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A meeting of the **Corporate Governance & Audit Committee** will be held in Virtual on **Monday 10 January 2022** at **2.00 pm**

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

AGENDA

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

2 **Approval of Minutes** (Pages 1 - 9)
The committee is requested to approve the minutes of its ordinary meeting on 25 October 2021.

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

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

5 **Public Question Time**
The procedure for submitting public questions in writing by no later than noon two 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 **Annual Debt Write Off Report 2020-21** (Pages 11 - 18)
The Committee is requested to consider the report and the appendix and make the following resolution:

That the Committee notes the contents of this report together with the Write Off Report as shown in Appendix 1 to this report.

7 **Draft Treasury Management, Investment and Capital Strategies** (Pages 19 - 85)
The Committee is requested to consider the report and its appendices and make the following resolutions and recommendations:

1. That the Committee considers the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Indicators for 2022-23, and;
2. That the Committee considers the Council's Capital Strategy for 2022-23 to 2026-27.

3. That the documents in 2.1 and 2.2 are recommended to Cabinet and Council for approval.

8 **Progress Report - Update on Audit Plan 2021-22** (Pages 87 - 130)
The Committee is requested to consider the report and its appendices and make the following resolution:

That the committee notes performance against the audit plan for 2021-22.

9 **Appointment of External Auditors 2023/24 to 2027/28** (Pages 131 - 135)
Public Sector Audit Appointments Limited (PSAA) have invited Chichester District Council to opt-in to their centralised external auditor appointment processes.
A decision to become an opted-in authority must be taken by Full Council and be communicated to PSAA by 11 March 2022. Accordingly Corporate Governance and Audit Committee are requested to consider recommending to Full Council on 25 January 2022 that the Council becomes an opted-in authority for the purposes of appointment of the Council's external auditors for five financial years commencing 1 April 2023.

10 **Governance Task and Finish Group** (Pages 137 - 163)
The Committee is requested to consider the report and its appendices and make the resolutions and recommendations set out in sections 2.1 – 2.16.

11 **Exclusion of the Press and Public**
There are no restricted items for consideration.

12 **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 Chair has agreed should be taken as a matter of urgency by reason of special circumstances to be reported at the meeting.

NOTES

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

2. Restrictions have been introduced on the distribution of paper copies of supplementary information circulated separately from the agenda as follows:
   a) Members of the Corporate Governance & Audit Committee, the Cabinet and Senior Officers receive paper copies of the supplements (including appendices).
   b) The press and public may view this information on the council's website here here unless they contain exempt information.

3. This meeting will be recorded and the recording will be retained in accordance with the council's information and data policies. If a member of the public enters the meeting or makes a representation to the meeting, they will be deemed to have consented to being audio recorded. If members of the public have any queries regarding the recording of this meeting, please liaise with the contact for this meeting at the front of this agenda.

Minutes of the meeting of the **Corporate Governance & Audit Committee** held virtually on Monday 25 October 2021 at 2.00 pm

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

Members not present:

In attendance by invitation:

Officers present: Mr M Catlow (Group Accountant (Technical and Exchequer)), Mr S Davies (Planning Obligations Monitoring and Implementation Officer) and Mr J Ward (Director of Corporate Services)

107 **Chairman's Announcements**

There were no apologies received.

108 **Approval of Minutes**

The minutes of the meeting held on 27 September 2021 were agreed as a correct record.

109 **Urgent items**

There were no urgent items.

110 **Declarations of Interest**

There were no declarations of interest made.

111 **Public Question Time**

There were no public questions.

112 **Progress Report - Update on Audit Plan 2021/22**

Mr James presented his report to members and the Committee noted the performance against the audit plan for 2021/22.

113 **2021-2022 Treasury Management half-yearly update**

Mr Catlow provided members with an overview of the report as well as providing a verbal update regarding the liquidity figures (Appendix B). A summary of key points highlighted is below;

- The balance's in table one remain high, this is due to the temporary liquidity provided from the government related to the Covid pandemic and will start to be repaid at the beginning 2022.
- Section 4 of the report, there are no reportable exceptions for the period. Because of the increase in funds the Council are using money market funds to a much greater extent. During the last 6 months the Council have implemented the 'comply or explain' approach to ESG investing. In July 2021 there was a significant fair value loss, however since then the markets have continued to recover and continued to recover until the end of August. Market sentiment has turned against some of the sectors from September on fears of inflation and interest rate rises. Overall, the long-term trend is to recover the fair value losses related to the pandemic over the medium term.
- Section 5, non-treasury activity this specifically relates to the Council's direct investments in properties.
- Section 6 compliance report, paragraph 7 sets out the area that is likely to change the most year on year, there is a focus on credential borrowing and the purposes that local authorities use it for. CIPFA will address this in the new code they are consulting on, which is due to be completed in November 2021.
- The update on the liquidity table figures from 31 September are, 7-day liquidity 49% against a benchmark of 48%, 100-day liquidity is 62% against a benchmark of 65% and the maturity is now 29 days against a benchmark of 32 days

The Chairman then invited questions from members, a summary of those asked are below;

- What was the upper financial limit that the Council could invest in strategic investments, £34million currently in invested? The limit was confirmed as £40million.
- Appendix C, regarding the compliance report it was asked why the Council have a time limit on investments. It was explained that this was to do with risk horizon.
- Paragraph 7.4 CIPFA policy changes, it was queried what principal changes were expected? It was advised that the changes were expected to be wide ranging. Highlighting one area Mr Catlow explained that the Council will need to focus its attention on the risks of borrowing to fund investment properties and non-treasury investments.
- It was queried what was the update from CIPFA on the ESG investments? It was confirmed that a consultation update from CIPFA last week stated that, CIPFA are expecting Council's to set out their approach in terms of assessing risk for ESG as part of future arrangements. A further update on this would be delivered to members after the consultation had been completed.

Cllr Palmer arrived at the meeting.

- Concerns were raised regarding CIPFA to require the Council to recognise capital losses and gains through the income and expenditure account.
- A query regarding investments using monies from the Public Works Loans Board was raised, specifically it was wanted to be known was this a complete ban or may there be some leeway on this? It was confirmed that currently it states that you don't borrow above your projected need, in terms of the changes and messages they are not keen on Council's borrowing for any investment purposes..

The Chairman then clarified with Mr Catlow that an update on the CIPFA consultation regarding the new codes would be provided to the Committee. Mr Catlow confirmed the Code updates would be confirmed in the upcoming Treasury workshop in December.

The Committee considered and noted the Treasury activity summarised in the report.

114 **S106 and CIL Annual Monitoring Report**

Mr Davies provided members with a detailed overview of his report. He reminded members that the annual report was a requirement of the Council's s106 and CIL protocol. He then drew members attention to a number of highlights within his report, of which have been summarised below;

- There were 112 new s106 agreements signed in the last year. That secured a total of £333,975.00. 96 of these were unilateral undertakings providing mitigation contributions for Pagham Harbour and Chichester & Langstone Harbours.
- The expected trend in the reduction of s106 contributions since the implementation of CIL and highlighted in table one on page 24 of the agenda.
- s106 agreements are now used for onsite provision such as, open space, play areas, affordable housing and contributions to A27 mitigation where appropriate
- The value of contributions received in the year was £429,488.00 and these are detailed in appendix 5.
- Table 2 provides a summary of the funds that are held by each service as at 31 March 2021, along a summary of the funds still to be received. Appendix 6 provides an update on the status of the s106 the Council are holding.
- Contributions that are within 2 years of their expenditure date needs additional focus a copy of the latest report produced for SLT is shown at appendix 1.
- No monies have had to be returned to developers in the last year
- The total value of CIL contributions collected was £2,624,868.00 and the expenditure on projects was £53,372.00. During the last year we passed over £263,000.00 to local Council's to spend on their priorities.
- There was an amendment to the CIL regulations in September 2019 and the Council are now required to publish an annual infrastructure funding statement, the latest statement can be found in appendix 3.

- He reminded members that the most update to date developer contributions are always available on the public facings module that can be found on the Council's website.

The Chairman then invited questions from the Committee as there were no members with questions at that time, Cllr Oakley was invited to receive answers to the questions he had circulated to officers and members prior to the meeting. In response to his questions Mr Davies stated:

- that funds held by National Highways for A27 junction improvements at Chichester our understanding is that as at 31 August 2021 this amounted to £1.1M but they have undertaken to check that figure and report back.
- With regards to funds from Arun DC they have confirmed that they do not hold any funds, but that s106 agreements in respect of their Pagham strategic sites should provide £888,250 to improve capacity at Whyke junction. It is understood that similar arrangements are, or will be in place for their Land West of Bersted strategic site for improvements to the Bognor Road junction. Monies will be collected by National Highways.
- In response to a question regarding a specific contribution from Land East of Barton Way site, our legal advice is that this money should be handed over to National Highways now in order to fulfil our obligations under the relevant s106 and doing so would secure the funds.
- With regards to questions around the additional focus on contributions that are within 2 years of expiry and whether this is sufficient, Mr Davies explained that all contributions are reviewed on a quarterly basis with spending officers. The two-year report and other monitoring undertaken has proved to be sufficient in the past but will be kept under review.

