

Public Document Pack

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A meeting of the **Corporate Governance & Audit Committee** will be held Virtually on **Thursday 2 July 2020 at 9.30 am**

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 - 12)
The committee is requested to approve the minutes of its ordinary meeting on 23 January 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**
Members and officers are reminded to make any declarations of disclosable pecuniary, personal and/or prejudicial interests they may have 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 **Financial Impact of Covid-19** (Pages 13 - 21)
The Committee is requested to:
 1. Note the financial situation facing the council;
 2. Recommend to Cabinet that £8,070,000 be released from reserves to meet the in-year cost of the pandemic;
 3. Recommend to Cabinet that in the current circumstances the minimum level of reserves be reduced from £6.3m to £4m; and
 4. 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.
- 7 **Audit Planning Report Update Year Ended 31 March 2020 - EY** (Pages 23 - 31)
The Committee is requested to consider and note Ernst & Young LLP's Audit Planning Report update for the year ending 31 March 2020.
- 8 **2019-2020 Accounting Policies** (Pages 33 - 36)
The Committee is requested to consider this report and approve the accounting policies to be applied to prepare the Council's 2019-20 financial statements.

9 **Housing Benefit Subsidy Audit Position (Pages 37 - 52)**

The Committee is requested to:

1. Note the outcome of the 2018/19 Audit Report; and
2. Note the final outcome of the 2017/18 Housing Benefit Audit.

10 **Internal Audit - Individual Reports and Audit Plan Progress and New Audit Plan 2020-21 (Pages 53 - 71)**

The committee is requested to consider the Audit Reports, the Position Statements, Progress Report and the 2019/2020 Draft Audit Plan

11 **Motions Procedure (Pages 73 - 76)**

The Committee is requested to consider the updated Motions procedure for approval.

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

13 **Amendment to Corporate Governance and Audit Committee Timings (Pages 77 - 79)**

That members consider and approve the proposed move to Monday meetings and afternoon start times, of 2.00pm, for Corporate Governance and Audit Committee meetings.

14 **Exclusion of the Press and Public**

There are no restricted items for consideration. However the document listed below includes information which is considered to be exempt under Paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Schedule 12A of the Local Government Act 1972 and is attached for members of the Committee and senior officers only (salmon paper).

Agenda item 6 – Appendix 06.1 – 5 Year Financial Model.

Before discussing the item, the Committee is asked to consider whether the public, including the press, should be excluded from the meeting on the grounds of exemption under Paragraph 3 Schedule 12A to the Local Government Act 1972 as indicated above and because, in all the circumstance of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

15 **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 Committee Room 2 - East Pallant House on Thursday 23 January 2020 at 9.30 am

Members Present: Dr K O'Kelly (Chairman), Miss H Barrie, Mr J Brown, Mr A Dignum, Mr F Hobbs, Mr D Palmer and Mr P Wilding

Members not present: Mr T Johnson

In attendance by invitation:

Officers present: Mr M Catlow (Group Accountant (Technical and Exchequer)), Mr T Radcliffe (Human Resources Manager), Mr G Thrussell (Assistant Lawyer - Barrister) and Mr J Ward (Director of Corporate Services)

279 **Chairman's Announcements**

One apology for absence had been received namely from Mr Johnson.

Dr O'Kelly, the Chairman of the Corporate Governance and Audit Committee (CGAC), had no announcements to make.

280 **Approval of Minutes**

The CGAC received the minutes of its meeting on Thursday 24 October 2019, which had been circulated in the agenda supplement.

There were no proposed changes to the minutes.

Decision

The CGAC voted unanimously on a show of hands to approve the aforesaid minutes without making any amendments.

RESOLVED

That the minutes of the meeting of the Corporate Governance and Audit Committee held on Thursday 24 October 2019 be approved and signed as a correct record.

Pursuant to the aforesaid resolution Dr O'Kelly duly signed and dated the minutes.

281 **Urgent items**

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

282 **Declarations of Interest**

There were no declarations of interests made at this meeting by either CGAC members or other Chichester District Council members present as observers.

283 **Public Question Time**

There had been no public questions submitted for this meeting.

284 **Draft Treasury Management, Investment and Capital Strategies 2020-21**

The CGAC received and considered the agenda report and its five appendices.

This item was presented by Mr M Catlow (Group Accountant).

Mrs H Belenger (Divisional Manager Financial Services) and Mr J Ward (Director of Corporate Services) were also in attendance.

Mr Catlow explained that each year the draft Treasury Management and Investment Strategy for 2020-2021 and the Capital Strategy 2020-2021 to 2024-2025 were first considered by the CGAC prior to the Cabinet and then approval by the Council in readiness for the new financial year.

In summarising the report and its appendices Mr Catlow covered the following matters:

- The summary of key changes between 2019-2020 and 2020-2021 in appendix 1.
- The risk appetite statement in the draft Treasury Management and Investment Strategy 2020-2021 in appendix 2. Risk management was the starting point for and the driver of the Treasury Management Strategy (TMS). Chichester District Council (CDC) was debt-free and security of investments was the highest priority. Although CDC was fundamentally risk averse, a modest degree of risk was acceptable.
- The management of investments within the stated risk parameters set out in the approved investment counterparties table 4 on page 15 in appendix 2.
- The option of and approach to borrowing to finance new capital expenditure over the medium term if deemed prudent and also for short-term day to day cash flow management (pages 21 to 22 in appendix 2).
- The Capital Strategy 2020-2021 to 2024-2025 in appendix 3, which was regularly monitored for affordability and could be resourced without the need for external finance and borrowing (table 2 on page 39).

Members' questions and comments on points of detail were answered by Mr Catlow, Mrs Belenger and Mr Ward.

The range of matters covered included the following:

The Assessment of, Approach to and Adoption of Ethical, Social and Governance (ESG) Factors and Principles when Making Investment Decisions

- (a) References were made to ESG in sections 5.2 and 9 of the report. There was a consensus in favour of incorporating into the TMS in future as a standard paragraph a short statement about ESG. This is set out below.
- (b) Some members argued for more to be done to pursue ethical etc factors in making investment decisions eg taking account of pressing environmental issues.
- (c) Notwithstanding the increasing emphasis given to ESG considerations, local authorities faced constraints in making investments decisions which those in the private sector did not and there was a clear obligation to prioritise security. Having said that, security and ethical, environmental considerations ought not to be viewed as being in fundamental conflict with one another or as mutually exclusive criteria.

During the discussion of this item Mr Catlow circulated to members a sheet of paper with a draft ESG statement which officers proposed should be routinely included in all future versions of the TMS. Members considered it. The statement (which was used by other councils) was as follows:

‘Ethical Investments

Statutory guidance issued by CIPFA and MHCLG makes it clear that all treasury investments must adopt security, liquidity and yield (SLY) principles; ethical issues then play a subordinate role to those priorities. Nevertheless, there are a growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products. The Director of Corporate Services will consider such investments when deemed appropriate within the Council’s overall treasury management policies, objectives and the risk management framework set out in this document.’

Members unanimously agreed that this would be a valuable addition to the TMS and the relevant TMS documents. It would be an improvement in emphasis to the tenor and content of sections 5.2 and 9 of the report, where ESG was listed as an alternative or an implication. It was an issue of growing significance and should be accorded greater prominence. The second sentence in the statement reflected that increasingly ESG products were being promoted and CDC would give due consideration to their merits when making investment decisions, taking into account legal and financial specialist advice. The statement would help to promote informed debate about what type of investments should be made.

The CGAC’s resolution and its recommendation to the Cabinet and thereafter to the Council would be amended accordingly (as set out at the end of this minute para).

In reply to a question about examples of councils making ethical investments within a treasury management framework, Mr Catlow cited Torfaen County Borough Council (solar farm) and Warrington Borough Council (active ESG strategy). He

opined that those authorities would probably have sought and secured a favourable legal opinion in support of making ESG decisions consistent with the three criteria of credit rating, return rate and liquidity.

The Percentage of and Benefit of being Debt-free Local Authorities

A firm figure could not be given to the meeting now but it was probably in the region of 20%. This was then checked online by officers during the meeting and was advised to be 17%.

ACTION POINT The actual percentage would be confirmed in writing to members.

Typically debt-free councils were those which had transferred their housing stock to housing associations, as CDC had done almost 20 years ago.

The advantages of being debt-free and whether a council could earn more from its investments than it would cost to borrow were briefly discussed.

The Amount of Chichester District Council's Reserves

Clarification was sought and supplied on the details of CDC's reserves position.

Approved Investment Counterparties: Pooled Funds

It was noted with approval that the non-Local Authority Property Fund had an increased limit of £5m to £30m which would provide additional headroom for potential medium-term investments.

The Pursuit of Real Estate Investment Trusts (REIT)

The merits of investing in this form of property fund, which might be viewed as an example of ethical investment, had to be balanced against the fact that CDC had already invested some £25m in property and some felt that this should not be extended. It was suggested that perhaps the maximum investment limit for REIT should be reduced to £1m. Alternatively it was argued that the £2m limit should be retained but members should be consulted when making a potential investment decision. Officers said that they would always seek expert advice and consult members as part of an established protocol. The question was whether a committee of members or one or two selected senior and representative members should be consulted. In that respect it should be borne in mind that sometimes investment decisions might have to be made promptly in order not to lose an opportunity. After a debate the prevailing consensus was that the £2m should be retained in conjunction with officers having obtained the relevant professional advice and then consulting the Cabinet Member for Finance, Corporate Services and Revenues and Benefits and the CGAC chairman; the latter would be able to represent the CGAC members.

The resolution by the CGAC and its recommendation to the Cabinet and thereafter to the Council would be amended accordingly (as set out at the end of this minute para).

Miscellaneous Matters

- The reason for no entry in 2023 for the Community Infrastructure Levy (CIL) in the resource projection to 31 March 2014 table (page 12)

Officers would need to make enquiries and revert to members.

ACTION POINT The CIL 2024 nil entry to be advised in writing to members.

- The definition of what constituted a counterparty, for example which banks in the approved investment counterparties table (page 15).
- The frequency for issuing pooled funds reports. It was felt that in view of the considerable market fluctuations regular update reports were desirable ie quarterly to coincide with CGAC meetings. Officers said that this was, however, covered in the half-yearly treasury management report.
- The principal sources of the capital receipts figure of £7.9m in the resources available to fund CDC's capital programme table (page 39).

Officers would confirm whether these were as queried The Grange Leisure Centre Midhurst and the Portfield disposal site at Church Road Chichester.

ACTION POINT The capital receipts sources to be advised in writing to members.

- The amount of New Homes Bonus (NHB) in the resources available to fund CDC's capital programme table (page 39). The stated sum of £2.2m was queried as seeming to be too low. Officers said that the table recorded sums actually banked. The NHB scheme was due to end in 2023-2024.
- The use of New Homes Bonus (NHB) funding as recorded in the approved capital programme and major schemes 2019-2020 to 2024-2025 table on page 38. The initial officer reply that this related to the St James Industrial Estate was queried in view of the separate entry for St James at the start of the same table.

Officers would make enquiries and revert to members.

ACTION POINT The use of NHB allocations would be advised in writing to members.

