GDPR)</b> Does the subject of the report have significant implications for processing data likely to result in a high risk to the rights and freedoms of individuals? Processing that is likely to result in a high risk includes (but is not limited to): <ul style="list-style-type: none"><li>• systematic and extensive processing activities and where decisions that have legal effects – or similarly significant effects – on individuals.</li><li>• large scale processing of special categories of data or personal data relation to criminal convictions or offences.</li><li>• Any larger scale processing of personal data that affects a large number of individuals; and involves a high risk to rights and freedoms eg based on the sensitivity of the processing activity.</li></ul>		X

<ul style="list-style-type: none"> <li>large scale, systematic monitoring of public areas (including by CCTV).</li> </ul> <p>Note - If a high risk is identified a Privacy Impact Assessment must be provided to the Data Protection Officer.</p>		
<p><b>Health and Wellbeing</b></p> <p>The Council has made a commitment to 'help our communities be healthy and active'. You should consider both the positive and negative impacts of your proposal on the health and wellbeing of communities and individuals living and working in the district. Is your proposal likely to impact positively or negatively on certain groups and their ability to make healthy choices, for example low income families, carers, older people/children and young people. Are there implications that impact on areas of the district differently? eg the rural areas or those wards where health inequalities exist. If in doubt ask for advice from the Health and Wellbeing team.</p>		<b>X</b>
<b>Other</b> (please specify)		<b>X</b>

## 15. Appendices

Appendix 1 – Worked financing examples

Appendix 2 – Summary of borrowing options

## 16. Background Papers

None

## Appendix 1 – Worked examples

### Case study 1

Total scheme costs £5,225,000, Financing sought £5,000,000

Return on Capital Employed currently 6%, payback 18.18 years.

Potential Income from scheme once complete £276,250 pa.

Expected lifespan = 60 years, prudent borrowing period set at 30 years (steel framed buildings)

Basis	Annuity	EIP
Interest rate	2.53	2.51
Total Interest Cost	2,204,846	1,945,250
Annual Interest cost	73,494	64,841 (average)
Annual MRP	166,666	166,666
<b>Total revenue charge pa</b>	<b>240,160</b>	<b>231,507</b>

### Case study 2

Total scheme costs £3,300,000. Financing sought £3,000,000

Asset life per asset register:40 years (standard build)

Borrowing period 40 years, MRP period 40 years.

Basis	Annuity	EIP
Interest rate	2.67	2.66
Total Interest Cost	1,926,965	1,635,900
Annual Interest cost	48,174	40,875 (average)
Annual MRP	75,000	75,000
<b>Total revenue charge pa</b>	<b>123,174</b>	<b>115,875</b>

## Appendix 2 – Borrowing options summary

The table below covers the main options available to a Local Authority. It is not an exhaustive list.

Source	PWLB	Short term LA	Long term LA	Bank Loan	Municipal Bond Agency	Public Bonds
Size	Any	< £10m	>£10m	> £5m	Unknown	£200m
Period	1 to 50 years	< 1 year	2 to 25 years	< 10 years	Unknown	> 10 years
Interest type (1)	V, F	F	V, F	F, V, I	F	F, I
Tradeable	No	No	Possible	Possible	Yes	Yes
Credit assessment	No	No	Yes	Yes	Yes	Yes
Credit rating	No	No	No	No	No	Yes
Legal documentation	No	No	Yes	Yes	Yes	Yes
Process	Easy	Easy	Moderate	Moderate	Intensive	Intensive
Margin	High (2)	Low	Medium	Medium	Medium	High

*Source: adapted from information supplied by Arlingclose*

### Key

(1) Interest: Variable (V), Fixed (F), Inflation linked (I)

(2) Could reduce subject to outcome of present consultation

**Chichester District Council**

**CORPORATE GOVERNANCE & AUDIT COMMITTEE**

**1st September 2020**

**Progress Report – 2019/20 Audit Plan & Audit Plan 2020/2021**

**1. Contacts**

**Report Author:**

Stephen James – Internal Audit & Corporate Investigations Manager

Tel: 01243 534736

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**2. Recommendation**

- 2.1 That the committee notes performance against the 2019/20 audit plan, and also the audit plan for 2020/21.