Cllr Dignum then asked for clarification regarding monies that had been allocated by the Council but had not been spent at expiry and if it could be clawed back from the developers? Mr Davies explained that there were clauses within the s106 agreement that allow the Council to hold the monies beyond the spend deadline, providing the spend has been approved and we are just waiting for the project to be delivered. Cllr Dignum then asked who decides where the community monies are spent and who makes those decisions. Mr Davies advised that it was generally CDC officers in conjunction with local parishes and organisations. He further clarified that up to £50,000 was the spending decision that can be approved by the Cabinet Member and Service Director and consulting with the Ward Member. Larger sums are approved by Cabinet and Council in accordance with the s106 and CIL protocol.

The Committee noted;

1. The income and expenditure between 1 April 2020 and 31 March 2021 in respect of s106 contributions and from CIL;
2. The information on s106 agreements within 2 years of the expenditure target date as set out in Appendix 1; and;
3. The details of non-financial s106 obligations set out in Appendix 2; and 3.4 The CIL monitoring information as set out in Appendix 3.

115 **Financial Strategy and Plan 2022-23 to 2026-27**

The Chairman drew members attention to a proposed amendment to the recommendations that had been circulated by Cllr Brown shortly before the start of the meeting, stating he wanted to ensure that the Committee had enough time to properly reflect on any implications there may be in considering this amendment.

Mr Ward presented the report to members where he advised it contained the strategy to underpin the Budget for the next financial year. As a result of the financial impacts of the pandemic, the current year's (2021/22) budget was set for the first time using the General Fund reserves to help balance the budget, just over £2miliion was used for this purpose. The use of the future services framework is intended to gradually bring this back to a balanced position over the medium term but was likely the Council would be using the reserves over the next couple of years. To help the Council cope with the financial impact of Covid, he reminded members of the report taken to Council last July (2020), which approved the release of £8million form the reserves. At the current time only £2milion of this has been used.

Drawing members attention to appendix 1 where the strategy is set out including the guiding principles which are fundamental to the Council's resilience. The confidential appendix (appendix 2) has been updated to reflect the current assumptions, however he stressed to members that there was a huge amount of uncertainty within those assumptions. He explained that the Government had deferred the Fair Funding Review and was still waiting for the Annual Spending Assessment, the distribution of finances would be impacted after that review. There was a lot of cost growth within the model, the two big ticket items, members should be aware of are, separate food waste collection service and a potential to have to make the green waste collection service free of charge, the cost pressures of these alone could add over £1.5million to the Council's annual revenue budget. In summing up he confirmed that it was expected that it will be necessary to use reserves to balance the budget for next year (2022/23) and the year after (2023/24), whilst the efficiency review is concluded. This year (2021/22) is the first year of the three-year efficiency saving period, of which we are expected to over deliver on this first year's target. However, current projections indicate, even with the efficiency review the Council will still have a residual deficit in the budget at the end of the 5-year period, if, all of the projections within the model are implemented and impact on the Council's financial position.

Moving to appendix 3, Mr Ward confirmed there was an inaccuracy within paragraph 6.12 he confirmed that the capital receipts had been excluded so the figures in appendix 3 were the actual cashable amounts of investment available to use regardless of whether asset sales proceed or not. He addressed that long term use of the reserves would be contrary to the financial principals of not using reserves to fund recurring shortfalls by reminding members that they approved the approach of balancing the budget over the medium-term, whilst the Council works through the efficiency review and the service prioritisation exercise. A report will be brought back to members in January 2022 on the outcomes of this work. He confirmed that a budget briefing task and finish group will be created and will meet after the Christmas break, when hopefully the draft settlement will have been received. It is unclear currently to know whether this would be a 1-year or a 3-year settlement. In appendix 1, he highlighted that the savings to date for the efficiency review are expected to be over £980,000. The Policy options included in the model are still yet to be fully considered as part of the future services framework, however, those that are likely to be considered as low priority may be removed from the model, which would assist the financial position. The approved 5-year capital programme remains fully funded without the need to borrow.

The Chairman then invited members to ask any questions which are summarised below;

- It was asked what the Council's underlying reserve position was, as concern was raised on the revised reserve position detailed in appendix 2. It was confirmed that if you remove all other commitments such as the Capital Programme, any monies set aside for specific purposes, there is still £10.6million available, however the recommendation before members today is to maintain a minimum balance of no less that £4million, so the Council would only be able to spend £6.6million of the £10.6million. The Gross reserves are £66.9million, but only £6.6million (over the next 5-years) is available to spend as the remaining funds have commitments attached to them.
- Clarification was sought on the assumptions of the car park income, compared with the year 2019/20, as the Council are currently running at 10% down on pay and display income, season ticket income is down 60%. It was confirmed that the income had been based on the current year 2020/21. Appendix one sets out the inflationary increases and next year is set at 3% inflation on costs and income for next year, but this was an adjusted figure.
- It was asked when would the Council have a definitive answer regarding possibly paying for food and garden waste? It was confirmed that it is expected a clearer indication would be given or a decision next year (2022).
- It was queried where do we see the effect of not making any attempt to close the budget? It was confirmed that this could be seen at the projected deficit (surplus) figures in appendix 2.

Cllr Brown was invited to present his proposed amendment to the Committee. The amendments and additions are highlighted in bold;

The Committee recommend to Cabinet that:

3.1 The key financial principles ***(as amended)*** *which underpin the financial management of the Council, and the 5 year Financial Strategy set out in Appendix 1 Annex A to the agenda report.*

3.2 That the Council maintains a minimum level of reserves of £4m for general purposes.

3.3 That, with expert professional advice, the Council creates a new Commercial Property Investment Strategy that would take advantage of the preferential long term lending rates of the Public Works Loan Board (PWLB) to generate additional income, avoid the need for service cuts and, where possible, to improve the public realm.

That the Committee:

3.4 Notes the updated 5 year Financial Model in appendix 2 (Part 2) and the resources statement in appendix 3 to the agenda report.

3.5 Nominates 3 members of the Committee to attend the Budget Briefing Task and Finish Group.

3.6 Tasks the Economic Development Panel with overseeing the writing of the new Commercial Property Investment Strategy.

The Chairman expressed his dissatisfaction regarding the amendment proposed given its timing, he then sought advice from Mr Ward regarding the options to defer this proposal, where Mr Ward advised that he would be within his right as Chairman to reject this proposal as it had not followed the Motions protocol or he could defer it to another meeting of the Committee for consideration at a future meeting. The Chairman then asked Cllr Brown if he would consider withdrawing his proposal on the basis that it goes through the Economic Development Panel (EDP) first and then comes back to this Committee as formal proposal. Cllr Brown stated he would consider withdrawing his proposal but wanted to hear comments from this Committee today. Members then took part in a full debate on the proposal, officer advice was provided in response to the points raised. It was then agreed with Cllr Brown that his proposal would be withdrawn and deferred to a future meeting of the EDP with agreement from the Chairman of the EDP. Some members of the Committee were keen to ensure that their concerns were passed to Cabinet that consideration be given in the financial strategy for opportunities to invest to create additional revenue. The Chairman then advised Cllr Brown no further amendments would be considered and referred members to the original recommendation's detailed in the report.

Cllr Johnson left the meeting.

In the vote the Committee agreed the following recommendations and resolutions;

The Committee RECOMMEND to Cabinet

1. that the key financial principles which underpin the financial management of the Council, and the 5-year Financial Strategy set out in Appendix 1 Annex A to the agenda report.
2. that the Council maintains a minimum level of reserves of £4m for general purposes.

The Committee RESOLVED to

3. note the updated 5-year Financial Model in appendix 2 (Part 2) and the resources statement in appendix 3 to the agenda report; and,
4. nominate Cllr Barrie, Cllr Brown and Cllr Palmer of the Committee to attend the Budget Briefing Task and Finish Group**.**

Cllr Palmer left the meeting.

116 **Update on the Strategic Risk Register**

Mr Ward was invited to present the report to members, where he advised that the Strategic Risk Group (SRG) met on 14 October 2021 and the report contained the latest update. He advised members that the Council's insurance contract was progressing well, and the new providers are due to commence their contract next week. He then referred members to sections 6.2 in the report where it showed 3 risks in the red area, financial resilience, Southern Gateway and Changing use of the Highstreet and rural towns.