- The reason for updating in the summary of changes table in appendix 1 the word 'BREXIT' to 'UK exit from the European Union'.
- The listed schemes in CDC's strategic aims and objectives section of the draft Capital Strategy 20210-2021 to 2024-2025 report (page 38) reflected CDC's current Corporate Plan priorities but there was no mention of investing significant money to mitigate/prevent the effects of climate change. It should be noted however that during the next few months CDC members would have the opportunity explore such options as part of the review of CDC's

corporate priorities/plan objectives. Moreover the Capital Strategy was reviewed annually.

- The governance criteria used with regard to service investments (page 25 in the Capital Strategy) and how those investments related to treasury management as a whole.

Dr O’Kelly concluded the debate by summarising the salient points discussed and the two amendments to the CGAC’s resolutions and its recommendations to be made to the Cabinet and thereafter to the Council, namely the inclusion of a specific ESG statement and the governance approach to potential REIT investments.

Decision

The CGAC voted unanimously to make the resolutions and recommendations (as amended in the case of (1)) set out below.

RESOLVED

- (1) That the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Indicators for 2020-2021 be noted subject to the following two amendments:

(a) with immediate effect the Draft Treasury Management, Investment report and the associated relevant treasury management documents should contain henceforth the following statement about ethical, social and governance factors when making investment decisions:

‘Ethical Investments

Statutory guidance issued by CIPFA and MHCLG makes it clear that all treasury investments must adopt security, liquidity and yield (SLY) principles; ethical issues then play a subordinate role to those priorities. Nevertheless, there are a growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products. The Director of Corporate Services will consider such investments when deemed appropriate within the Council’s overall treasury management policies, objectives and the risk management framework set out in this document.’

(b) before making a potential investment decision with respect to Real Estate Investment Trusts (REIT) officers will, after obtaining the appropriate professional advice, consult the Cabinet Member for Finance, Corporate Services and Revenues and Benefits and the Chairman of the Corporate Governance and Audit Committee.

- (2) That the Capital Strategy for 2020-2021 to 2023-2024 be noted.

RECOMMENDATION TO THE CABINET AND THE COUNCIL

That the documents in the foregoing resolutions (1) and (2) be recommended by the Cabinet for approval by the Council.

285 Internal Audit - Audit Plan Progress

The CGAC received and considered the agenda report and its appendix of the audits completed since the previous meeting.

This item was presented by Mr S James (Internal Audit and Corporate Investigations Manager).

Mr T Radcliffe (Human Resources Manager) was also in attendance.

Mr James summarised the report as follows:

- The need to remove four audits from the 2019-2020 audit plan due to a variety of reasons as set out in para 2.2 and those items would be included in the 2020-2021 audit plan.
- The figures in para 2.4 should in fact read as 24 not 25 full audits and 35 not 36 reviews.
- The report addressed (a) four completed reports: (i) housing benefit overpayment recovery, (ii) HR recruitment and selection, (iii) treasury management and (iv) asset management; (b) three follow-ups: (i) trade waste, (ii) gifts, hospitality and car loans and (iii) GDPR; (c) one position statement: building control.
- The recruitment and selection HR audit was the only one of the four which included an overall assurance rating level of limited assurance having identified two high risk exceptions: (a) completion of checklist, take-up of references, qualification checking and (b) checking of criminal convictions and handling/retention of DBS certificates; and one low risk exception: ensuring that version control dates were applied to guidance documents.

Accordingly Mr Radcliffe was present to answer members' questions.

Mr Radcliffe confirmed that the issues pertaining to the high risk exceptions in (a) and (b) above were being addressed. As stated in the agreed actions, the HR team had been instructed about the matters. Adherence to these requirements would be monitored, as would implementation of reforms to procedures and processes to comply with the relevant practice guidance on DBS retention and ensure that duly appointed applicants provided evidence of their stated qualifications. Where such qualifications were not proved this might be a potential misconduct issue to address. With reference to objective 4 on page 70, he explained the timescales for sending contracts to successful applicants, which followed a prompt verbal offer of employment to the successful applicant. The HR team was sufficiently resourced and able to respond efficiently to the inevitable fluctuations in the recruitment process.

- The housing benefit overpayment recovery audit had two medium risk exceptions with a reasonable assurance rating.

Members had no questions.

- The treasury management audit gave rise to no issues and had an assurance rating.

Members had no questions.

- The asset management audit gave rise to no issues and had an assurance rating.

Members had no questions.

- The follow-up audit reports in respect of (i) trade waste and (ii) gifts and hospitality declared that all outstanding issues had been addressed. That was mainly the case with the GDPR follow-up audit; a review of CDC's data protection policy was underway.

Members had no questions.

- The building control audit was the subject of a position statement in view of the ongoing work being undertaken by the Divisional Manager and Finance as stated in para 3.3 on page 78. As a result the audit could not be completed until the 2020-2021 financial year. It was anticipated that the vacant post of building control manager would be (if not already) filled imminently.

In response to a member's question about whether this service had too much capacity to balance its books, Mrs Belenger explained that it was required to break even over a three-year cycle. The new divisional manager was looking at how data was recorded and the practices which were being followed in other West Sussex building control teams.

Decision

The CGAC voted unanimously to make the resolution set out below.

RESOLVED

That the performance against the 2019-2020 Audit Plan be noted.

286 **Corporate Debt Recovery Policy**

The CGAC received and considered the agenda report, its appendix with the draft Corporate Debt Recovery Policy and the first of the two background papers which had also been included within the agenda papers.

This item was presented by Mrs H Belenger (Divisional Manger Financial Services).

Mrs Belenger summarised the report with reference in particular to sections 3 (Background) and 5 (Proposal) and 9 (Community Impact and Corporate Risks). The objective was to create a new income collection and debt management policy which was comprehensive, co-ordinated, consistent, clear and considerate especially for vulnerable people who might need additional assistance in addressing

their financial affairs. The new policy adopted an overarching generic approach, taking into account different legislative requirements for the various Chichester District Council services, introducing interest payments for late payments, embracing a fair debt collection approach, establishing write-off arrangements and a new regular reporting requirement to senior leadership officers. The Money Advice Service and its 'Stop the Knock' campaign had made six recommendations and CDC's positive response was set out in para 5.7 of the report. Although the draft policy stated on page 86 that it would be effective from 1 March 2020, this would in fact be later in order to take account of the meetings cycle for the Cabinet and the Council.

Members welcomed and commended the ambit and approach of the new draft policy. They wished to be kept abreast of write-offs, trends and how the new enforcement arrangements were working. They endorsed the extra support for vulnerable people facing indebtedness. A hope was expressed that due account should be taken when implementing this new policy of the impact of the roll-out of Universal Credit or, for example, the exit from the EU on those who were more vulnerable in Chichester District.

Mrs Belenger confirmed that members would be given periodically details (in a data protection compliant manner) of the write-offs, the level and scale involved and who was making the write-off decision. In addition officers would look at and inform members about trends in indebtedness and the kinds of national and individual factors which might affect those trends.

Decision

The CGAC voted unanimously to make the resolution and recommendation set out below.

RESOLVED

That (a) the new Corporate Debt Recovery Policy and (b) Chichester District Council's response to the recommendations from the Money Advice Service be noted.

RECOMMENDATION

That the new Corporate Debt Recovery Policy be approved by the Cabinet.

287 **Motions Procedure**

The CGAC received and considered the agenda report and its appendix.

Dr O'Kelly explained that rather than discuss the report at this meeting the item should be adjourned. This would enable to enable a member task and finish group (TFG) to consider and analyse the report's good ideas and proposals but also other options before the matter was brought back to the CGAC in due course prior to approval by the Council. She suggested that the TFG should comprise five Chichester District Council (CDC) members, not all of whom would belong to the

CGAC. She encouraged expressions of interest from CGAC members to sit on the TFG but emphasised that the invitation would be extended to all CDC members. She and Mr N Bennett (Monitoring Officer and Divisional Manager for Legal and Democratic Services) would determine the membership.

The CGAC supported Dr O'Kelly's proposal.

Decision

The CGAC voted unanimously to make the resolution set out below.

RESOLVED

That a task and finish group consisting of five Chichester District Council members be established to consider the proposals in the agenda papers and other options and report its findings and conclusions to a subsequent meeting of the Corporate Governance and Audit Committee.

[**Note** After the end of this meeting the following six members were noted as having expressed their interest in participating in the TFG: Mr J Brown, Mr A Dignum, Dr K O'Kelly, Mr S Oakley (present as an observer during this meeting), Mr D Palmer and Mr P Wilding]

288 **Budget Review Task and Finish Group Feedback**

The CGAC received the following oral report from Mrs H Belenger (Divisional Manager Financial Services).

The TFG met on 17 January 2020 to understand the main variances on the budget which would be proposed to the Cabinet in February 2020 and the Council in March 2020 for council tax setting. The proposed budget took into account the high level assumptions made in Chichester District Council's (CDC) Financial Strategy five-year model and built on those forecasts.

Officers set out for the TFG the main projected variances for the 2020-2021 budget spending plans working from the approved base budget of 2019-2020. The variances and their impact were set out with detailed explanations eg inflationary increases for pay, prices and pensions which affected all service areas. Officers also gave detailed explanations of changes in individual service areas eg in housing to take account of the expected impact on service demand as result of the loss of West Sussex County Council funding in Chichester District or such as Chichester Contract Services and trade waste income targets with a drive to increase income generation opportunities.

So whilst the government's provisional financial settlement received was broadly in line with expectations, the detailed estimates showed a budget surplus for the coming financial year of £484,000, although this was subject to receiving the final settlement from the government. The surplus was down from the forecast in the Financial Strategy which was a surplus of £759,000, which was mainly due to a lower estimate on retained business rates. Thus the five-year model had a forecast of £3.659m and the proposed budget was now £3.421m, a difference of £238,000.

CDC had a statutory obligation to produce a balanced budget, which had been achieved for the proposed budget for 2020-2021 as an estimated surplus of £484,000 and it sought to adhere to the financial principles contained in CDC's financial strategy. However, it should be noted that the five-year model showed a deficit for the two years thereafter due to the expected changes due to the government's Fair Funding Review, so any use of the £484,000 should only be for one-off rather than ongoing expenditure.

Mr Dignum said that he chaired the TFG and it had been a very valuable meeting. Mrs Belenger and Mr D Cooper (Group Accountant) had very helpfully taken members through the variances and gave them a clear view of the trajectory.

The CGAC had no questions for Mrs Belenger and it noted the oral report without making a formal resolution to that effect.

289 Exclusion of the Press and Public

There were no exempt agenda items listed for this meeting and no resolution was made to exclude the press and the public from any part of this meeting.

290 Late items

As stated during agenda item 1 (minute 279) there were no late items for urgent consideration at this meeting.

The meeting ended at 11.27 am

CHAIRMAN

Date:

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Financial Impact of COVID - 19

1. Contacts

Report Author:

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2. Recommendations

2.1 Corporate Governance and Audit Committee:

- (a) Note the financial situation facing the council.**
- (b) Recommend to Cabinet that £8,070,000 be released from reserves to meet the in-year cost of the pandemic.**
- (c) Recommend to Cabinet that in the current circumstances the minimum level of reserves be reduced from £6.3m to £4m.**
- (d) 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.**

3. Background

- 3.1 The council is facing an extremely challenging financial position. It is clear that we will be facing a deficit in the future, but the amount cannot currently be predicted with certainty. However, to do nothing to address this will result in reserves being depleted, and still leaves the issue to be addressed once reserves have expired. Action must be taken to address the position, and develop a strategy that enables the budget to be balanced over the medium term.
- 3.2 Members may wish to refer to the Overview and Scrutiny papers for 30 June 2020 which contains the Covid 19 Recovery report. However, this committee are asked to assess the financial position as set out in this report.