**3. Update on 2019/20 audit plan**

- 3.1 In the original audit plan approved by Corporate Governance and Audit Committee there were 29 full audits and 8 follow ups, totalling 37 reviews. There were also 13 days included in the plan for any in year follow-ups that may arise should the exceptions raised be significantly concerning and require addressing by the client as a matter of urgency.
- 3.2 The audit plan 2019/20 comprised 33 audit reviews in total.
- 3.3 As at 18<sup>th</sup> August July, 30 audits have been completed and issued as final reports (91%) and 3 are in progress or at draft report stage (9%). The audits issued as final since the last committee meeting were:
- Land & Buildings
  - Council Tax Debt Recovery
  - Business Rates Debt Recovery
- 3.4 Results of the audits are contained in appendix one. There have been no audits given a 'No Assurance' rating and no critical exceptions have been raised.

**4. Audit Plan 2020/2021**

- 4.1. The audit plan for 2020/2021 has been prepared and considers risk, value and system complexity. The Directors and Divisional Managers have been consulted during the preparation of the plan. It is envisaged that a large

proportion of the audit work will be to undertake the Key Financial Systems work. The remaining time will be taken up with annual activity and audits that are high risk, or have not been audited before

4.2. The audit plan agreed by committee comprised 30 full reviews and 4 follow-ups. This is to be reviewed on an ongoing basis based on the availability of audit resource.

4.3. As at 18<sup>th</sup> August 7 audits were work in progress (21%).

**5. Background**

5.1. Not Applicable

**6. Outcomes to be Achieved**

6.1. Not Applicable

**7. Proposal**

7.1. Not Applicable

**8. Alternatives Considered**

8.1. Not Applicable

**9. Resource and Legal Implications**

9.1. Not Applicable

**10. Consultation**

10.1. Not Applicable

**11. Community Impact and Corporate Risks**

11.1. Not Applicable

## 12. Other Implications

<i>Are there any implications for the following?</i>		
	Yes	No
<b>Crime &amp; Disorder:</b>		√
<b>Climate Change and Biodiversity:</b>		√
<b>Human Rights and Equality Impact:</b>		√
<b>Safeguarding and Early Help:</b>		√
<b>General Data Protection Regulations (GDPR):</b>		√
<b>Health and Wellbeing:</b>		√
<b>Other (Please specify):</b>		√

## 13. Appendices

13.1. Audits completed since the last committee.

13.2. Draft audit plan with outstanding audits from 19/20 included

## 14. Background Papers

14.1 None

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Audits completed since the last Committee meeting (2<sup>nd</sup> July 2020)

Audit title	Critical Risk	High Risk	Medium Risk	Low Risk – Improvement	Total no of Exceptions	Overall Assurance level	Summary
<b>Council Tax Debt Recovery</b>	0	0	2	0	2	<b>Reasonable Assurance</b>	<p>The medium risk exceptions raised related to</p> <ul style="list-style-type: none"> <li>• No process/procedure in place for the control and monitoring of suppressed accounts</li> <li>• Lack of close monitoring of accounts in arrears</li> </ul>
<b>NNDR Debt Recovery</b>	0	0	1	0	1	<b>Reasonable Assurance</b>	<p>The medium risk exception raised related to</p> <ul style="list-style-type: none"> <li>• No process/procedure is put in place for the control and monitoring of suppressed accounts</li> </ul>
<b>Inspection of Land &amp; Buildings</b>	0	0	1	0	1	<b>Reasonable Assurance</b>	<p>The medium risk exception raised related to</p> <ul style="list-style-type: none"> <li>• Lack of audit trail on forms completed for the inspections of empty land and buildings</li> </ul>