There are 13 strategic risks, 7 of which are deemed as under control and the remaining 6 have controls pending. This quarter saw the following risks status change;

- Risk 178 – Covid 19, reduced from 6 to 3,
- Risk 189 – Crouchlands Lagoon reduced to 3, the SRG requested that the responsible officers attend today's meeting to provide an update to the committee on this risk.
- Risk 148 also saw a request for the responsible officer to attend today's meeting and provide members with an update.

Cllr Brown advised the Committee that the view of the SRG for risk 189 - Crouchlands Lagoon was that if something should happen, the impact of this would be significant and therefore the group was surprised that the risks had, had its risk level reduced. Mrs Stevens clarified she wanted to correct a point at paragraph 6.4 in the report, where it read that "*the score decreased from 9 as the likelihood reduced from probable to possible as a result of the recent monitoring on 9 September*". She advised that this wasn't the reason for the change in likelihood, this rose from the planning element, the non-compliance in terms of pollution of the site had been very stable since the Council had been monitoring it and there had been no change on the likelihood of a pollution occurring. As a result of this officers have decided that we need to give greater clarification to the description in the risk table, to explain that the risk arises from both a planning and a pollution factor, the Council would incur significant costs, throughout works in default or a possible clear up and recovery if a pollution incident occurred. The risk from a planning perspective was from a non-compliance notice.

The Committee noted the updated Strategic Risk Register and the internal controls in place, including associated action plans to manage those risks.

117 **Exclusion of the Press and Public**

There was no need to move into Part 2.

118 **Late items**

There were no late items.

The meeting ended at 4.11 pm

CHAIRMAN

Date:

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Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 10 January 2022

Annual Debt Write Off Report 2020-21

1. Contacts

Report Author
Paul Jobson – Revenues and Debt Recovery Manager
Telephone: 01243 534501 E-mail: pjobson@chichester.gov.uk

2. Recommendation

2.1 That the committee notes the contents of this report together with the Write Off Report as shown in Appendix 1 to this report.

3. Background

3.1 The Council has powers under various Acts of Parliament and Statutory Regulations to charge for the services it provides and for the collection of taxation monies such as Council Tax and National Non-Domestic Rates.

3.2 To allow for more transparency, in relation to debt that is deemed to be uncollectable, a new Corporate Debt Recovery Policy was approved by Cabinet on the 4 February 2020. This policy incorporates the Council's write off arrangements and sets out clearly the considerations, that are taken before a debt is written off. The Council's Constitution states (under Part 3, item 24), that the Director for Corporate Services has the delegated authority to "Write-off outstanding accounts, which are considered to be irrecoverable, subject to members being informed of the total amounts of such write offs".

3.3 Prior to 1 April 2021 debts written off were published on Modern.gov for members to review. Following consultation between the Divisional Manager for Financial Services and the Divisional Manager for Revenues, Benefits and Housing it was decided that it was more appropriate for the Annual Write Off report to be considered and noted by the Corporate Governance and Audit Committee.

3.4 The attached report details the write-offs that have been authorised between 1 April 2020 and 31 March 2021.Should a debt need to be re-instated because the reason for write-off is no longer valid e.g., absconded and the debtor is subsequently found or assets identified, then the Council will reinstate the debt, if appropriate to do so, within any statutory time limitations.

4. Outcomes to be Achieved

4.1 To ensure that the Council continues to write off debt which is deemed uncollectable in accordance with the Corporate Debt Recovery and Write-off Policy.

5. Main Report

5.1 The annual debt raised by the Council between the 1 April 2020 and 31 March 2021 was £135.9m. This included £121.4m in Council Tax and Business Rate together with £14.5m in invoices. These invoices include £12.3m of Sundry Debts, £1.3m in Housing Debts and £0.9m in Housing Benefit Overpayments.

5.2 The amount of debt written off attributing to the financial year 2020-21 was £135,245.13. When taken together with amounts written off in respect of debts raised in earlier years a total of £785,806.11 was written off. This compares with £1,187,483 in 2019-20

5.3 The Council is prudent in managing bad debts and, in accordance with recommended accounting practice, maintains a provision for bad debts to be written off. This ensures that writing off bad debts, has no detrimental effect on service provision or the council taxpayer. The total provisions held for bad debts as at 31 March 2021 are shown below.

Bad Debt Provisions as at 31 March 2021	**£**
Non-Domestic Rates	872,000
Council Tax	3,070,000
Housing	418,000
Sundry Debts	407,000
Housing Benefits Overpayments	1,445,000
Total	**6,212,000**

5.4 The debt outstanding to the Council as at 31 March 2021 is shown below.

Debt Outstanding as at 31 March 2021	**£**
Non- Domestic Rates	1,900,000
Council Tax	6,200,000
Housing	1,400,000
Sundry Debts	2,600,000
Housing Benefits Overpayment	600,000
Total	**12,700,000**

6. Alternatives Considered

6.1 Not applicable

7. Resource and Legal Implications

7.1 Not applicable

8. Consultation

8.1 Not applicable

9. Community Impact and Corporate Risks

9.1 Not applicable

10. Other Implications

	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

11. Appendices

11.1. Annual Write off Report 2020-21

12. Background Papers

12.1 Corporate Debt Recovery Policy.

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Debt Write offs between 1 April 2020 and 31 March 2021

The Council has powers under various Acts of Parliament and Statutory Regulations to charge for the services it provides and for the collection of taxation monies i.e. Council Tax and National Non-Domestic Rates (NNDR) known as Business Rates.

The powers to waive the collection of properly determined and levied debts are contained within the Council's Constitution and supporting Financial Regulations that delegate the responsibility for writing-off all individual debts to the Director of Corporate Services, the Council's 'Responsible Financial Officer' under Section 151 of the Local Government Act 1972.

This report details the write-offs that have been authorised between 1 April 2020 and the 31 March 2021. If new information is received or if payment is made, debts previously written-off are resurrected and the credits applied to the account.

During 2020-21 the Council raised over £121.4m in Council Tax and Business Rate bills and £14.5m in invoices. Of this £135,245.13 was written off in respect of 2020-21. When taken together with amounts written off in respect of debts raised in earlier years a total of £785,806.11 was written off. This compares with £1,187,483 in 2019-20.

The Council is prudent in managing bad debts and, in accordance with recommended accounting practice, maintains a provision for the write-off of debts in respect of council tax, business rates, housing debts, housing benefit overpayments and sundry debt invoices. This ensures that the writing-off of bad debts has no detrimental effect on service provision or the council taxpayer.

The total provisions held for bad debts as at 31 March 2021 are:

	£'000
Non-Domestic Rates	872
Council Tax	3,070
Housing	418
Sundry Debtors	407
Housing Benefit Overpayments	1,445
Total	**£6,212**

APPENDIX 1

Table below shows all write offs actioned between 1 April 2020 and 31 March 2021.

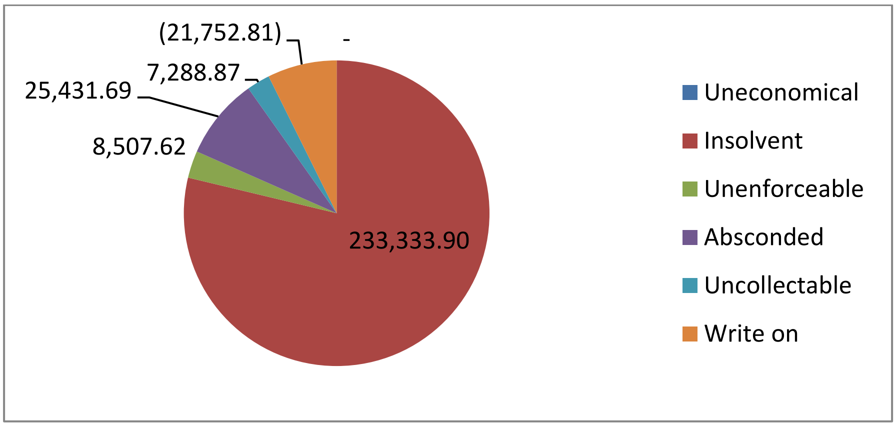
Financial Year	NNDR £	Council Tax £	Exchequer £	Housing Benefits £	Housing £	Total £
Pre 2015/16	14,609.24	124,353.81	3,703.95	-	-	142,667.00
2015/16	1,522.83	37,456.68	1,740.87	-	-	40,720.38
2016/17	6,553.37	54,238.52	15,070.19	-	-	75,862.08
2017/18	39,214.71	39,901.85	17,320.13	-	-	96,436.69
2018/19	127,053.82	35,323.38	8,464.55	-	-	170,841.75
2019/20	60,495.37	30,992.80	32,544.91	-	-	124,033.08
2020/21	3,359.93	14,125.69	-2,014.68	119,774.19	-	135,245.13
TOTAL	**252,809.27**	**336,392.73**	**76,829.92**	**119,774.19**	**-**	**785,806.11**

The table below, shows the total amount of debt written off, in the previous financial year, together with the annual debt raised for each service area and the total debt outstanding as at the 31 March 2021.