4. Economic Outlook

- 4.1 The current COVID-19 pandemic has already impacted the UK economy and many others around the world. GDP for quarter 1 of 2020 has been estimated to have fallen by 4%, but that almost entirely relates to March only. The Office for National Statistics have indicated that during April alone the UK economy shrank by 20.4%.
- 4.2 Although the current economic position is extremely difficult to predict, the Bank of England's Monetary Policy Committee (MPC) have modelled a likely, but by no means certain, scenario for the UK economy. This predicts, after falling

sharply in the first half of 2020, GDP will pick up relatively quickly in the second half of the year. However, it will take significantly longer for it to return to its previous trajectory representing more of a U shaped recovery, than a V shaped one. The MPC's model makes a number of assumptions which are extremely uncertain, not least of which is that the lockdown will gradually be released from June through to December, and that a favourable trade deal with the EU will be struck by January 2021.

- 4.3 Inflation is expected to face downward pressure over the rest of this financial year, but is expected to pick up again towards the 2% target by 2021.
- 4.4 In spite of huge government fiscal intervention, it is highly likely that unemployment will rise adding to a general reduction in consumer confidence, and reluctance to spend on non-essential items which is expected to last much longer.

5. Impact for this Council

- 5.1 Like many other Councils, Chichester has pursued service efficiency and additional income from commercial activity in order to replace government funding which has gradually been withdrawn over the last decade.
- 5.2 Currently the Council is funded from the following primary sources of income:

Council Tax	£9.m
Business Rates	£3.4m
Income from Fees and Charges	£18.1m
Total income	£30.5m

- 5.3 Whilst the economic outlook is extremely uncertain, what is absolutely clear is that the Council's income from fees and charges will face significant pressure for the foreseeable future.
- 5.4 Some of our income streams, such as car parking (£6.4m 2020-21 budget) may never return to their previous levels as the lockdown is likely to accelerate changes in social behaviour, such as workers choosing to work from home on a more frequent basis, and shoppers moving to on-line, thereby reducing the demand for parking in the city.
- 5.5 Income from Business Rates and Council Tax will also both come under pressure as unemployment increases and businesses struggle to recover, resulting in increased Council Tax Reduction claims and lower Business Rate collection.
- 5.6 Added to this the government intends to press ahead with the already delayed Fair Funding Review, and Business Rate reset. This is expected to result in a significant reduction in the amount of business rates that the Council will be able to use to fund its services. The also delayed 2020 spending review will set government departmental spending limits in this autumn. It is likely that local government will not fare well, especially at shire district level.

6 Impact during 2020-21:

- 6.1 The May 2020 cabinet received a report containing a breakdown of the main impacts on the Council's finances during the current year. We are currently experiencing a loss of income in the region of £1m per month, although the reintroduction of parking charges will help to reduce that in the remainder of the year. Depending on how quickly lockdown restrictions are lifted, it is estimated that the cost this year could be in the region of £8m. This is a combination of income lost (£7m) and increased costs (£1m) such as bad debts and homelessness costs. Against this the government have provided £1.25m of funding. No further government funding is guaranteed, although a further allocation is being debated currently. It is clear however, that any further funding will be inadequate, and in any case will just be a temporary one off allocation.
- 6.2 Members will undoubtedly want to assist the community during the recovery phase and make some policy choices that will add further expenditure to the Council's budget, as set out in the Recovery Report. Some of this will be one off cost for 2020-21 only, while others may have longer term consequences. These have been incorporated into the 5 year model attached as appendix 1 under the heading "Policy Choices".
- 6.3 The Council does have relatively healthy reserves to enable it to cope with the immediate pressures. £22.8m is available to call upon. However, this includes the minimum General Fund balance of £6.3m. Whilst the minimum balance can be reviewed it cannot be reduced to nil. The Corporate Governance and Audit Committee are asked to consider reducing this which would release more reserves to support the recovery plan while the Council looks to address its budget position over the medium term.
- 6.4 The Council's cashflow and Treasury management arrangements have been tested, and it is anticipated that there will be no liquidity issues for this Council, with sufficient short term investments to enable the Council's cashflows to be managed in spite of the current loss of income.
- 6.5 All Divisional Managers have been instructed to avoid all unnecessary expenditure until further notice. This includes not filling staff vacancies in all but the most urgent and specialised roles and then only by agreement of SLT. Additionally all approved capital projects will also only proceed by exception. This should assist in keeping costs in the current year to a minimum, and reduce the draw against reserves.

7 Impact for 2021-22 and beyond:

- 7.1 Of much greater concern is the potential deficit the council will face in future years. Whilst reserves are held for just such emergencies, they are a finite resource and cannot be relied upon to balance the budget on a recurring basis. To do so not only fails to address the issue, which will still need to be addressed at some point, it would also deplete reserves which could otherwise have been invested to assist the Council, the local economy, and our residents.
- 7.2 The 5 year financial model has been updated, building on the MPC model, and estimating the likely reduction in our income streams. This is attached as

appendix 1 to this report. This currently indicates a significant deficit on the Council's projected revenue budget in each of the next five years, and unless action is taken this would require £24m of reserves to be used.

7.3 Key assumptions in the model are as follows:

	2021-22	2022-23	2023-24	2024-25	2025-26
Inflation	1%	2%	2%	2%	2%
Pay inflation	2%	2%	2%	2%	2%
Increase in CTR claims*	50%	40%	25%	10%	nil
Reduction in Fees and Charges	20%	15%	10%	5%	5%
*NB a 50% increase in CTR claims equates to about 2,000 band D properties, or 3.6% of our tax base.					

It must be acknowledged that the model at this time is of course very difficult to predict with accuracy, and the actual deficit will undoubtedly vary from the model. However, having gone from a position of being broadly balanced prior to COVID-19, it is not surprising that we are now facing a significant funding gap.

8. Outcomes to be Achieved

- 8.1 To achieve a balanced budget over the medium term, whilst protecting vital public services as far as possible. And to maintain an adequate level of reserves to mitigate any further emergencies in the future.

9. Proposal

- 9.1 It is a legal requirement to set a balanced budget. It is also sound financial management to do so within the context of the medium term projections. The issue facing the Council is not whether we need to make savings, clearly we must, it is a question of timing.
- 9.2 Preferred option – Option 3. It is recommended that the Council should develop a strategy to address a savings target of at least that predicted for year 5 of the model, currently estimated to be £2m. The strategy, and savings, to be implemented in time for the 2022-23 budget. This will mitigate the impact on reserves and also achieve a balanced budget position over the medium term. It will also mean that service delivery will not be impacted before the true financial consequence of the pandemic are fully understood.
- 9.3 In the meantime officers will also embark on a round of service efficiency reviews to ensure all services are delivered as efficiently and effectively as possible. Some of these efficiency savings should be achieved for the 2021-22 budget. A model to help with the prioritisation of services has been developed and is detailed in the Recovery Report, a copy of which is attached.

- 9.4 In effect this option builds upon option 2 as set out below, but includes reviewing all services to identify any efficiency savings that might be achieved which would reduce the use of reserves.
- 9.5 The Council's minimum level of general fund reserves has been set at £6.3m for several years. However, this is at a relatively high level for a District Council. Other West Sussex District authorities have a minimum level of reserves ranging from £1.5m to £6m. It is recommended that the minimum level for Chichester be reduced to £4m, thus enabling £2.3m to be made available should it be necessary. If this is approved, then the Council could access £18.8m of the £22.8m that is technically available. This would be insufficient for option 1 below, but would enable the Council to implement the Future Services Framework during the next 12-18 months ahead of setting the 2022-23 budget.

10. Capital Programme

- 10.1 The council currently has an approved £47m capital programme. Some of these projects are funded from sources other than the Council's own reserves, for example those schemes funded from CIL, or Disabled Facility Grants funded by the government. However, there are a significant number of CDC funded projects, which if stopped, or reduced would free up further reserves that could either be deployed to support revenue, or be diverted to fund economic recovery projects.
- 10.2 It is proposed that capital schemes funded from this Council's reserves, and which are not already contractually committed will be deferred to the 2021-22 financial year. Only in very exceptional circumstances will projects continue, for example where not replacing an asset might create a health and safety risk.
- 10.2 The redevelopment of St James' Industrial Estate, and Freeland Close redevelopment projects will however, continue as planned as these have significant economic and social value to the community.

11. Alternatives Considered

- 11.1 Option 1 - Delay implementing a new deficit reduction plan. This has the advantage of waiting until the financial position becomes more certain, and thereby avoiding the potential to impact service delivery too early. But delaying also has the disadvantage of having to use up more reserves during the interim which could perhaps be used in other ways to aid the economy, such as investing in Southern Gateway and the Green agenda, and ultimately the deficit will still need to be addressed. To do nothing for the whole duration of the 5 year model would use up £24m of reserves, including the current year's deficit. This is clearly not affordable, or prudent and as the Council's S151 officer I cannot recommend that course.
- 11.2 Option 2 - A more reasonable approach would be to defer making any immediate decisions in relation to funding, but to plan for what might be necessary and develop a flexible strategy that can be implemented as soon as the economic picture becomes clearer. Implementing only those decisions that are necessary, and no more. The model attached suggests that we will be facing a reduction somewhere in the region of £2m by the end of the 5 years. A

strategy based on the predicted year 5 deficit, if implemented in time for the 2022-23 budget would reduce the need to use reserves by around £8m to £16m. It should be noted that any further policy choices which increase expenditure, would also reduce the amount of reserves that are available. This would be more affordable than option 1, but still significantly reduces the ability for the Council to invest reserves in economic development projects.

- 11.3 Option 3 - The recommended approach takes the approach of option 2, and adds an efficiency review across all council services to ensure the deficit is minimised before impacting on service delivery.

12 Resource and Legal Implications

- 12.1 It is a legal requirement to set a balanced budget. However, it is perfectly legal to achieve this by using reserves. This report aims to enable the Council to achieve a balanced budget without continually relying on reserves over the medium term. The Director of Corporate Services and Council’s S151 officer considers such an approach to be both essential and prudent in the current climate.
- 12.2 The Council could choose to borrow to support future capital investment schemes, but would need to deplete all available reserves first. The impact of taking the Council into debt has not been factored into the financial model at this time.
- 12.3 No other legal issues arise from this report.

13 Consultation

- 13.1 The Overview and Scrutiny Committee are being consulted to provide advice to Cabinet in their consideration of the Recovery Plan.
- 13.2 Public consultation may be necessary should front line service delivery be impacted by recommendations arising from the Future Services Framework (see Recovery Report).

14 Community Impact and Corporate Risks

- 14.1 Failure to set a balanced budget over the medium term.
- 14.2 Depletion of reserves to a level which is unsustainable.
- 14.3 Reserves used to support revenue rather than investing in economic recovery projects.

15 Other Implications

Are there any implications for the following?		
	Yes	No
Crime and Disorder		X
Climate Change and Biodiversity		X

Human Rights and Equality Impact		X
Safeguarding and Early Help		X
General Data Protection Regulations (GDPR)		X
Health and Wellbeing		X
Other (please specify)		X

16 **Appendices**
5 year Financial Model – Exempt appendix

17 **Background Papers**
[Covid 19 Recovery Report - 30 June 2020 Overview and Scrutiny Committee](#)

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

Document is Restricted

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Chichester District Council

Audit planning report update

Year ended 31 March 2020

June 2020

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Agenda Item 7

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal line is positioned above the 'Y', extending from the top right towards the center of the 'Y'.