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Individual Audit Plan for 2020 - 2021								
	Days available	Steve James	Louise Northcott	Kirsten Easterbrook	Julie Ball	Sam Perris	TOTAL	
<b>Audits for 2020 - 2021 and Other Chargeable Work</b>	<b>692</b>	<b>157</b>	<b>196</b>	<b>131</b>	<b>104</b>	<b>104</b>	<b>692</b>	
<b>Audits Carried Forward from 2019 - 2020 Plan</b>	<b>Audit Days</b>	<b>Risk Rating</b>						
Community Safety		H						0
Private Hire and Taxi Licensing		H						0
Food safety inspections - charging for revisits		H						0
Dog Control		H						0
	<b>0</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>New Audits for 2020 - 2021</b>	<b>Audit Days</b>	<b>Risk Rating</b>						
RIA and Deposit bonds		H						0
Housing Rent & Service Charge arrears and debt collection	10	H				10		0
Usage of corporate credit cards		H						10
Renewal of DBS checks		H						0
Contract Register - contract management		M						0
Monitoring of S106 monies across CDC		H						0
Monitoring of Leisure Centre contract		M						0
Car Park Income Collection & reconciliation		M						0
Use of B&B accommodation instead of Westward House		H						0
Grants & Concessions - discretionary grants		M						0
New Homes Bonus		M						0
Ec Devt grants for start ups		M						0
Corporate Debt Recovery		H						0
Succession Planning		M						0
IT Review		H						0
Destruction of old laptops		H						0
Fixed Penalty notices		M						0
<b>Balancing figure</b>	<b>134</b>							
<b>Key Financial Systems Audits for 2020 - 2021</b>	<b>Audit Days</b>	<b>Risk Rating</b>						
Asset Management (Update procedures if applicable and YE Rec only)	10	H						0
Cash and Bank	10	H						0
Council Tax (to include debt recovery and write offs and follow-up)	15	H						0
Creditors	10	H						0
Debtors	10	H						0
Housing Benefits to include o/p recovery and PMQA	15	H						0
NDR (to include debt recovery and write offs and follow-up)	15	H						0
Payroll	10	H						0
Treasury Management	10	H						0
	<b>105</b>							
<b>Annual Activity</b>								
Planning and Control (Audit planning and reviews)	15							0
Universe	10							0
Meetings/discussions with EY	3							0
Committee reports and representation	15							0
Corporate Advice	10							0
NFI	5							0
AGS and Evidence	20							0
Contingency	65							0
Public Sector Internal Audit Standard (PSIAS)	5							0
Follow Ups:								0
Recruitment and Selection	3							0
Land & Buildings	3							0
Land Charges	3							0
Travel & Subsistence	3							0
Other follow-ups	10							0
<b>Audits outstanding from 19/20 (from contingency time):</b>								0
Corporate Debt Recovery								0
CIL follow-up								0
Museum & TIC follow-up								0
	<b>170</b>							
<b>Chargeable Work Total</b>	<b>409</b>							
<b>Non Chargeable Work</b>								
Management (inc Fraud & training new staff)	65		30	35				65
Administration	18		5	7	2	2	2	18
Investigations shadowing	5		5					5
Elections	0							0
Performance and Appraisals	4		3	1				4
Training	56		1	1	28	1	25	56
General Meetings	16		4	4	4	3	1	16
Annual Leave/bank holidays	114		25	32	19	19	20	114
Sickness	5		1	1	1	1	1	5
<b>Non Chargeable Work Total</b>	<b>283</b>							
<b>Total</b>	<b>692</b>							
Unallocated	0							

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**Chichester District Council**