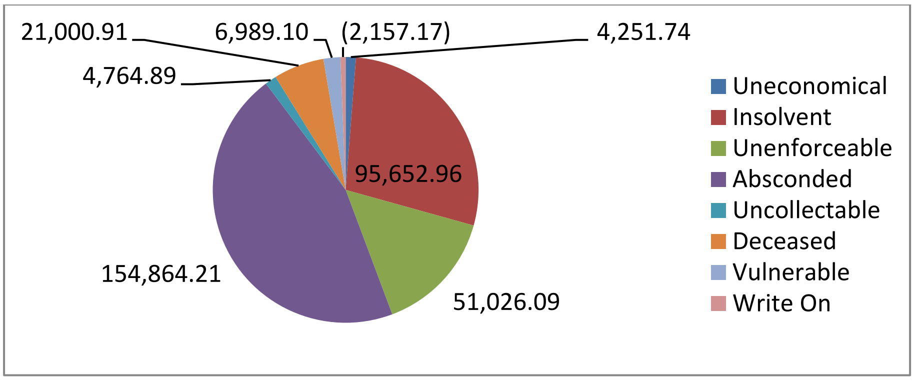
Value of debt written off in previous year	**£0.56m**	**£0.33m**	**£ 0.00**	**£0.25m**	**£0.04m**	**£1.18m**
Annual Debt Raised 20/21	**£21m**	**£100.4m**	**£12.3m**	**£0.9m**	**£1.3m**	**£135.9m**
Debt Outstanding as at 31.3.21	**£1.9m**	**£6.2 m**	**£1.4m**	**£2.6m**	**£0.6m**	**£12.7m**

The following pie charts breaks down the reasons for write off for each service area.

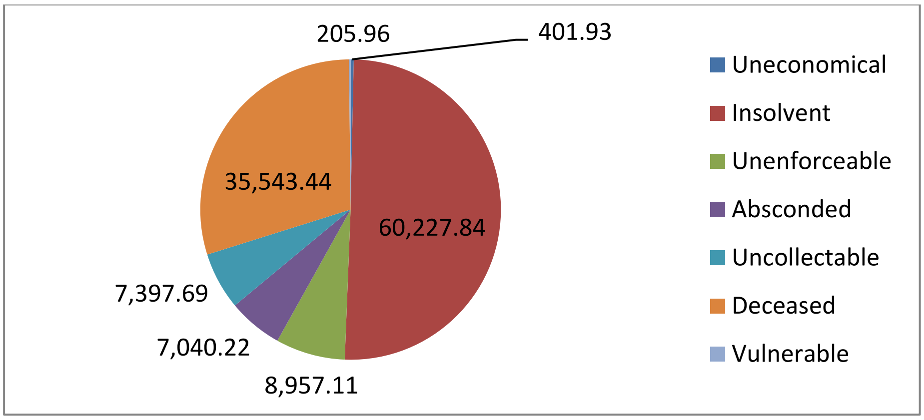
NNDR- Business Rates Total Write off £252,809.27



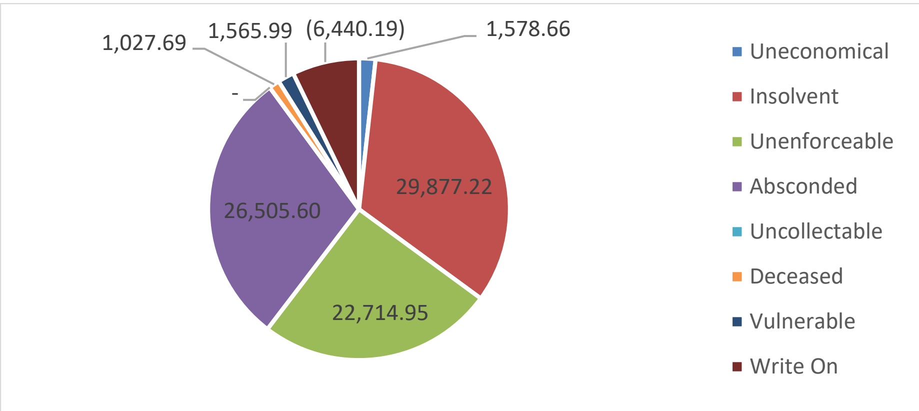
Council Tax Total Write off £336,392.73



Housing Benefits Total Write off £119,774.19



Corporate (Exchequer) Debt Total Write off £76,829.92



Write off description definitions.

- **Uneconomical** – Balance too small for further action or the costs associated with collecting the outstanding debit is prohibitive.
- **Insolvent** - Debtor is the subject of bankruptcy, individual arrangement, liquidation, company voluntary arrangement or a debt relief order.
- **Unenforceable** – Debtor resides abroad, or the debt is over 6 years old.
- **Absconded** – Tracing agent or other methods have been unable to find debtor.
- **Uncollectable** – Remitted by Court or where all avenues of recovery action exhausted and debt remains outstanding.
- **Deceased**- Insufficient or no funds in deceased estate to clear debt.
- **Vulnerable** – Where a debtor has no realistic means of paying the debt due to vulnerability.
- **Write on** – Where a previous debt has been written off and there has been retrospective reduction in charge.

Chichester District Council

Corporate Governance and Audit Committee

10 January 2022

Draft Treasury Management, Investment and Capital Strategies

1. Contacts

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2. Recommendation

2.1. **That the Committee considers the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Indicators for 2022-23, and**

2.2. **That the Committee considers the Council's Capital Strategy for 2022-23 to 2026-27.**

2.3. **That the documents in 2.1 and 2.2 are recommended to Cabinet and Council for approval**

3. Background

3.1. Local authorities' treasury management activities are prescribed by the Local Government Act 2003 and Regulations issued under this Act. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice (the Code) derives its legal status from these statutory Regulations.

3.2. The Treasury Management Code was last updated in 2017. CIPFA's view is that, since then, the landscape for public services has changed. The increasing profile of the role of treasury management as a result of the pandemic, the disciplines and skills required to meet the advances brought forward by issues such as the Markets in Financial Instruments Directive, known as MIFID II, and the increasing complexity of transactions in the sector has underlined the importance of the Treasury Management Code and its guidance. Alongside this, the rise in commercial non-treasury investments nationally is felt to be a contributing factor behind the need to strengthen its provisions to ensure that they are fit for the 21st century.

3.3. CIPFA plans to update its Treasury Management and Prudential Codes following consultations during 2021. As these Codes have not been issued in due time for their inclusion in the Council's consideration of its 2022-23 strategies, the documents before Committee today are based on officers best understanding of what will be required for 2022-23. Once the final Codes are issued, a considered approach to responding to them will be taken and updated requirements will be incorporated into strategies for 2023-24 as necessary.

3.4. The Council is also required by the Code to produce a Capital Strategy which aims to provide a high-level overview of how capital and treasury intentions contribute to the provision of local services and describe how risks to future financial sustainability are managed. A draft capital Strategy is included in this report at appendix 3.

3.5. Although every attempt has been made to reduce the technical content of this report, by its very nature the report is specialised in parts and the glossary of terms in Appendix 5 aims to aid members understanding of some terms used.

4. Outcomes to be achieved

4.1. The Treasury Management and Investment Strategies for 2022-23 and the Council's Capital Strategy are approved before 1 April 2022 in accordance with CIPFA's Treasury Management in the Public Services: Code of Practice and the DLUHC's Investment Regulations.

5. Alternatives that have been considered

5.1. The Treasury Strategy contains details of alternatives that have been considered. There is no 'do nothing' option as the Council is required to approve a Treasury and Investment Policy as its Capital Strategy before the start of the new financial year.

6. Resource and legal implications

6.1. The Council may be putting its financial standing at risk, as well as failing to meet the requirements of the Local Government Act 2003, if it failed to follow the revised Treasury Management Code and the Investment Guidance. Acceptance of the recommendations in this report would not only help avoid this risk, but would demonstrate that the Council's financial matters continue to be managed prudently

6.2. The Treasury Management Strategy and the Prudential Indicators reflect various assumptions of future interest rate movements and Government support for capital expenditure. These assumptions have been taken into account in the 5 year model under pinning the Council's Financial Strategy and resources statement.

6.3. Due to differences in timing between the deadlines for this report and the Council's annual budget and capital strategies, the information contained in the documents at appendices 2 and 3 is based on that available as at November 2021. There will inevitably be some difference between these figures and the final approved budget, capital programme and corporate priorities but these will be captured as part of future iterations of these documents.