Building a better
working world



Members of the Corporate Governance and Audit Committee
Chichester District Council
East Pallant House
1 East Pallant
Chichester
PO19 1YT

12 June 2020

Dear Corporate Governance and Audit Committee Members

Audit Planning Report update – Year ended 31 March 2020

This report seeks to provide the Corporate Governance and Audit Committee with an update to our risk identification for the 2019/20 audit, reflecting the changes in risks identified in the current year.

In our audit planning report submitted for the 26 March Corporate Governance and Audit Committee, we provided you with an overview of our audit scope and approach for the audit of the financial statements. Following the coronavirus outbreak (Covid-19) in March 2020, this meeting was cancelled and we have since re-assessed our audit scope and strategy. We provide an update to the significant accounting and auditing matters, and audit approach outlined in the Audit Planning Report.

Section 1 - changes to audit risks
Section 2 - changes to audit scope

If you have any queries in respect of this report, please contact me.
Yours faithfully

Kevin Suter
For and on behalf of Ernst & Young LLP



01 Audit risks



Our response to significant risks

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

Risk of fraud in revenue recognition*

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing. We believe the significant risk manifests itself within PPE additions and REFCUS.

Update – Covid-19 expenditure

No change to the risk from Covid-19 in 2019/20 and no change to planned procedures.

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. We focus our testing on capital additions (£3.8m in 2019/20) and Revenue expenditure funded from capital under statute (REFCUS) (£3m in 2019/20).

Our response to significant risks (continued)

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

Valuation of Land and Buildings and Investment Properties

What is the risk?

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

There have been a number of errors identified in this area over the last three years.

Update – Covid-19 related constraints on property valuation

The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Asset valuations were performed by the Council's valuer between December 2019 and February 2020, before the impact of Covid-19. Management are currently reviewing these valuations to determine whether there has been any material fluctuations in valuation between the valuation date and the balance sheet date.

This impact is expected to affect PPE valued at Existing Use Value as the valuation basis for these properties are linked to recent market transactions. Given the significant change in market conditions since the onset of Covid-19 in early 2020, it is important that a valuation is carried out at the measurement date. It is likely to be inappropriate to rely on a valuation at an earlier date. We have therefore increased the level of risk from 'other financial statement risk' to a significant risk.

Furthermore, since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents and seek to negotiate rent reductions as the tenants can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations.

Financial statement impact

The net book value of land and buildings in the 19/20 accounts is £117m whilst the fair value of investment properties is £13.623m



Our response to significant risks (continued)

We will:

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

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Additional Covid-19 procedures in response to our risk include:

- Consider the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions;
- Ensure the appropriate disclosure has been made in the accounts concerning the material uncertainty, including in Note 5 'Assumptions made about the future and other major sources of estimation uncertainty'; and
- Obtain input from EY Real Estates, our internal specialists on asset valuations for PPE and Investment Properties, including inputs on market sentiment and how it has been reflected in the ERVs/yields.

Other areas of audit focus

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

What is the area of focus?

Going concern

The Council prepares its accounts on the assumption that it will continue as a going concern. Ordinarily the Council supports this assertion with its Medium Term Financial Strategy (MTFS) and budget for the next financial year. However, the current and future uncertainty over the impact of Covid-19, the impact on material income streams and the uncertainty over the level of Government funding increases the need for the Council to revisit its financial planning and undertake a detailed assessment to support its going concern assertion. The Council is heavily reliant on income from fees and charges (in excess of £18m) to support its cash position and these income streams are under significant threat due to Covid-19.

From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for the 2019/20 accounts, for example, we will need to see evidence of an assessment up to and including around July 2021. We will also discuss with management the potential for further disclosures in the 2019/20 accounts on going concern and in particular any material uncertainties.

New accounting standard – IFRS 16

In our Audit Planning Report drafted in March we identified an inherent risk in relation to the implementation of the new accounting standard on leases. Due to the impact Covid-19, the adoption of IFRS 16 (Leases) was deferred to 21/22.

What will we do?

Our approach will focus on:

- Reviewing management's assessment of going concern as part of our work under ISA (UK) 570 (Revised June 2016) Going Concern, and whether any required disclosures are included within the Statement of Accounts;
- Consider the Council's future cash flow projections and stress testing to determine whether they support the use of the going concern assumption, including any assumptions on external borrowing and repayments;
- Obtaining evidence that management's assumptions are appropriate and any material uncertainties have been disclosed;
- Review the Council's approach to identifying and disclosing events after the balance sheet date; and
- Consider the impact on our audit report and comply with EY consultation requirements.

Since IFRS 16 (Leases) has not yet been adopted by the Code, the Council no longer needs to disclose the financial impact of this new accounting standard in the 19/20 accounts. We therefore no longer consider this to be an areas of audit focus.

Additional Procedures

Audit Process overview

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy are as follows:

- Information Produced by the Entity (IPE): There is an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the likely inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We will:
 - Use the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we're auditing; and
 - Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports.

The changes to audit risks and audit approach will change the level of work we perform. This may impact the audit fee. We will agree changes to the audit fee with management and report back to the Corporate Governance and Audit Committee in our Audit Results Report.

Materiality

Materiality

We have considered the materiality levels we reported to you in our Audit Planning Report, and whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the values for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

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Chichester District Council

Corporate Governance and Audit Committee

2 July 2020

2019-20 Accounting Policies

1. Contacts

Report Authors:

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2. Recommendation

The committee is requested to consider this report and approve the accounting policies to be applied to prepare the Council's 2019-20 financial statements.

3. Background

3.1. In following the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code), the Council complies with the requirements of International Financial Reporting Standards (IFRS) except where CIPFA has agreed that departures from these standards are necessary and permissible in the context of local government, or to comply with the statutory framework that the sector is subject to.

3.2. The Code specifies the principles and practices required to prepare a Statement of Accounts which gives a true and fair view of the financial position and transactions of a local authority.

3.3. The Code is reviewed continuously and is normally updated annually. The 2019-20 Code has been developed by the CIPFA/LASAAC Local Authority Code Board and has effect for financial years commencing on or after 1 April 2019.

4. Changes to the Council's 2019-20 financial statements and accounting policies

4.1. In contrast to 2018-19, the new or amended standards that have been introduced into the 2019-20 Code (listed in the Appendix) are not presently judged to have a material impact on the Council's financial statements. As a result, the Council's existing accounting policies, last approved by the Committee in March 2019, and subsequently reviewed by the Council's External Auditor, remain a suitable basis for preparing the 2019-20 financial statements.

4.2. Continuing the practice adopted for the last two years, the accounting policies and disclosure notes presented in the Council's Financial Statements will focus on information that is important to the presenting of a 'true and fair' view to

service users and stakeholders.

4.3. In practice this means that;

(a) For accounting policies, only those that are material to a reader's interpretation of the accounts will be included.

(b) For disclosure notes, unless the note is qualitatively material (see paragraph 4.5) or required by statute, the note will not be prepared or will be replaced by a shorter text disclosure

4.4. In determining if a disclosure note contains material information or not, both qualitative and quantitative aspects of materiality will be considered. There appears to be no reason to alter the Council's present quantitative materiality level of £1,000,000 for the total of any income, expenditure, assets or liabilities disclosed in a single note.

4.5. Similarly, there continue to be a number of disclosures that, even though they involve relatively small sums, are considered to be of particular interest to users and stakeholders and therefore will be retained. These disclosures are considered to be qualitatively material and are proposed as:

- (a) Members' allowances
- (b) Officers' remuneration
- (c) External Audit Costs
- (d) Related Parties
- (e) Termination benefits
- (f) Market risk exposure for Financial Instruments
- (g) Investment property income and expenditure

5. Resource and legal implications

5.1. The Council is required by the Accounts and Audit Regulations to comply with CIPFA's Code of Practice for Local Authority Accounting in preparing its accounts.

6. Consultation

7.1 Not applicable

7. Community Impact and Corporate Risks

7.1. None

8. Other Implications

Are there any implications for the following?		
	Yes	No
Crime and Disorder		X
Climate Change and Biodiversity		X
Human Rights and Equality Impact		X

Safeguarding and Early Help		X
General Data Protection Regulations (GDPR)		X
Health and Wellbeing		X
Other		X

9. Appendices

9.1. Appendix – New or amended standards that have been introduced into the 2019-20 Code

10. Background Papers

10.1. None.

APPENDIX – New or amended standards that have been introduced into the 2019-20 Code.

Relevant IFRS	Date issued
Amendments to IAS 40 Investment Property: Transfers of Investment Property	December 2016
Annual Improvements to IFRS Standards 2014–2016 Cycle	December 2016
IFRIC 22 Foreign Currency Transactions and Advance Consideration	June 2017
Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation	October 2017

Chichester District Council

Corporate Governance & Audit Committee

26th March 2020

Housing Benefit Subsidy Audit Position

1. Contacts

Report Author

Marlene Rogers – Revenues Business Support Manager

Telephone: 01243 534644 E-mail: mrogers@chichester.gov.uk

2. Recommendation

- **That the committee consider and notes the outcome of the 2018/19 Audit Report.**
- **That the committee note the final outcome of the 2017/18 Housing Benefit Audit.**

3. Background

The Council submits annual Housing Benefit Subsidy claims to the Department for Work and Pensions (DWP), this claim is subject to the Housing Benefit Subsidy Assurance Process HBAP, presently carried out by external Auditors Ernst Young LLP. Where issues are identified the DWP may qualify the claim, qualification is based upon the audit findings in accordance with HBAP guidance. Qualification can impact on the amount of subsidy that can be claimed and therefore can have an impact on the Council financially.

The 2018/19 claim has now been concluded, in previous years the Council's appointed auditors have reported their findings to this committee. Changes in the appointment process means that this report no longer forms part of their standard contracted work. Therefore this report replaces that and summarises the 2018/19 claim findings based on the auditor's report to the DWP.

The 2017/18 claim was presented to this committee in July 2019 (appendix 1 pages 7 - 9), as part of the Certification of Claims and Returns Annual Report 2017/18. This report highlighted the possible implications of the 2017/18 claim qualification and detailed recommendations from Ernst Young on the how future issues may be mitigated. At this time Officers were still in communication with the DWP about how it may prove its case on one of the issues identified by the 2017/18 audit. This issue had a significant financial implication.

The Council were permitted to make further submissions to the Department for Work and Pensions on the matter and this has now been concluded. This report aims to update the committee on the issues identified and to inform the committee of the final outcome of the 2017/18 Subsidy claim.

4. Outcomes to be Achieved

- To advise the committee of the outcome of the 2018/19 Housing Benefit Subsidy Audit
- To update the committee on the final outcome of the 2017/18 Housing Benefit Subsidy Audit.

5. The 2018/19 Housing Benefit Subsidy Claim

- Value of Claim presented £33,071,677
- Qualification Letter - Yes
- Amount of Housing Benefit Subsidy agreed £33,074,598

5.1 Summary of Initial Testing

In accordance with HBAP the auditor undertook testing in the headline cells the issues identified are described below.

Cell 011 Rent Rebates (Non HRA tenants). For clarity subsidy in relation to the Council's temporary housing, known as Westward House and Bed & Breakfast claims where the Council have a duty to prevent homelessness.