**CORPORATE GOVERNANCE & AUDIT COMMITTEE**

**1 September 2020**

**Fraud Prevention Report 2019/2020**

**1. Contacts**

**Report Author:**

Jeremy Todd, Corporate Investigations Officer

Tel: 01243 785166 x4590      E-mail: jtodd@chichester.gov.uk

**2. Recommendations**

- 2.1. The committee is requested to consider this report and the corporate approach to fighting fraud to ensure they fulfil their stewardship role and protect the public purse.**
- 2.2. The committee notes that the Council will actively pursue potential frauds identified through ongoing investigations by the Corporate Investigations Team (CIT).**

**3. Background**

- 3.1 In 2018/2019 local authorities uncovered £253m of fraud, however this amount though is only the tip of the iceberg. Firstly as this is only the uncovered fraud, and secondly only 40% of local authorities employ dedicated counter fraud teams. This is due to the decision to transfer all investigators employed by local authorities to the Department for Work and Pensions from 2015. At that time the Council created the role of a Corporate Investigations Officer (CIO) so that it retained the required skills and knowledge to protect all services within the council from potential fraud with the position filled by an experienced investigator previously employed on the Housing Benefit Fraud Team. Due to an increase in the work required additional resources were added to the team from November 2017 when Assistant Corporate Investigations Officer (ACIO) was recruited. However, due to the Council's current recruitment freeze there is a 0.50FTE vacancy in this role since mid-March 2020.
- 3.2 There are a number of tasks that are the responsibility of the CIO. The National Fraud Initiative (NFI) is a bi-annual exercise that matches data from various sources both within the council and other public sector bodies. The matches are released in January and so are reviewed on a calendar year basis. The CIO is the key contact for this; ensuring that all the data is uploaded on time and that when received all the matches are reviewed by the relevant service departments and the CIO gives advice as necessary on the evaluation of any data matches. Additionally there is a yearly NFI match that looks at Council Tax payers who receive a Single Person Discount.

- 3.3 Every year the Council needs to review any long term empty homes in the district, this is because the new homes bonus paid from central government, takes into account the empty homes within the district and a reduction is made to the bonus paid. Prior to 2016, this work was outsourced at a cost of £14,305.

#### **4. Outcomes to be achieved.**

- 4.1 This report aims to give assurance on the arrangements in place for the prevention and detection of fraud within the council.
- 4.2 That there are adequate resources available to carry out all investigations and identify the risks of potential frauds across all council services.

#### **5. Proposal**

- 5.1. For councillors and others responsible for audit and governance to review the counter fraud arrangements on an annual basis.

#### **6. Alternatives that have been considered**

- 6.1. None.

#### **7. Resource and legal implications**

- 7.1. In order to fulfil legal requirements, the CIO is fully conversant with the Police and Criminal Evidence act (PACE), Fraud Act 2006 and Data Protection Act 1998. In addition has full knowledge of Regulation of Investigatory Powers Act (RIPA).

#### **8. Consultation**

- 8.1 None.

#### **9. Community impact and Corporate risks**

- 9.1 Having a Corporate Investigations Team (CIT) at Chichester District Council reassures the community that the Council is doing all it can to protect tax payers money.
- 9.2 Mitigating the risk of fraud and corruption is the responsibility of management. Corporate and service specific risks identified are recorded in a corporate risk register. Internal Audit have a four year and annual plan produced on a risk based approach which is reviewed and updated annually, thus responding to new risks as they arise. However, audit procedures alone cannot guarantee that fraud or corruption will be detected the main corporate risk to the council is one of capacity, as there is currently only one and a half FTE posts to cover all of the council's services and only the CIO is PINS accredited (or qualified). P.I.N.S (Professionalism in security) is a qualification that means the CIO is an accredited fraud officer.
- 9.3 Covid 19 has had a major impact on the investigation team. On 23 March 2020 the CIO and remaining ACIO were redeployed to the Revenues Division to assist

with the business support grants. They returned to their investigation roles on 18 May 2020. Whilst this has affected the work that will be carried out in 2020, additional resources for a 3 month period from August has been agreed with an experienced Council Tax officer being redeployed to the investigations team to assist with the NFI data matching investigations.