6.4. Appendix A to the Treasury Strategy contains details of the interest rate assumptions that have been used in developing this strategy.

7. Consultation

7.1. The forthcoming financial year's Treasury Management Strategy, Investment Strategy and Capital Strategy documents will also be considered by Cabinet before being presented to Full Council for approval.

7.2. Members were also briefed on the background to this strategy and report at a workshop on 2 December.

8. Community impact and corporate risks

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

8.2. Risk management is covered within the Treasury Management Strategy and specifically within TMP 1, an extract of which is shown in appendix 4.

9. Other Implications

	Yes	No
Crime & Disorder		✓
Climate Change 1. Ethical, Social and Governance (ESG) factors are increasingly being recognised as a factor in the wider Treasury sector. The strategies accompanying this report includes sections on responsible investing and carbon reduction.	✓	
Human Rights and Equality Impact		✓
Safeguarding and Early Help		✓
General Data Protection Regulations (GDPR)		✓
Health and Wellbeing		✓
Other (Please specify): 1. **Compliance with the Local Government Act 2003** 2. Non- compliance or loss of an investment due to default by a counterparty could affect the financial wellbeing of the council dependent on the size of the loss and the ability to fund losses from its unallocated reserves.	✓	

10. Appendices

10.1. Appendix 1 – Summary of main amendments between 2021-22 and 2022-23

10.2. Appendix 2- Treasury Management Policy Statement, Treasury Management Strategy Statement, Treasury Prudential Indicators and Annual Investment Strategy for 2022-23.

10.3. Appendix 3 – Capital Strategy 2022-23 to 2026-27

10.4. Appendix 4 - Treasury Management Practices (TMP's) Extract of TMP 1 Risk Management.

10.5. Appendix 5 - Glossary

11. Background Papers

11.1. None.

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Appendix 1 – Summary of the main amendments between 2021-22 and 2022-23

This appendix reports significant changes to the strategy only

Item	Page	Comment
The overall structure has been reviewed to create greater clarity between the Treasury and Investment aspects of the document	N/A	Since the 2017 updates to the Code and DHULC Guidance greater detail has been required within the Council's investment strategy covering service and commercial investments. This detail has made the treasury strategy more opaque and difficult to apply throughout the year. As the Code still requires the treasury management strategy to cover all of the Council's financial investments, even those which are not treasury management investments, officers have restructured the document to aid clarity. There is now greater separation between Treasury and non-Treasury investments.
Liability benchmark	5	Table 2 is updated to calculate the Council's Liability Benchmark rather than a simple balance sheet forecast. This is a new indicator and one that is likely to remain in the final 2021 Code provisions. The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow. A negative liability benchmark indicates the Council will have resources to invest and expects to remain debt free.
Proportionality	To 26	Moved to the Investments strategy section to better align with Code and regulatory requirements.
Counterparty limits	8	Increased the ceiling for investments in external pooled funds (excluding the CCLA) from £30m to £50m based on the Liability benchmark analysis in table 2 to the main

		strategy. Increased the CCLA-LAPF limit to £15m to provide headroom to maintain a balanced allocation of assets between sectors should the Council choose to seek further investments in external pooled funds Table 4 and 9 limits also increased by £20m to accommodate the above two changes. Increased from £5m default to £6m based on reserve and investment projections for 2022-23 Added the following text: “For external pooled funds, the limit applied will be that in force on the date of the investment. Should counterparty limits fall after this date, a balanced view will be taken by the s.151 officer as to if and when the investment above the new limit will be redeemed.”
Borrowing Sources	14	Added paragraph confirming that PWLB loans are no longer available for ‘primarily for yield’ activities.
Treasury management indicators	16	Separated Treasury and non-Treasury indicators to aid reporting. Changes to indicators proposed: • Delete time-weighted average credit score – this is duplicated by the portfolio average credit score indicator • Portfolio average credit score – changed to ‘minimum A rating (slightly above minimum acceptable credit score of A-). • Fair value: Clarified calculation and indicator to link to overall resources available to reduce risk
Reporting	20	Proposed monthly reporting frequency of investments to that Leader of the Council, the Cabinet Member for Corporate Services and the members of the Corporate Governance & Audit Committee.

		The present weekly reporting appears to provide little value over monthly reporting.
Commercial Investments: Property	22 23	Section rewritten to draw in greater risk mitigation and assessment steps from the Council's investment opportunities protocol. Added table to provide the current far value (security) position for each of the Council's investment properties to inform the expanded section on Security for commercial Investments. Due to commercial sensitivity, references are restricted to the Council's asset register reference rather than the name of the property. Both these updates have been made given the increasing focus on this area by both the DLUHC and in the CIPFA Codes and Guidance.
Service Investments: Loans	25	Expanded section to provide most detail on potential risks and the various service loans made.
Loan Commitments and Guarantees	26	Added new section – text previously included but now made explicit.
Proportionality	26	Moved from Treasury section. Indicators updated to provide forecasts for current year and next three. Further work will be needed during 2022-23 to define how longer term projections can be made if they are required by the CIPFA Code.
Non-specified investment limits	27	Added confirmation that the limits in table 15 do not apply to treasury Investments, including external investments in pooled funds.
Investment indicators	28	New section. Previous Investment indicators separated from treasury indicators to aid future monitoring and reporting. The new indicators are: 1. Total investment exposure £m 2. Rate of return – all types of Investments

		Paragraph added explaining that the Council may not be able to comply with any requirements to forecast the fair values of investments if such is required by the CIPFA Code. The following indicators have been removed from the voluntary indicators as they are now measured as part of the wider suite of indictors recommended by the Code and DLUHC Regulations • Commercial income to net service expenditure (NSE) • Net operating surplus • Market Value of commercial properties
Reporting	30	For service investments, reporting arrangements will comply with the Council's Constitution on a case by case basis as determined by the relevant Service Director.
Capital Strategy		
Strategic Aims & Objectives	2	Holding statement included – it is not possible to update this section for the proposed refresh of council priorities due to differences in timing between the reports.
Impact of COVID 19	3	Refreshed based on report to Overview and Scrutiny June 2021
Supporting Carbon Reduction	4	Now linked to climate change page on CDC website to ensure the latest position is reflected

Appendix 2 - Treasury Management and investment Strategy

Contents

Treasury Management Policy Statement, Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23

Treasury Management Policy Statement

Treasury management within the Council is undertaken in accordance with the CIPFA Code of Practice for Treasury Management in the Public Services (“the TM Code”).

The Council defines treasury management as:

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

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

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

The Treasury investment policy objective for this Council is the prudent investment of its treasury balances. The Council’s Treasury investment priorities are security of capital and liquidity of its investments so that funds are available for expenditure when needed. Both the CIPFA Code and the DLUHC guidance require the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. This strategy has been prepared assuming that it will not need to borrow any monies, except for short term cash flow purposes for revenue and capital commitments.

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments);

- to support local public services by lending to or buying shares in other organisations (service investments); and,
- to earn investment income (known as commercial investments where this is the main purpose).

Treasury Management Strategy

The Council's priority is the security and liquidity of its treasury investments in accordance with the priorities set out in the CIPFA Code and DLUHC Guidance. Whilst fundamentally risk averse, the Council accepts some modest degree of risk within the limits and counterparty restrictions set out in its Treasury Management and Investment Strategy and risk appetite statement

The Chartered Institute of Public Finance and Accountancy's '*Treasury Management in the Public Services: Code of Practice'* (the CIPFA Code) requires the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year.

The Department for Levelling Up, Housing & Communities (DLUHC) also issues guidance on Local Authority Investments (the Guidance). Paragraph 21 of the Guidance makes it clear that, except for the requirement to prioritise Security, Liquidity and Yield in that order of importance, treasury management investments are managed within the principles set out within the CIPFA Code.

The Council's TMS Statement is underpinned by the CIPFA Code and Treasury Management Practices (TMPs) which provide prescriptive information as to how the treasury management function should be carried out.

In accordance with the Guidance, the Council will be asked to approve a revised Treasury Management Strategy should the assumptions on which this report is based change significantly. Such circumstances may include, for example, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balances.

At 15 November 2021 the Council held £125.9m of investments as set out in table 1.

Table 1: Investment Portfolio Position

Investments	£m	Return %*
Short term Investments (cash, call accounts, deposits)	38.0	0.05
Money Market Funds	53.9	0.05

Total Liquid Investments	91.9	0.05
External Pooled funds	34.0	4.35
Total Treasury Financial Investments	125.9	1.31

**returns are based on income only as at 30 September.*

For the purposes of the limits in this strategy, the position in table 1 is not representative of the long term stable investment position of the Council. As residual balances on the various COVID-19 national support schemes are settled, officers expect cash balances to fall over the next twelve months by around £30m.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. CIPFA suggests calculating a Liability Benchmark to demonstrate this and this is shown in Table 2 below. The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

As the Council's net Treasury position is debt free across the entire forecast period, the Council's liability benchmark (and CFR) is also negative across the forecast period, indicating that there is no present need to borrow given the Council's current resources and capital intentions.