- Initial testing identified one claim where the rent amount had been amended without evidence to confirm why. We were unable to determine why the amendment had been made and therefore concluded that it was an error. Additional work was conducted to demonstrate that this was an isolated error therefore the claim was adjusted to remove this expenditure from the claim.

Cell 028 Rent Rebates (Non HRA tenants) eligible overpayments.

- Initial testing identified four cases where the overpayment arising from a claimant vacating the property had been classified as eligible rather than technical. Due to similar findings in 2017/18 additional testing was carried out. Due to the proportion of expenditure in this cell the whole population was tested and an adjustment made to the subsidy claim. The total impact of Non HRA cell adjustments was a small subsidy over claim of £1,261.

Cell 094 Rent Allowance. For clarity Housing Benefit expenditure for tenants in private housing, including registered social landlords.

- Initial testing identified three cases where the claim form could not be traced. This is due to claim forms which pre date 2006 being destroyed in a fire. Similar findings have been included in Ernst & Young's qualification letter for the past 6 years. The DWP accepted the explanation given therefore this had no impact on the claim.

5.2 Summary of additional testing

In accordance with HBAP additional testing was undertaken where initial testing identified issues and in areas where the previous subsidy claim was qualified.

As such additional testing was carried out in the following areas.

- Rent Rebates Non HRA – Misclassification of technical overpayments.
- Rent Rebates Non HRA – Misclassification of eligible overpayments.
- Rent Rebates Non HRA – Overpaid benefit due to earned income calculation error.
- Rent Allowances – Overpaid benefit due to income calculation error.
- Rent Allowances – Misclassification of overpayments in eligible overpayments.

5.3 Identified Issues

In 2017/18 errors in the calculation of earned income were identified. Initial testing identified no errors however extended testing identified the following errors.

Cell 094 Rent Allowances

- 3 cases which resulted in an overpayment of housing benefit to a total of £705. The errors ranged from £0.42 to £411.45. This resulted in the extrapolation of error creating an adjustment of £27,177.
- 3 cases which resulted in an underpayment of housing benefit to a total of £199.12. Underpayments do not affect the subsidy claim therefore they are disregarded for subsidy extrapolation purposes.

Cell 114 Eligible overpayments

In 2017/18 errors in the classification of overpayments, initial testing identified no errors. Extended testing identified one case where the dates were incorrectly applied and part of the overpayment should have been classified as Local Authority (LA) error. LA error overpayments include both overpayments created as a consequence of an error on behalf of the Authority or where there has been a delay in creating an overpayment. The amount of subsidy received on these overpayments each year depends on its combined amount of error and administrative delay, compared with its total payment of correct benefit in that year.

5.4 Impact of additional testing

As a result of errors in earned income in rent allowances £27,177 was moved into cell 113 (LA error overpayments). However there was no adverse financial implication for the Authority as the level of LA error remained below the lower threshold.

As a result of errors in the classification of overpayments £4,868 was moved from cell 114 eligible overpayments into cell 113 LA error overpayments. As above as the level of LA error remained below the lower threshold there was no adverse financial implication of this adjustment.

5.5 Auditor Observations

Testing of the initial sample identified two cases where the current year technical overpayments had been understated. There is no impact on benefit paid to the

claimant or on the level of subsidy claimed. Similar findings were identified in 2017/18, and previous claims. This issue has been mitigated by changing the payment cycle for Non HRA (Westward House & B&B claims) and communicating with Housing Division the importance of maintaining a good rent account database.

5.6 Moving forwards

To ensure effective management of Housing Benefit assessments moving forward the following actions have been implemented within the Benefits team. These steps are in place to mitigate any subsidy loss:-

- Quality checking a minimum of 4% of Benefits assessment work calculated continuing to give feedback to staff when errors are made and changing the checking regime where appropriate.
- Checking overpayments over £500.
- Checking high risk subsidy cells and monitoring levels of LA error.
- Regular liaison with the housing team to identify issues with rent account administration. Change in payment frequency from two weekly to one week in arrears for Non HRA Rent Rebates to reduce the level of technical overpayments.
- Committing resource where possible to keeping work up to date, to reduce overpayments and therefore reduce the risk of subsidy misclassification.
- Working to reduce the level of additional testing required, it is worth noting that this year no errors were found in the initial sample. Errors were only found in the extended testing therefore this subjects us to potential additional testing in areas of error moving forwards. Unless we are able to persuade the Auditor as per HBAP that the issue has been resolved.

6. The 2017/18 Housing Benefit Subsidy Claim update

The issues identified in the 2017/18 claim were reported to this Committee in July 2019. The relevant pages of the report from auditors Ernst & Young are enclosed in appendix 1 (pages 7 - 9). There was one issue that was unresolved as the Council were making further representations to the DWP. These representations were accepted and the Council avoided a significant loss of subsidy. The issue and values are explained for interest in the following paragraph.

- Earned income evidence. Extended earned income testing also identified six cases where there was insufficient evidence to reperform the calculation of earned income as per HBAP guidance. The Council uses data provided by Her Majesty's Revenues & Customs HMRC via DWP applications via the DWP which is then used to calculate earnings for the purpose of a housing benefit claim. The decision was taken when this was first introduced not to copy the earnings data, this decision was made on the assumption that this data would always be available as a point of reference. However subsequent changes to this process by the DWP meant that this was not the case. Therefore in six cases evidence of the calculated earned income was not available. The extrapolated effect of this error would be significant, with a reduction of cells 102, 103, 113 & 114 by £297,315, £78,005, £2,294 and £29,775 respectively with a corresponding entry in cell 113 of £407,389.

Steps were taken on identification of this issue to mitigate any future issue. Officers now save off the relevant evidence from DWP systems and this is available for

auditors to satisfy themselves of the evidence that has been used in the calculation of earnings. Therefore this is no longer an issue moving forwards.

7. Outcome for the Council

2018/19 Housing Benefit Subsidy Claim

Extrapolation adjustments resulted in an increase of subsidy due of £2,921. Letter from DWP enclosed in appendix 1 (pages 1 – 2). Observations and qualification issues have been noted and where possible mitigated by additional actions.

2017/18 Housing Benefit Subsidy Claim

The claim was successfully concluded in November 2019. Letter from the DWP is included in appendix 1 (pages 3 – 5). In summary a loss of £527,050 was prevented by the further work being accepted by the DWP.

8. Community Impact and Corporate Risks

If Housing Benefits Subsidy claims are qualified there is a risk that the level of Subsidy paid by the DWP will be reduced. This impacts on the Council's financial position and could impact on service delivery as a consequence. The Council's reputation could also be negatively impacted.

9. Other Implications

None

	Yes	No
Crime and Disorder		X
Climate Change and Biodiversity		X
Human Rights and Equality Impact		X
Safeguarding and Early Help		X
General Data Protection Regulations (GDPR)		X
Health and Wellbeing		X
Other (please specify)		X

10. Appendices

[Housing Benefit Subsidy Audit Position- Appendix 1.pdf](#)

- Pages 1 – 2 DWP final claim outcome 2018/19
- Pages 3 – 5 DWP final claim outcome 2017/18
- Pages 7 – 9 Extract of Ernst & Youngs Certification of Claims and Returns Annual Report 2017/18

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Department
for Work &
Pensions

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www.gov.uk

Telephone: 01253 337972

Date: 21 January 2020

Dear Ms Rogers,

I am writing about your Housing Benefit (HB) reporting accountant final tested claim for 2018/19.

I am mindful that local authorities are required by law to administer Housing Benefit in accordance with the relevant legislation and case law. It is an expectation that an authority will act with reasonable diligence to properly discharge its functions in accordance with the law when administering Housing Benefit.

The following decisions were made after considering all the available information in relation to the criteria specified in Circular S1/2002 and the additional information you have presented. The decisions have been made under section 140(C) of the Social Security Administration Act 1992.

2018/19 Final Tested Claim

Reason for exception – amount - recovery

1. Rent Allowance Total Expenditure - £27,178 – Full recovery
2. Rent Allowance Eligible Overpayments - £1,947 – Full recovery

Acting on behalf of the Secretary of State, I have recovered £29,125 of overpaid Housing Benefit subsidy from your 2018/19 subsidy claim.

In making this decision I have noted, with regard to S1/2002, that the incorrect assessment of benefit and misclassification of overpayments has resulted in subsidy being claimed in excess of entitlement, at a cost to the public purse. Accordingly, acting on behalf of the Secretary of State, I consider it appropriate, in all the relevant

circumstances of your claim, to recover the total recoverable overpaid subsidy of £29,125.

It is noted, however, that as a consequence of the reclassification of LA error overpayments, your subsidy claim is understated by £32,046. I will, therefore, amend your claim accordingly.

Method of repayment

Acting on behalf of the Secretary of State, I propose to recover the overpaid subsidy of £29,125, offset by the additional subsidy of £32,046 due to your authority, from your interim subsidy for February 2020 and to include a payment of £2,921 in your interim subsidy for February 2020.

Please note that the final settlement will also take into account any adjustments to your certified final claim, that you have agreed with your reporting accountant and which sit outside the recovery decisions.

Your claim will now be settled on the above basis. This does not, however, prevent your claim from being re-opened should DWP become aware of new information relating to your claim. DWP will also consider re-opening your claim if you present further information that, in DWP's view, shows that the overpaid subsidy is less than the amount on which the DWP based the original recovery decision.

You should be aware that there is no right of appeal against a decision of made by DWP to recover overpaid subsidy under S140C(3) of the 1992 Act. The decision can only be challenged by judicial review.

Please do not hesitate to contact me should you have any queries on this matter.

Yours sincerely,

John Darrell

Department for
Work and Pensions

HB Subsidy Team
Housing Delivery Division
Room B120D
Warbreck House
Blackpool FY2 0UZ

Telephone: 01253 337972

MS MARLENE ROGERS
BENEFITS MANAGER
CHICHESTER DISTRICT COUNCIL
EAST PALLANT HOUSE
EAST PALLANT
CHICHESTER
WEST SUSSEX, PO19 1TY

Date: 1 November 2019

Dear Ms Rogers,

Housing Benefit
2017/18 Qualified Final Subsidy Claim

Following receipt of the auditor's supplementary report dated 17 October 2019, I am writing regarding the latest position of your claim.

NON-HRA RENT REBATES TOTAL EXPENDITURE (Cell 011)

Testing originally identified 3 cases in which there was insufficient evidence. Further testing has been done. Cell 023 is overstated and cell 026 is understated. **Overpaid subsidy = £350.**

The Secretary of State does not require your authority to do further work, but will proceed in due course, to make a decision on recovery of overpaid subsidy.

NON-HRA RENT REBATES – TECHNICAL OVERPAYMENTS (Cell 027)

Testing identified 1 misclassified overpayment. Cell 027 is overstated and cell 028 is understated. **Underpaid subsidy = £4.**

The Secretary of State does not require your authority to do further work, but will proceed in due course, to consider offsetting against any recoverable overpaid subsidy.

RENT ALLOWANCE TOTAL EXPENDITURE – MISSING CLAIM FORMS (Cell 094)

Testing identified 4 cases in which the claim form could not be traced. This is due to a fire destroying the original claims. Based on evidence relating to post 2006 claims, the auditor is content that the missing claims were received. The Department, therefore, accepts this qualification. No further work is needed.