## **10. Main Report**

### **Achievements to Date**

- 10.1. In 2019 the CIO working closely with the Revenue Inspectors for the Empty Home Review project identified 163 properties that should not have been listed as long term empty as they had been brought back into use. This resulted in additional monies for the council of £243,427.
- 10.2. The CIT is responsible for looking at the NFI matches that indicate a Council Tax Single Person Discount of 25% may be incorrectly awarded. Unlike the other NFI data matches this exercise is undertaken on an annual basis. Last year (2019) the Single Person Discount database was matched against the electoral roll. The subsequent investigation of the matches found £89,099 of incorrectly awarded Single Person Discount and Council Tax Reduction. The 2019 match is currently underway. This year the check is matching against credit reference data. So far it has identified £17,516 of incorrectly awarded discounts and benefits.
- 10.3. Matches looking at Council Tax Reduction claims against various other sources were also looked at by the CIT and identified £4,607 of incorrectly awarded Council Tax Discount.
- 10.4. In 2019/20 The CIT identified a further £25,263 of incorrectly awarded Single Person Discounts, incorrectly awarded benefits and establishing new liabilities for Council Tax. These are cases where there was a referral direct from the Revenue Services team or from the public. Additionally investigations by the CIT directly led to uncovering overpayments of Housing Benefit totalling £32,615.
- 10.5. The CIT remain available for referrals from all departments, and to date the team have worked with; Housing Benefits, Revenues, Human Resources, Chichester Contract Services, Car Parks, Environmental Health, Housing and Finance. One notable case was an attempt to launder money through a business rate account. Stolen bank cards were used to pay the business rates on an empty premise. A request was made to then refund the money to a bank account. The investigation established the facts and no refund was made and the matter was passed on to action fraud. Had the refund been processed the council would have lost £3,063.

## **11. The Year Ahead**

- 11.1. The 20120 NFI matches will continue being worked on throughout the year.
- 11.2. The Empty Home review is again being carried out during August and September.
- 11.3. In October 2018 the CIT started working jointly with the Department for Work and Pensions (DWP) on cases of fraud that affect both CDC and the DWP. A number

of investigations have already taken place. However Covid 19 has temporarily paused the joint working as DWP investigators have been moved to other duties and are unlikely to return to their roles before September. Joint interviews under caution have been postponed and cases that are with the CPS are on hold.

- 11.4. Since returning from being reassigned the CIO has mainly been occupied with looking at the business support grants that have been paid to businesses to support them in the wake of Covid 19. The CIO has carried out post payment checks on the grants due to be paid and is actively carrying out investigations where there has been an allegation that the grant should not have been paid. This is a new area of work but is likely to carry on for much of the remainder of the year in line with Government advice and guidance.
- 11.5. Future resource plans will be drawn up to identify and prioritise all counter fraud work and will establish those areas with the biggest potential savings.
- 11.6. The Council has a Whistleblowing Policy, which was reviewed and updated in April 2018. No cases were identified through this media during 2019-2020 although this does not include anonymous fraud referrals received by the CIT.
- 11.7. The CIT continues to have an important part to play in identifying potential losses and this has already been demonstrated by the savings of £398,074 that have been detailed in this report.
- 11.8. In 2019 work started with I.T. on designing a standalone case management system for the CIT using the Lagan software already purchased by the council. In March 2020 the system was at the testing stage but was paused due to Covid 19. The aim is to resume the testing later in the year.

## **12. Conclusion**

- 12.1. Overall, the council continues to operate within a robust framework of policies and procedures. This is intended to direct the activity of the council and ensure transparency and accountability. Responsible officers are expected to ensure those effective internal control arrangements are in place. Internal Audit is responsible for reviewing these controls annually in order to give assurance to those charged with governance and the CIO is responsible for investigating and reporting on any offences against or within the council.

## **13. Appendices**

- 13.1. None

## **14. Background Papers**

- 14.1. None



By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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