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Table 2: Balance sheet forecast to 31 March 2026 (£m)

	2021 Actual	2022	2023	2024	2025	2026
Capital Financing requirement	-1	0	0	0	0	0
Less: Other debt liabilities	0	0	0	0	0	0
Less: Balance sheet resources						
• Usable Reserves	-73	-64	-52	-52	-51	-52
• Capital receipts reserve	-2	-3	-6	-7	-10	-11
• Working capital	-3	-4	-4	-4	-4	-4
CIL	-11	-7	-4	-4	0	0
Treasury Investments	-90	-78	-66	-67	-65	-67
Plus: Liquidity allowance	10	10	10	10	10	10
Liability Benchmark	-80	-68	-56	-57	-55	-56

The above figures are based on resource projections and include assumptions about timing of transactions that may differ from actual delivery. Other debt liabilities may increase slightly once an assessment is made of finance lease liabilities in advance of the implementation of IFRS16 for the 2022/23 financial year.

The CIL projections are based on the Council's infrastructure business plan as at September 2021.

The Liquidity allowance is set at £10m and is the minimum level of funds invested to maintain professional investor status under the relevant financial regulations.

The Council's operational boundary and authorised debt ceilings are set out in tables 5 and 6 (page 15) and are set at a level that will accommodate possible short-term working capital requirements or any financial lease liabilities that will be recognised following the adoption of IFRS16 on 1 April 2023.

Risk Appetite Statement

As a debt free authority the Council's highest priority in its treasury management function is the security of those investments in accordance with the priorities set out in the CIPFA Code. However, whilst fundamentally risk averse, the Council will accept some modest degree of risk

The Council mitigates investment risk by using different investment instruments, diversified high credit quality counterparties and with country, sector and group limits as set out in this strategy.

When investing surplus cash, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities, but may invest in other bodies including certain unrated building societies and money market funds. The Council may also invest surplus funds through tradable instruments such as gilts, treasury bills, certificates of deposit, corporate bonds and pooled funds. The duration of such investments will be carefully considered to limit that risk of them having to be sold (although they may be) prior to maturity, mitigating the risk of the capital sum being diminished through price movements.

Treasury Investments and Borrowing

In line with the Council's Treasury Management Policy Statement, treasury management includes all the activities necessary for:

1. Cash management;

2. Liquidity planning and control; and,

3. Corporate finance, including medium and long term financing and investing.

Successfully identifying, monitoring and mitigating risk is the cornerstone of effective treasury management, although the Council acknowledges that effective treasury management also supports the achievement of business and service objectives.

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities lead to a cash surplus which is invested in accordance with the CIPFA Code.

The balance of treasury investments is expected to fluctuate between £78m and £66m during the 2022/23 financial year (table 2, above). The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

The Council does not intend to borrow any monies, except for short term cash flow purposes for revenue and capital commitments.

Investment Objective

The Council's objective when investing money is to comply with the principles stated in this strategy document, striking an appropriate balance between risk and return in line with the Council's risk appetite statement.

Counterparty limits

The Council may invest its surplus funds with any of the counterparties in table 3 below, subject to the cash limits (per counterparty) and time limits shown.

The Authority's lowest revenue reserves available to cover investment losses are forecast to be £59 million on 31st March 2023 (usable reserves, less capital receipts plus CIL and working capital).

The Authority's expected average investment balance in 2022/23 from Table 2 is £72m.

The Counterparty and sector limits below are set such that no one default will incur a loss of either:

- 10% of the Council's expected average investment balance; or,
- 15% of the Council's available reserves as defined above

Given the forecasts above, the Council has set the general counterparty investment limit for 2022/23 at £6m. This is lower than the maximum available limit using the above methodology but is considered prudent given the forecast investment balance at 31 March 2023.

The Council's investment with the CCLA property fund has a higher, separate limit. Where this counterparty limits in tables 3 and 4 fall between financial years, any new limit will only apply once existing investments as at 1 April reach the end of their present deposit period. For external pooled funds, the limit applied will be that in force on the date of the investment. Should counterparty limits fall after this date, a balanced view will be taken by the s.151 officer as to if and when the investment above the new limit will be redeemed.

A group of entities under the same ownership will be treated as a single organisation for counterparty limit purposes.

In addition to the limits set on individual counterparties in table 3 below, table 4 sets limits on any group of pooled funds under the same management.

Table 3: Approved Investment Counterparties

Sector	Time limit	Counterparty limit	Sector limit	Notes
The UK Government	50 years	Unlimited	n/a	
Local authorities & other government entities	10 years	£6m	Unlimited	
Secured investments	10 years	£6m	Unlimited	1
Banks (unsecured)	13 months	£3m	Unlimited	1,2
Building societies (unsecured)	13 months	£3m	£6m	1
Money market funds	n/a	£6m or 0.5% of fund value	Unlimited	1 3
Strategic pooled funds (excluding LAPF)	n/a	£6m	£50m	5
Strategic pooled funds (CCLA - LAPF)	n/a	£15m	£15m	5
Real estate investment trusts	n/a	£2m	£4m	5
Other investments	2 years	£3m	£6m	1, 4

Notes:

1. *Investments are subject to credit rating floors and/ or other criteria set out 'Minimum credit ratings' below*
2. *The limits for the Council's operational bank account are determined separately and set out in the relevant section below*

3. *Individual limits will be 0.5% of fund value or £6m, whichever is the smaller*

4. *Service and commercial investments will be subject to individual, separate risk assessment and are considered separately in this strategy. They are not covered by the Treasury limits in table 3*

5. *No maximum investment period is set for pooled funds and REITs as they are intended to be for the long term. The limit on strategic pooled funds does not apply to Money Market Fund investments.*

The Council sets limits on the totals to be invested in any one single entity, group of entities, or investment type. These are set out in table 4 and apply to all treasury investments.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds (including money market funds) and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£6m per broker (1)
Foreign countries	£6m per country

1. The limit for nominee accounts does not apply to investments in Money Market Funds and their nominee companies

Counterparties

Government

Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years

Secured investments

Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments

Banks and building societies (unsecured)

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Money market funds

Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds

Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly

Where investments in pooled funds or other financial assets have prices or values that can vary according to fund performance and other factors, the investment limits in table 4 will operate to regulate the initial purchase cost (total initial investment) only.

Real estate investment trusts (REIT)

Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Operational bank accounts

The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2.5m in total across all operational accounts.

Other investments

This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

For corporate bonds, the limits referred to in table 3 will apply to the sum of bond principal (par value) and any premium or discount paid to acquire the bond in the secondary market. The limit will exclude the accrued interest element paid to secure a secondary bond as this is recoverable on maturity of the Bond.

Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council's treasury advisors, who will notify changes in the ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

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

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

Minimum credit rating

Treasury investments in the sectors marked *Note 1* in table 3 will only be made with entities whose lowest published long-term credit rating is no lower than A-.

Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £1m per counterparty; or (c) are part of a diversified pool of investments e.g. a strategic investment in an external pooled fund.

Other Information on the Security of Investments

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

When deteriorating financial market conditions affect the creditworthiness of all organisations this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions, and advice from the Council's Treasury advisor. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or with other local authorities. This may will cause investment returns to fall but will protect the principal sum invested.

Business model for holding investments

The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash-flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Negative interest rates

In the event of negative interest rates, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Liquidity Management

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast. To ensure adequate liquidity is maintained, 'worst case' estimates of cash flows are used when considering the Council's medium term investment position.

Responsible Investing

As a responsible investor, the Council is committed to considering environmental, social, and governance (ESG) issues, and has a particular interest in taking action against climate change and pursuing activities that have a positive social impact.

The overriding priorities of treasury management must remain security, liquidity, and yield in that order. However, once these priorities are met preference will be given to placing investments with banks or institutions who have demonstrated a significant interest is sustainability by being a signatory to the UN Environment Finance Initiative's (UNEFI) Principles for Responsible Banking/ Investment. This requirement will not extend to investments with the UK public sector.

Before a direct investment is made with an institution that is not a participant in the above initiative, approval will be sought from the section 151 or deputy section 151 officer setting out why no reasonable alternative at that particular time is available. This 'comply or explain' approach recognises that, whilst ESG is a desirable objective for treasury investing, to comply with Statutory Guidance it must be ranked behind security, liquidity and yield.