RENT ALLOWANCE TOTAL EXPENDITURE – EARNED INCOME (Cell 094)

Testing identified a number of errors. Cells 102 and 103 are overstated and cells 113 and 114 are understated. **Overpaid subsidy = £984.**

The Secretary of State does not require your authority to do further work, but will proceed in due course, to make a decision on recovery of overpaid subsidy.

RENT ALLOWANCE TOTAL EXPENDITURE – INSUFFICIENT SUPPORTING EVIDENCE (Cell 094)

Following further testing we now accept this qualification. No further work is needed.

RENT ALLOWANCE ELIGIBLE OVERPAYMENTS (Cell 114)

Testing identified a number of misclassified overpayments. Cell 114 is overstated and cell 113 is understated. **Overpaid subsidy = £19,205.**

The Secretary of State does not require your authority to do further work, but will proceed in due course, to make a decision on recovery of overpaid subsidy.

OBSERVATIONS

The following are observations. No further action is needed.

NON-HRA RENT REBATES TOTAL EXPENDITURE (Cell 011).

NON-HRA RENT REBATES LA ERROR OVERPAYMENTS (Cell 026).

RENT ALLOWANCE TOTAL EXPENDITURE (Cell 094).

Since the Secretary of State accepts the audit extrapolations relating to the above qualifications as being representative she will now proceed to make a decision on the recovery of the overpaid subsidy associated with these extrapolations.

If there are any mitigating circumstances you regard as relevant to any subsidy overpayments identified and which you would like the Secretary of State to consider in the exercising of discretion, appropriate details should be provided by the deadline given below. Circular HB/CTB S1/2002 gives further information in this respect.

You should submit any mitigating circumstances/representations by 15 November 2019. If the Secretary of State does not hear from you by this date she will proceed with her recovery decision.

Requests for an extension to this deadline must be made in writing with full reasons given. Consideration will be given to any representations made. Extensions will be granted if the Department is satisfied the extension is justified; extensions will not be granted as a matter of course.

Please note that as a result of all the above qualifications, the Local Authority Error Subsidy due to your authority has reduced by £52,424 to £67,237. **Overpaid subsidy = £52,424.**

Please do not hesitate to contact me should you have any queries on this matter.

Yours sincerely,

John Darrell

Housing Benefit Unit

(e-mail: John.Darrell@dwp.gov.uk)

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£34,703,940
Amended/Not amended	Amended – subsidy reduced by £35 with final value of certified claim of £34,703,940
Qualification letter	Yes
Fee – 2017-18	£13,577
Fee – 2016-17	£14,031
Recommendations from 2016-17	Findings in 2017-18

The level of error related to overpayment classification was high. We would recommend the Council conduct refresher training with assessors and conduct quality checks in this area.

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

The certification guidance requires reporting accountants to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims. We found errors and carried out extended testing in several areas.

Extended and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

Rent Allowance cases:

Misclassification of overpayments

We did not identify any cases where expenditure was misclassified between eligible and local authority error overpayments. However, due to known issues in 2016/17 we undertook 40+ testing. Further testing identified four cases where expenditure was misclassified between eligible and local authority error overpayments by a value of £1,169. There was no impact on benefit paid to the claimant but this type of error would result in the incorrect subsidy being claimed from the DWP. We reported these findings and the extrapolated value of these errors, £48,012, to the DWP in our qualification letter.

The potential impact of this matter is significant to the Council. Should the DWP judge that subsidy has been overpaid and decide to adjust the certified claim for the value of the extrapolated error, the impacts would be:

- ▶ a decrease in subsidy of £19,205 as a result of reclassifying the overpayments from eligible to local authority; and
- ▶ a further decrease in subsidy of £119,661. The DWP award full subsidy for local authority and administrative delay overpayments if the total does not exceed a threshold. The impact of this adjustment would increase the total above the lower threshold resulting in the stated loss in subsidy.

Housing benefits subsidy claim (cont...)

Earned Income errors

We identified one case where earned income had been incorrectly calculated causing an overpayment of benefit with total value of £1. Extended testing was performed to the sub population of cases which have earned income. The testing identified two further overpayment of benefit with total value of £57 and four underpayments of benefit. For these cases, amendments have been made to individual claims in 2018-19, ensuring that the benefit paid to claimants has been corrected. We reported these findings and the extrapolated value of the overpayment errors, £1,596, to the DWP in our qualification letter;

Earned Income evidence

In our extended testing for Earned Income errors we also identified six cases where there was insufficient supporting evidence to reperform the calculation of earned income. This is as a result of the Authority using the WURTI/VEP system, and being under the impression that all data would be retained, as in CIS. However when VEP was introduced all interest dates were overridden meaning that earlier data in some cases is no longer available. As a consequence, the Authority have changed their procedures and Officers now download a PDF of VEP data that has been used and scan this against the claim as evidence of earnings.

We have included this issue in our qualification letter as we have been unable to obtain the evidence to ensure the earned income is correct. Should the Department decide that the failure to produce this evidence means that subsidy has been overpaid, the extrapolated effect, would be to reduce cells 102, 103, 113 and 114 by £97,315, £78,005, £2,294 and £29,775 respectively with the corresponding entry in cell 113 of £407,389;

Missing claim forms

We identified four cases, with total value £20,580, where the claim form could not be traced and the Council was unable to produce evidence that claim form was received. This was due to the original claim form, which pre-dated 2006, being destroyed in a fire at the Council's storage archive. As in prior years we reported this matter to the DWP in our qualification letter. Should the Department decide that the failure to produce this evidence means that subsidy has been overpaid, the effect of these errors is to overstate cell 094 with a corresponding overstatement of cell 102 £17,862 and cell 095 £2,718; and

Misclassification of tenancy

We identified one case where benefit had been misclassified as a cell 095 regulated tenancy, rather than in cell 110. We have not undertaken further testing as both cells attract subsidy at 100% and there is no impact on the amount of subsidy claimed.

The Authority will review all claims included in cell 095 to ensure they are correctly classified. We reported this finding to the DWP as an observation in our qualification letter.

Housing benefits subsidy claim (cont...)

Non HRA (Housing Revenue Account) Rent Rebate cases:

Misclassification of overpayments

We did not identify any cases where expenditure was misclassified between technical overpayments and either full subsidy or local authority error overpayments. However, due to known issues in 2016/17 we undertook 40+ testing. Further testing identified one case where expenditure was misclassified between technical overpayments and eligible overpayments by a value of £8. There was no impact on benefit paid to the claimant but this type of error would result in the incorrect subsidy being claimed from the DWP. We reported this finding and the extrapolated value of this error, £11, to the DWP in our qualification letter;

Earned Income evidence

In our extended testing we identified three cases where there was insufficient supporting evidence to reperform the calculation of earned income. This is as a result of the Authority using the WURTI/VEP system as discussed within the Rent Allowances section, above.

Should the Department decide that the failure to produce this evidence means that subsidy has been overpaid, the effect would be to reduce cells 023 by £8,005 and cell 028 by £25 with the corresponding entry in cell 026 of £8,030. For non-HRA cases our testing covered the whole subpopulation and therefore an extrapolation was not required;

Overpayment allocation

We identified three cases where the overpayment had been incorrectly split within Northgate. This resulted in technical overpayments being overstated by £143, and a corresponding understatement of eligible overpayments. The Authority have raised a query with DWP in respect of this error and are still awaiting a response. Until a response has been received the Authority has declined to undertake any further testing. Due to the different subsidy rates for technical and eligible overpayments, if the overpayments are incorrectly classified, it will mean the Authority has underclaimed subsidy. We reported these findings to the DWP as an observation in our qualification letter;

Underclaiming subsidy.

We identified two instances where the Council had underclaimed subsidy.

One case where technical overpayment had been understated by a total value £484. The error arose through the system inappropriately netting down technical overpayment when a claimant moved from a Non HRA Rent Rebates property into a Rent Allowances property. This error will never have an impact on benefit paid to the claimant or subsidy recovered from the DWP; and

One case where an overpayment had been incorrectly classified as LA error and administrative delay by a total value of £71. The overpayment had arisen due to an update to earned income from an RTI. There was a delay in processing and the overpayment had been placed in cell 026. However, as this is an RTI update, the Authority had a 4 week grace period in which to process the change. The change has been processed within this time frame.

We reported both issues to the DWP as observations in our qualification letter.

Chichester District Council

SPECIAL CORPORATE GOVERNANCE & AUDIT COMMITTEE

2nd July 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

E-mail: sjames@chichester.gov.uk

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 After a resources review in January 2020 the audit plan was amended to comprise 24 full audits and 8 follow ups. 3 additional follow ups have also been added to the plan from the 13 contingency days, totalling 35 reviews.
- 3.3 The Cash & Bank audit has been postponed to the 20/21 audit plan due to the Covid-19 lockdown having an impact on availability of information and the fact that audit staff resources were diverted in April 2020 to help with the processing of Business Rates grant payments.
- 3.4 The Car Parking Income & Reconciliation audit was also removed from the 19/20 audit plan due to the impact of Covid-19 resulting in suspension of parking charges. This brings the audit plan total to 33 reviews.
- 3.5 As at 18th June, 27 audits have been completed and issued as final reports (82%) and 7 are in progress or at draft report stage (18%). The audits issued as final since the last committee meeting were:

- Creditors

- Payroll
- Travel & Subsistence
- Land Charges
- Debtors
- Council Tax
- Business Rates
- Business Continuity follow-up
- Building Security follow-up
- Westward House follow-up
- Income Generation follow-up
- PMQA position statement

3.6 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.

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
Crime & Disorder:		√
Climate Change and Biodiversity:		√
Human Rights and Equality Impact:		√
Safeguarding and Early Help:		√
General Data Protection Regulations (GDPR):		√
Health and Wellbeing:		√
Other (Please specify):		√

13. Appendices

13.1. Audits completed since the last committee

13.2. Audit Plan 2020/2021

14. Background Papers

14.1 None

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Audits completed since the last Committee meeting (23rd January 2020)

Audit title	Critical Risk	High Risk	Medium Risk	Low Risk – Improvement	Total no of Exceptions	Overall Assurance level	Summary
Travel & Subsistence	0	1	1	0	2	Limited Assurance	<p>The high risk exception related to:</p> <ul style="list-style-type: none"> Milometer readings not being entered on travel claims Mileage being overstated on claims Staff not taking off home to work mileage from their claims <p>The medium risk exception related to:</p> <ul style="list-style-type: none"> Insufficient details being entered onto travel claims of journeys undertaken Staff not putting the address of the address they are visiting as per the Lone Working Policy
Creditors	0	0	2	0	2	Reasonable Assurance	<p>The medium risk exceptions related to:</p> <ul style="list-style-type: none"> Orders being placed onto the Civica systems after the order had been placed with the supplier. Budget approval in Civica should be obtained before orders are placed with suppliers. Of the 2298 payments made in Q1 of 2019/20, 63 were made outside of the 30 days as required by the Department for Business Innovation and Skills Directive

Audit title	Critical Risk	High Risk	Medium Risk	Low Risk – Improvement	Total no of Exceptions	Overall Assurance level	Summary
							2011/7/EU. This could have resulted in late payment charges of £3,463 if the suppliers had enforced the legislation.
Land Charges	0	0	1	0	1	Reasonable Assurance	The medium risk exception related to: <ul style="list-style-type: none"> Lack of supporting documentation to substantiate how the fee review for 2019/20 fees was carried out and no evidence as to what calculations were used in order to make the decision to increase the charges.
Council Tax	0	1	1	1		Reasonable Assurance	The high risk exception related to: <ul style="list-style-type: none"> staff not updating their declarations in relation to whether they have close friends or relatives in the district so that account access can be restricted. The medium risk exception related to: <ul style="list-style-type: none"> credits on CT accounts building up when they should be returned to the customer or transferred to other accounts. The low risk exception related to: <ul style="list-style-type: none"> discounts not always being reviewed.