Where the Council does not have direct control over the individual investments, (for example, for investments in money market or external pooled funds), the Council will seek to understand and evaluate the Ethical, Social and Governance policies of money market and external pooled funds when considering making an initial investment. This evaluation will include a review of any reports prepared by prospective fund managers under the UK Stewardship Code issued by the Financial Reporting Council and of the institution's commitment to the UNEFI Principles for Responsible Investment.

Borrowing

The Council is currently debt-free and has no borrowing other than that which might occur as part of routine working capital management. There are no plans to borrow to finance new capital expenditure over the medium term but this remains an option if deemed to be prudent.

If it considers it necessary to borrow money, the Council's chief objective will be to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Short term internal borrowing (for schemes that pay back within the 5 year time frame of the capital programme) can be accommodated without incurring external interest charges, provided the resulting savings are recycled into reserves.

Longer term pay back periods will have to accommodate both the external interest and a minimum revenue provision (MRP) in accordance with the Council's MRP policy.

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

Borrowing Sources

The Council may need to borrow money in the short term to cover unexpected cash flow shortages from the following approved sources:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the West Sussex Pension Fund)
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Capital market bond investors, including via community municipal bonds
- Any other UK public sector body

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Sale and leaseback

The Council will, where possible, take advantage of any reduction in borrowing costs available from the Public Works Loan Board (PWLB) for authorities who provide information on their plans for long-term borrowing and associated capital spending.

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its potential access to PWLB loans.

Operational Boundary for External Debt

The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. If these limits are breached in-year, this will trigger an exception report explaining the circumstances of the breach to Cabinet.

The limit for 'other long term liabilities' includes the Council's best estimate of finance lease liabilities that may be recognised following adoption of IFRS16 on 1 April 2022.

Table 5: Operational boundary for external debt

Operational Boundary	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Borrowing	10	10	10	10	10
Other long-term liabilities	2	2	3	3	3
Total Debt	12	12	13	13	13

Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe.

The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 6: Authorised limit for external debt

Authorised Limit	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Borrowing	20	20	20	20	20
Other long-term liabilities	5	5	5	5	5
Total Debt	25	25	25	25	25

Treasury Management Indicators

Security and credit risk

Table 7: Security risk indicators

Measure	Target
Portfolio Average Credit Rating (time weighted)	Minimum "A" rating
Proportion Exposed to Bail-in (%)	Less than the average of other District Councils
Fair Value of external funds	• Overall Fair value of external funds Less • Nominal value of funds invested Plus • reserves set aside to reduce risk Is greater than zero.

Liquidity

Officers will continue to manage the Council's treasury management investments ensuring that sufficient cash is available to accommodate known payments. In the unlikely circumstance that a large unexpected cash payment is required and the Council does not have sufficient liquidity immediately available, the Council will use its facility to borrow temporarily for cash management purposes.

Table 8: Liquidity risk indicators

Measure	Target
Proportion of investments available within 7 days (%)	Compare and explain against District Council average
Proportion available within 100 days (%)	Compare and explain against District Council average

Maturity Structure of Borrowing

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

Long term treasury management investments

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments in response to adverse economic or market conditions or credit rating downgrades.

Table 9 sets out the upper limit for each forward financial year period for the maturing of investments for periods longer than 364 days up to their final maturities beyond the end of the financial period.

Table 9: Limits on investment periods (£m)

	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	80	80	80

Market and economic risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments, although the effects on the Council of such movements are not considered to be material as the majority of sums invested are at fixed interest rates for short periods. Of much more significance is the risk of property price movements and interest rate risk relating to the Council's investment in external pooled funds.

To measure the significance of these risks, the Council calculates the effect of a 1% change in interest rates and a 5% change in property prices on the Fair Value of the external funds when preparing its Statement of Accounts.

It will compare these figures against the individual counterparty limits set out above in table 4, which are seen as representative of a measure of the maximum amount that the council is willing to risk.

A Treasury exception will be reported to Cabinet where the economic risk exceeds 50% the Council's individual Counterparty limit (equivalent to £3m).

This indicator is calculated and reported annually as part of the Council's statement of accounts. Outside of this, an exception will be reported where it is clear there are significant changes to the risk, mainly as a result of changes to the composition of the investment portfolio. The position as at 31 March 2021 is set out in table 10.

Table 10: Exposure to economic risk (£m)

	1% change in Interest rates	5% change in equity prices	5% change in property prices	TOTAL
CCLA Property Fund	-	-	(0.46)	
Pooled Funds	(0.49)	(0.35)	(0.04)	
Money market Funds	(0.01)	-	-	
TOTAL	(0.50)	(0.35)	(0.50)	1.35

Other Items

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

Policy on Use of Financial Derivatives

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.

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

Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive:

The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Director of Corporate Services believes this to be the most appropriate status.

Investment of Money Borrowed in Advance of Need

Although not envisaged at this stage, the Council may, exceptionally, borrow to pre-fund future borrowing requirements, where this is expected to provide the best long term value for money. Any borrowing in advance of need must comply with DLUHC Guidance.

Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit as set out in table 6. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Investment Training

To address the training need of members, training will be provided to members of both Cabinet and the Corporate Governance and Audit Committee in advance of them considering the forthcoming year's strategies.

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

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

Officers regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant officers are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers

The Council currently contracts with Arlingclose Limited as its treasury management adviser and receives specific advice on investment, debt and capital finance issues. However, responsibility for final decision making remains with the Council and its officers. The contract runs until 30 June 2022 and an exercise to appoint a suitably qualified advisor for periods after this will be complete by this date.

The quality of this service is controlled and monitored against the contract by the Financial Services Divisional Manager.

Reporting

Treasury investments

The Council/Cabinet will receive as a minimum:

- An annual report on the strategy and plan to be pursued in the coming year and on the need to review the requirements for changes to be made to the Treasury Management Strategy Statement.
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, by 30th September in the next financial year, including any circumstances of non-compliance with the organisation's treasury management policy statement and Treasury Management Practices.

The body responsible for scrutiny of treasury management policies and practices is the Corporate Governance and Audit Committee. Monitoring reports on Treasury performance and compliance with this strategy will be prepared and presented to this Committee as a minimum for the half year to September and the full year to March.

The Leader of the Council, the Cabinet Member for Corporate Services and the members of the Corporate Governance & Audit Committee receive monthly monitoring reports of the investments held.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Corporate Services believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Table 11: Alternatives considered

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Investment Strategy 2022/23

Non-Treasury Investments

The Authority may purchase assets for investment or service delivery purposes and may also make loans and provide guarantees for service and other purposes.

The overall amount that can be committed to investments of this type will be limited by adherence to the Council's overall key financial principles approved for the relevant financial period.

Commercial Investments: Property

The Council may invest in commercial opportunities with the intention of making a profit that will be spent on local public services.

To provide specific guidance on the enhanced scrutiny and assessment of risk required, the Council has approved an investment opportunities protocol. All decisions to make commercial investments will comply with this protocol.

The Council will apply the policy and processes established by its investment opportunities protocol in deciding whether to make a commercial investment or not. This protocol provides specific guidance on the enhanced scrutiny required, including:

- Acquisitions or original build should be within the District Council's area, or sufficiently close by to be easily managed;
- Priority is given to acquisitions which achieve a community or economic benefit and strengthen the local economy;
- The acquisition provides an acceptable rate of return for the additional risk taken on, and will not increase the Council's ongoing revenue costs in the longer term; and,
- Where necessary, Specialist advisers are to be employed to provide advice and act for the Council.

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

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

Among the risk factors to be considered are:

- Acquisition Risk – the Council may incur transaction costs without guarantee of securing the investment (e.g. the Council may be one of several bidders, or required to pay a premium);
- Price & Cost Risk – Once acquired the price or cost of the investment may fluctuate over time, which may in itself reflect variations in demand and supply;
- Economic / Political Risk – the ability to retain or dispose of an investment may be inhibited by the economic and political environment at any point in time; and,
- Market Risk – the Council's ability to influence the price, financial return or other benefits pertaining to the investment may be limited by the market in which it operates

The Council's current commercial investment portfolio value is disclosed in the Council's statement of accounts and set out below using the latest valuation information available (31 March 2021). It is not possible to prepare a formal expectation of value in advance of the actual valuation exercise undertaken for to provide information for the Council's annual accounts. Where any valuations are felt to be unrealistic or may have changed materially, this is noted in the table below.

Table 12: Property held for investment purposes in £ millions

Property reference	**Actual**	**31.3.2021 actual**	
	Purchase cost	**Gains or (losses)**	**Value in accounts**
IP001	0.87	0.09	0.96
IP002	0.87	0.16	1.03
IP003	2.51	2.98	5.49
IP004	1.61	(0.37)	1.24
IP005	1.63	0.03	1.66
IP006	3.64	(0.38)	3.26
LD264	0.06	0.0	0.06
TOTAL	**11.19**	**2.51**	**13.70**

Security

The Council defines security for investment properties as maintaining the fair value of the investment property portfolio above the purchase price paid.