Audit title	Critical Risk	High Risk	Medium Risk	Low Risk – Improvement	Total no of Exceptions	Overall Assurance level	Summary
Business Rates	0	0	1	0	1	Reasonable Assurance	<p>The medium risk related to:</p> <ul style="list-style-type: none"> • Properties in receipt of Business Rate relief are not currently being visited to confirm ongoing eligibility • Notes to confirm visits are not always being recorded on Northgate
Payroll	0	0	0	0	0	Assurance	<p>No issues were found during testing relating to the audit objectives, which were:</p> <ul style="list-style-type: none"> • Procedures are available for the processing of Payroll transactions • Exception reports identify any net pay variances which are checked by the Payroll Officer to confirm they are valid • New entries and changes to individuals pay is authorised and correctly processed taking into account both new starters and those with Honoraria or Acting Up payments ensuring there is the correct authorisation • Overtime and expenses are supported by appropriate documentation and authorisation • Overpayments are identified at the earliest opportunity and there is a process in place for recovery

Audit title	Critical Risk	High Risk	Medium Risk	Low Risk – Improvement	Total no of Exceptions	Overall Assurance level	Summary
Debtors	0	0	0	0	0	Assurance	<p>No issues were found during testing relating to the audit objectives, which were:</p> <ul style="list-style-type: none"> • There is clear corporate guidance in place for debtors • There is a robust process for setting up customer accounts • All invoices, Periodic Invoice Master records and credit notes are authorised • Uncollected DD payments are monitored and followed up • The debtors control account is reconciled to the general ledger on a regular basis • The debtors suspense account is checked and transactions cleared on a regular basis

Follow ups

Audit title	Issues addressed	Issues ongoing	Total	Initial Assurance Level	Follow-up Assurance Level	Comment
Business Continuity	3	0	3	Reasonable	Assurance	All Issues have been addressed by the client
Building Security	1	0	1	Limited	Assurance	All Issues have been addressed by the client
Westward House	8	2	10	Limited	Reasonable	Further action is being taken to address the outstanding issues
Income Generation	1	2	3	Limited	Limited	Further action is being taken to address the outstanding issues

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Travel and Subsistence 2019/20

FINAL REPORT

Ann Kirk and Samantha Perris

11th February 2020

Distribution List: - John Ward (Director Corporate Services), Andrew Frost (Director for Planning and the Environment), Louise Rudziak (Director for Housing and Communities), Jane Hotchkiss (Director for Growth and Place), Joe Mildred (Divisional Manager Business Support), Tim Radcliffe (Human Resources Manager), Warren Townsend (Corporate Health & Safety Manager).

Executive Summary

Introduction

This audit was carried out as part of the agreed audit plan for 2019/20 financial year. Audit testing has been restricted to areas that have been assessed as high risk by Internal Audit. Although Payroll pay the individuals claims it must be made clear that they are not responsible for carrying out the checks on the claim or authorising the payment. Responsibility for this lies with the claimant's Manager.

Audit testing has been carried out on the following objectives to ensure that:

- Council procedures are followed when claiming for travel expenses and subsistence expenses.

Overall audit opinion

The overall audit opinion is based solely on testing carried out and discussions held during the course of the audit.

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	Levels	Description/Examples
	No Assurance (Critical Risk Exceptions)	Major individual issues identified or collectively a number of issues raised which could significantly impact the overall objectives of the activity that was subject to the Audit
→	Limited Assurance (High Risk Exceptions)	Control weaknesses or risks were identified which pose a more significant risk to the Authority
	Reasonable Assurance (High or Medium Risk Exceptions)	Control weaknesses or risks were identified but overall the activities do not pose significant risks to the Authority
	Assurance (Low Risk/Improvement Exceptions)	No issues or minor improvements noted within the audit but based on the testing conducted, assurance can be placed that the activity is of low risk to the Authority

Objective 1: To ensure that Council policies and procedures are followed when claiming for travel and subsistence expenses – Limited Assurance

1 high risk and 1 medium risk exceptions were raised as a result of testing on this area.

Procedure notes available on the Intranet to employees for completing their mileage and expense claims were reviewed and found to be comprehensive. The Subsistence and Car Allowance Policy clearly sets out the rates and criteria to be met.

A sample of 45 claims made between 20/08/2018 to 19/08/2019 was tested and it was found that the correct rate of 46.9 pence per mile had been paid for all of the travel claims tested.

To ensure segregation of duties between the claimant and authoriser no claim is to be raised and authorised by the same officer. The approval process has four stages:-

- Stage 1 - claim awaiting authorisation from the line manager.
- Stage 2 - authorisation of the line manager to show the claim has been completed and procedures followed.
- Stage 3 - awaiting authorisation from Payroll.
- Stage 4 - authorisation by Payroll to be included in the individuals next monthly pay

The same sample of claims was tested and it was found that:-

- All 45 claims were authorised by an individual other than the claimant before payment was made.
- 42 claims were authorised by the line manager as per the authorisation stages outlined above.
- 3 out of the 45 claims did not follow stages 1-3 but were directly authorised by Payroll. This was because in one case the individual had made changes to the claim after submitting the claim to their manager. In the remaining 2 cases the “work flow” had not worked and therefore the appropriate manager was unable to authorise in this instance.

Testing was undertaken on the same sample to confirm the accuracy of the information entered within the travel and subsistence claims. It was found that:-

- 5 had not included all the journey details

- 3 had used abbreviations for the areas covered making it difficult to calculate the mileage
- 8 had entered the same location for start journey and end point. (Ex1).

The Council's procedures for entering claims require that the employee make allowances for starting their journey from home, testing found:-

- 6 of the 45 claims had stated that their journey started from home,
- 3 of which had not made adjustments to their claims to remove the home to work mileage
- 1 claim did not include any milometer readings

Testing was carried out on the reasonableness of mileage claims by taking the longest route calculated by Google maps and adding a 5 mile threshold to cover diversions or getting lost. Using this methodology 7 of the 45 claims had overstated their mileage by more than 5 miles, at a cost of £142.58 to the Council. Of these 7, 1 claim was overstated by an additional 231 miles at a cost of £108.34 to the Council. It is not suggested that the mileage claimed for these journeys is not valid, however, the mileage claimed would appear to be excessive using this methodology (Ex2).

The Council can claim VAT back on fuel claimed through expenses. Of the 45 claims tested, 42 had claimed for mileage. It was found that of these 42, 10 had selected the incorrect option for VAT receipts resulting in an incorrect VAT return to HMRC of £9.67. No exception was raised given the low materiality of the error.

Overall assurance level – Limited Assurance

1 high risk and 1 medium risk exceptions have been raised as a result of the testing carried out during the course of the audit. Therefore Internal Audit can give limited assurance that the procedures and checking of Travel and Subsistence claims is of low risk to the Authority.

Key for risk rating of exceptions:

Priority Level	Description
Critical Risk	<p>Control weakness that could have a significant impact upon not only the system function or process objectives but also the achievement of the organisation's objectives in relation to:</p> <ul style="list-style-type: none">▪ The efficient and effective use of resources▪ The safeguarding of assets▪ The preparation of reliable financial and operational information▪ Compliance with laws and regulations <p>And corrective action needs to be taken immediately.</p>
High Risk	<p>Action needs to be taken to address significant control weaknesses but over a reasonable timeframe rather than immediately. These issues are not "show stopping" but are still important to ensure that controls can be relied upon for the effective performance of the service or function. If not addressed, they can, over time, become critical. An example of an important exception would be the introduction of controls to detect and prevent fraud.</p>
Medium Risk	<p>These are control weaknesses that may expose the system function or process to a key risk but the likelihood of the risk occurring is low.</p>
Low Risk - Improvement	<p>Very low risk exceptions or recommendations that are classed as improvements that are intended to help the service fine tune its control framework or improve service effectiveness and efficiency. An example of an improvement recommendation would be making changes to a filing system to improve the quality of the management trail.</p>

EX 1 – Lack of detail entered on the mileage claim form.**Risk rating: Medium****Findings**

A test on the reasonableness of the amount of mileage claimed found that of the sample of 45, 18 were unable to be tested because:

- 5 had not included all the journey details.
- 3 had entered abbreviations, therefore making it increasingly difficult to calculate the mileage
- 10 had entered the same place for start, destinations visited and end points.

The Council's lone working policy states that "visiting staff must record in their electronic diaries the address and contact details of the places they intend visiting." A check on the 18 claims that could not be tested for reasonableness found that:

- For 12 cases no information had been entered onto the employee's calendar
- For 1 case the diary information was not accessible
- For 2 cases the employees had left the employment of CDC
- In 3 cases the employees had entered information into their calendar

Risks and consequences

Without all information being completed on the claim the authorising manager would be unable to confirm that the claim is correct.

The Council's Lone Working Policy is not being adhered to and therefore the welfare and safety of employees of the council may be at risk.

Agreed action

An annual reminder will be sent to managers and staff via email as well as being posted on the Intranet. This will contain links to the relevant documents informing employees of the procedures and responsibilities when claiming expenses or overtime.

In addition expenses and overtime will be added as a heading onto the new starter induction checklist for managers and within the Trent /Self Service Learning pool heading on the HR Induction Checklist. This will highlight where guidance on how to claim for expenses/overtime can be found on the intranet.

Officer responsible and by when

Tim Radcliffe – 14th February 2020

The Health and Safety Manager is already in the process of reviewing the Lone Working Policy in response to a new corporate lone working solution. On completion the policy will be distributed to all employees across the Council.

Warren Townsend – 29th February 2020

EX 2 – Mileage is overstated and travel from home is not adjusted**Risk rating: High****Findings**

Employees are required as per procedures to enter their milometer readings when submitting their travel claim. In 1 case out of 45 the milometer readings were not entered which could lead to inaccuracies in the number of miles claimed.

Testing was carried out on the reasonableness of mileage claims by taking the longest route calculated by Google maps and adding a 5 mile threshold to cover diversions or getting lost. Using this methodology it was found that:

- For 7 cases the mileage had been overstated by more than 5 miles. Of these 7 a total of 304 additional miles had been claimed at a cost of £142.58 to the Council.
- 1 claim was overstated by an additional 231 miles at a cost of £108.34 to the Council

The policy states that “If your journey included home to work, please deduct those miles from the number claimed and include explanation in the Reason for Journey field” from testing the sample of 46, 6 had stated that their journey started from Home. Of these 6:-

- 2 claimants had not adjusted their mileage as per the policy. The total mileage over claimed was 8 and 78 miles respectively than if the claimant had travelled from Chichester
- 4 had adjusted their mileage to take account of travelling from home

Risks and consequences

If mileage and expense procedure are not followed there is a risk of an inaccurate claim being made which could lead to overpayments to the employee and financial impact to the Council.

Agreed action

An annual reminder will be sent to managers and staff via email as well as being posted on the Intranet. This will contain links to the relevant documents informing employees of the procedures and responsibilities when claiming expenses or overtime.

In addition expenses and overtime will be added as a heading onto the new starter induction checklist for managers and within the Trent /Self Service Learning pool heading on the HR Induction Checklist. This will highlight where guidance on how to claim for expenses/overtime can be found on the intranet.

Officer responsible and by when

Tim Radcliffe – 14th February 2020

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Contact

Report Author

Nicholas Bennett Democratic Services Officer

Telephone: 01243 534657 E-mail: nbennett@chichester.gov.uk

Motions Procedure

1. Submitting a motion

- 1.1. A member may submit an original motion to a Council meeting by giving written notice to the Chairman and Director of Corporate Services at least 10 clear working days before the date of the Council meeting.
- 1.2. The motion must relate to one of the Council's functions or affect the wider district.
- 1.3. Motions shall be limited to one motion per member per council meeting.
- 1.4. Motions shall normally be no longer than 300 words.
- 1.5. Members are encouraged to consult the Director of Corporate Services before the closing date for submission on the wording of their motions to ensure the wording complies with the Constitution.
- 1.6. The Chairman may consult with Group Leaders where the Chairman considers it would be helpful to their consideration of a motion. The Chairman, in consultation with the Director of Corporate Services, shall determine whether the motion will be:
 - a) Included within the agenda to be moved and debated at the next Council meeting.
 - b) Referred to the Cabinet or relevant Committee/Panel where the motion has legal, financial or other regulatory implications, in order that those implications can be fully considered and understood in the most appropriate forum.
 - c) Reworded to enable the motion to be debated at Full Council. For example, where the matter to be debated is an Executive function (which cannot be resolved at Full Council), it may be necessary for the motion to be reworded as a recommendation to the Cabinet or other committee to consider (taking into account the views of Council).
 - d) Rejected as it does not relate to a function of the Council or affect the wider district.
 - e) Rejected as, in the view of the Chairman having consulted with the Director of Corporate Services, it contains more than one, unrelated motion or is unreasonably lengthy.
 - f) Rejected as, in the view of the Chairman having consulted with the Director of Corporate Services, the motion is out of order, illegal, irregular

or improper.

- 1.7. The Director of Corporate Services will inform the Member who submitted the proposed motion of the Chairman's decision and the relevant criteria on which that decision was based. If a member disagrees with the basis of rejection they may raise this with the Monitoring Officer who will give their advice on this point to the member and the Chairman.
- 1.8. If more than one motion is accepted for any given Council meeting the motions will be taken in order determined by the Chairman in consultation with the Group Leaders. Any motions accepted in principle but which cannot be allocated time for debate will be published in the agenda with a clear note that they will be considered at a future meeting.

2. Motions without notice

The following motions may be proposed and seconded without prior notice:

- a) To appoint a Chairman of the meeting where the Chairman is absent.
- b) To amend the minutes of the previous meeting.
- c) To adjourn a debate.
- d) To adjourn a meeting.
- e) To propose a closure motion.
- f) To exclude the press and public in accordance with legislation.
- g) To propose an amendment/s to recommendation (see Section 3 below).
- h) Minor amendments which do not significantly change the meaning of a motion. (Such amendments will be dealt with orally during the meeting.)

3. Amendments

- 3.1. Amendments to a motion (called "amendments" in this procedure) which significantly change the meaning of a motion should be submitted to the Chairman and the Director of Corporate Services no later than midday two working days before the Council Meeting.
- 3.2. The amendment must relate directly to a motion that has been tabled in the agenda pack and must not be a new motion which would require 10 clear working days' notice. The decision whether to accept an amendment will be based on the rules relating to those for accepting motions as laid out in Section 1.6. The Chairman, in consultation with the Director of Corporate Services, will make this decision. The Director of Corporate Services will advise on the application of the Constitution, broader strategic and public law issues and obtain specific legal advice through the Monitoring Officer if needed.
- 3.3. Members are encouraged to share draft versions of their amendments with all Group Leaders, the Chairman and the Director of Corporate Services in advance of submission under section 3.1 of this procedure in order to avoid duplication, to encourage consideration and research by all Groups and in order to assist the effective running of the meeting.
- 3.4. The Director of Corporate Services will share all notified amendments with the

Council Chairman and relevant officers in order to ensure the smooth running of the meeting.

- 3.5. All amendments received in advance and accepted as outlined at section 3.2 above will be circulated to all members by email by twelve noon one working day prior to the meeting and in hard copy at the meeting.

4. Debating a motion

- 4.1. All matters as to timing or the application of this procedure at the meeting shall be subject to the general discretionary powers of the Chairman to ensure the efficient management of the meeting.
- 4.2. The time allowed for motions to be debated shall be restricted to 60 minutes in total. The time allowed for the proposer and the relevant Cabinet Member or committee Chair for any motion being debated shall be restricted to 5 minutes. Each other Speaker shall be restricted to 3 minutes. Each speaker is allowed to speak only once to the original motion and/or any amendment(s) unless a closure motion is put by any member other than the Chairman. If a closure motion is put the proposer or another member they nominate to speak on their behalf (only) may speak again in accordance with 4.11 below.

After the above closure motion process the Chairman will:

- a) If carried, close the debate and put the motion and any amendment(s) to the vote as 4.8 - 4.10 below, or;
 - b) If the closure motion is not carried, allow the current motion being debated to conclude in the normal manner.
- 4.3. Any motion not debated will be deferred to a subsequent meeting of the Council.
- 4.4. At the Council meeting each motion must be proposed and seconded before it is debated.
- 4.5. The Chairman will invite the member who proposed the motion to speak first.
- 4.6. The Chairman will then invite any member who proposed an amendment in advance and then any Member who wishes to propose a minor amendment, to propose and second their proposal(s).
- 4.7. The Chairman will then invite the relevant Cabinet member or committee Chair to speak before inviting other members to speak in turn.
- 4.8. Following the debate the Chairman will first take a vote on the amendment(s), the result of which will be noted in the minutes of the meeting.
- 4.9. If there is no amendment, or the amendment vote is lost then the Chairman will take a vote on the original motion, the result of which will be noted in the minutes.
- 4.10. If there are multiple amendments submitted the Chairman shall

determine the order in which they are put to the meeting. The Chairman may consider it appropriate to consult the Group Leaders in making this determination

- 4.11. After a closure motion being put to the vote and that vote being carried the Chairman shall permit the member who proposed the original motion - or another member nominated by the Proposer - to speak again for no more than three minutes by way of closing their motion.
- 4.12. If a motion is referred to the Cabinet or relevant Committee/Panel the member who proposed the motion will be invited to address the Cabinet or Committee/Panel.

5. Delegations

For the avoidance of doubt, in the absence of the relevant person/s the following substitutes are authorised to carry out the above:

- a) For the Council Chairman, the Vice-Chairman
- b) For the Director of Corporate Services, the Divisional Manager for Democratic Services (or in the absence of both, the Democratic Services Manager, or any Director of the Council).

6. Annual Full Council and Budget setting meeting

- 6.1 The Chairman shall pay particular care as to whether motions submitted for inclusion at Annual Full Council and annual Budget setting meetings are relevant to the matters specific to those meetings or are otherwise so urgent as to make delaying the motion to a later meeting inappropriate.
- 6.2 Motions as to alternate budget proposals shall be submitted no later than ten working days in advance of the annual Budget Setting meeting as usual as in 1.1 above.
- 6.3 Due to the increased complexity associated with them, amendments which present alternative budget proposals shall also be submitted no later than ten working days in advance of the annual Budget Setting meeting, following 1.1 above rather than 3.1 as would normally be the case for amendments.
- 6.4 The Chairman shall not be required to apply the time limits set out at Section 4 of this procedure for the Annual Full Council or Budget setting meetings and will entirely rely upon their own discretion to enable proper debate and to ensure that the meetings are otherwise effective. The Chairman's other powers to control the meeting are unaffected by this section.

Chichester District Council

Corporate Governance and Audit Committee

2 July 2020

Amendment to Corporate Governance and Audit Committee Timings

1. Contacts

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2. Recommendation

That members consider and approve the proposed afternoon start times, of 2.00pm, for future Corporate Governance and Audit Committee meetings.

3. Background

- 3.1 As it is committed to best practice, this Council wishes to better facilitate the participation of every Member until it has fully reviewed meeting times; therefore, in keeping with the spirit of Part 5(d) of Section 15 of the Local Government and Housing Act 1989, The Chairman and the Vice-Chairman of the Corporate Governance and Audit Committee propose that the Calendar of Meetings May 2020 to May 2021 be amended so that the meetings of the Corporate Governance and Audit Committee match those of Full Council.

The above clause stipulates that the number of committee seats allocated to each political group should be in the same proportion to their number of Members. Whilst maintaining the current time would not necessarily prevent any Group from taking up its allocation, as this time is less favoured by employers, it could mean that only one of the members of a minor party would not be able to serve on Committees, which is clearly not what this clause intends.

It should also be borne in mind that since May: -

- a) No members of the public have attended the present morning meetings, but have Full Council, so this could prove to be positive;
- b) Even if some Members have regular afternoon commitments, their attendance at Full Council demonstrates Tuesday afternoons are possible;
- c) Officers have managed Chair's briefings on Tuesday afternoons and participated in Task & Finish Groups, so this is a time they can manage;
- d) Other regular meetings have been rearranged, particularly DPIP's which although not a Committee, meets more often than Corporate Governance and Audit, and has a larger membership;
- e) By voting on the Calendar in September, Council demonstrated it is not bound by literature sent out to prospective Councillors during the local election campaign.

There is also a potential pecuniary advantage because our committee rooms are a popular let, so the more we can limit our usage to Tuesdays, the more potential whole day availability is created.

The Court sits in the committee rooms each Friday. Thursday afternoons will still not be available for the hire of the committee rooms due to the time involved to reconfigure the facilities required.

4. Proposal

The Committee is requested to approve the committee calendar of meetings for May 2020 to May 2021 as follows:

Current Dates 2020/21	Proposed New Dates/Timings 2020/21
Thursday 23 July 2020 9.30am	No change
Thursday 22 October 2020 9.30am	Monday 10 October 2020 at 2.00pm
Thursday 14 January 2021 9.30am	Monday 18 January 2021 at 2.00pm
Thursday 25 March 2021 9.30am	Monday 22 March 2021 at 2.00pm

5. Outcomes to be Achieved

The outcome is to achieve a meeting time which is more acceptable to the membership of the Committee and those who have work commitments.

6. Alternatives Considered

6.1 The alternative is to keep the current committee timings of a 9.30am start.

7. Resource and Legal Implications

7.1 Officers when looking at alternative dates have considered the impact on the timetable for the consideration of the Council's statutory accounts and strategic risks and are satisfied that the deadlines can be met when re-scheduling the meetings and that the Council's external auditors, Ernst & Young LLP, are available to attend relevant meetings.

8. Consultation

8.1 The Corporate Governance and Audit Committee members have been consulted on the proposals by way of this report.

9. Community Impact and Corporate Risks

9.1 A change that affects when the public can access committees and engage with members must have a community impact.

10.1 There are no significant corporate risks identified from the matters covered by this report.

11 Other Implications

Are there any implications for the following?		
	Yes	No
Crime and Disorder		X
Climate Change and Biodiversity		X
Human Rights and Equality Impact		X
Safeguarding and Early Help		X
General Data Protection Regulations (GDPR)		X
Health and Wellbeing		X
Other (please specify)		X

12 Appendices

12.1 None

13 Background Papers

13.1 None

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