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

A fair value assessment for all commercial investments held by the Council has been undertaken within the last 12 months. Of the six properties owned by the Council for investment purposes, their total market value was assessed at £13.7m on 31 March 2021, significantly above the total initial purchase cost.

Within this, two of the properties had a fair value that was below the initial purchase cost. Whilst it is possible that the fair value of these investment properties would not provide security against loss this would only occur if the Council were forced to sell these properties property is a long term asset and the Council only invests once it is satisfied that the asset can be held over a period longer than 5 years and does not borrow to fund the purchase.

The Council is satisfied that the true market value of these properties provides adequate security for the investment of public funds. Should the 2021/22 year end accounts preparation and audit process value these any properties materially below their purchase cost, then the Director of Corporate Governance will assess if the risk is such that a report together with an updated investment strategy is necessary detailing the impact of the loss on the security of investments and any possible revenue consequences arising therefrom.

Liquidity

Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions such as those that currently exist. Because of this, the Council only invests in non-treasury assets where strategic forecasts indicate the asset can be held over an appropriate timeframe.

The Council does not borrow to finance non-treasury investments and therefore has no need to generate cash to repay borrowing. It recognises that unforeseen events can occur and maintains both a short term and medium term (five year) cashflow forecast which it expects will give the Council sufficient notice of any need to liquidate any non-treasury investments.

The Council also holds significant cash and short term investment balances at any one time.

Service Investments: Loans

The Council may choose to make loans or provide guarantees to local enterprises, local charities and other entities as part of a wider strategy for local economic growth and to support its Corporate Priorities.

The Council manages the risk of any loan and guarantee by ensuring that total exposure is proportionate to the Council's revenues and revenue reserves to ensure that there is adequate cover in the event of a default or call on the guarantee.

Where service loans are made, or loan facilities agreed, the total exposure will be limited to the funding approved for this purpose in advance by the Council's Cabinet. The risk of liabilities crystallising and requiring payment is monitored by the service department and financial services.

The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority and this will be determined by the Director of Corporate Services as necessary on a case by case basis.

The Council only includes debt taken on formal loan terms in the figures below. It excludes monies owed as part of its normal operational activities, for example trade debtors, monies owed for other operational purposes, such as Council Tax and Business rates arrears, and monies owned under leasing agreements.

Table 13: Loans for service purposes in £ millions

Category of borrower	**31.3.2021 actual**		
	Balance owing	**Loss allowance**	**Net figure in accounts**
Service suppliers and contracts	0.00	0.00	0.00
Local Businesses	0.00	0.00	0.00
Housing (Rent deposits)	0.05	(0.05)	0.00
Local residents (Housing Renewal Loans)	0.22	0.00	0.22
Employees (Car loans)	0.21	0.00	0.21
Other organisations	0.00	0.00	0.00
TOTAL	**0.48**	**(0.05)**	**0.43**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Loan Commitments and Guarantees

The Authority has guaranteed the possible pension liabilities associated with TUPE and other transfers of staff from public to private sector where staff have remained within the Local Government Pension Scheme (LGPS). The provision of this guarantee was a requirement of the LGPS administering body and the risk is mitigated by a bond which is intended to cover all but the most extreme likely financial exposure.

The decision to provide any loan or guarantee will be determined in accordance with the governance arrangements established by the Council's Constitution.

Proportionality

Income from non-Treasury investments is expected to remain below 10% of the Council's net cost of services.

The Council currently builds the following sources of income from investments into its base budget as these sources of income have demonstrated an ability to provide a constant, predicable return over the medium term. The figures are presented here are a proportion of net cost of Council services.

Table 14: Proportionality of Investments (£m)

	2020/21 Actual	**2021/22 Forecast**	**2022/23 Budget**
Investment income (£m)	0.85	0.90	0.90
Net Cost of Services (£m)	20.49	31.18	21.00
Proportion	4.3%	2.8%	4.3%

Investment income is net of direct costs but before changes in fair value (ie; net operating surplus). Net Cost of Services is as presented in the Council's annual financial statements.

The budget net cost of services and forecast commercial income levels are not available at the date of writing this strategy. The net cost of services for 2021/22 included significant capital financing charges within the planning policy budget so an estimate of £21m has been used as a proxy for 2022/23. This is felt to be a reasonable estimate given the present budgetary intentions of the Council.

The Council does not project the net cost of services beyond the upcoming budget year and further work will be undertaken in 2022/23 on the methodology for this indicator to allow longer term projections should they be required by the CIPFA Code.

In setting this reporting threshold the Council does not intend for it to prevent the Council charging market rents or lending at market interest rates. If at any point this warning limit is exceeded, a report on the risk to the Council's overall revenue budget will be made to the Council's Corporate Governance and Audit Committee and to the Cabinet.

To mitigate the risk on front line services should commercial investments not achieve planned returns, the Council prepares its 5 year financial strategy in-line with a series of key principles. The key principles are set out in the Council's financial strategy and are available online via the published papers for the Council's Corporate Governance and Audit Committee and Cabinet.

In accordance with current DLUHC guidance, the Council may be asked to approve a revised strategy should the assumptions on which this report is based change significantly.

Non-Specified Investments

The Guidance defines non-specified investments as any non-treasury investment that does not meet the following criteria:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

The Council does not currently hold any non-specified investments.

If the need arises to make a non-specified investment, the investment will comply with limits both individually and cumulatively in table 15, below.

Table 15: Non-Specified Investment Limits

Limits (excluding Treasury Investments)	Cash limit (£m)
Total medium and long-term investments	20
Total investments without credit ratings or rated below A-	20
Total non-specified investments	30

For clarity, in accordance with paragraph 21 of the DLUHC Guidance these limits do NOT apply to Treasury Investments (which include external investments in pooled funds)

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Investment Risk

The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 16: Total investment exposure in £millions

Total investment exposure	31.03.2021 Actual (£m)	31.03.2022 Forecast (£m)	31.03.2023 Forecast (£m)
Treasury management investments	90.0	78.0	66.0
Service investments: Loans	0.48	-	-
Commercial investments: Property	13.70	-	-

It is not possible to forecast the market value of the Council's Treasury Management investments at a future date. The value will vary according to external factors including interest rates, economic activity levels and the value of equities, bonds and property.

The Council does not prepare a forecast for the fair values of service of commercial investments. Commercial Property values are prepared to inform the council's statement of accounts and are not available at the time of preparing this strategy.

Further work will be undertaken in 2022/23 on the methodology for the above indicators to allow longer term projections should they be required by the CIPFA Code.

Government guidance is that these indicators should include how investments are funded. Since the Authority is debt free, all the above investments have been funded from internally generated cash resources and reserves.

Rate of return received

This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 17: Investment rate of return

	31.03.2021 Actual %	31.03.2022 Forecast	31.03.2023 Forecast
Treasury management: • Internal Investments • External pooled Funds	 0.10 4.1	 0.30 4.1	 1.00 4.1
Service investments: Loans	n/a	n/a	n/a
Commercial investments: Property	6.2	6.5	6.5

Income estimates from table 14 have been used to project the rate of return for commercial investments based on a stable market value as at 31 March 2021 (table 16). No rate of return indicator is shown for service investments as they are not made to achieve a return on the investment but rather to support corporate aims and objectives.

Voluntary Indicators

In addition to the indicators prescribed above, the Council will use the voluntary measures set out below to measure its exposure to risk associated with non-treasury investments

Table 18: Non-Treasury investment risk indicators

Measure	Risk/ Measure	2020/21 Actual	2021/22 Forecast	2022/23 Forecast
Vacancy levels and tenant exposure	Monitoring vacancy levels (voids) to ensure the property portfolio is being managed productively.	16.33%	10%	10%
Exposure to credit default events for loans made	This will measure the Council's exposure to loss through default for non-treasury loans made to third parties.	Nil	Nil	Nil

Capacity, Skills and Culture

Both the Divisional Manager for Property & Growth and service manager are chartered surveyor and registered valuers. The Council's Investment protocol sets out the necessary acquisition procedure, including due diligence and requires the use of external advisors where necessary. This is supported by the Council's Constitution which also sets out process for considering/agreeing to any acquisitions

Reporting

For commercial investments, the Council's Corporate Governance and Audit Committee will receive reports on performance and risk each year in line with the requirement of DLUHC and CIPFA Guidance. For service investments, the reporting process will comply with the Council's Constitution on a case by case basis as determined by the relevant Service Director.

This summary has been provided by Arlingclose Ltd

Economic background

Underlying assumptions:

- The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit
- While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support
- Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher
- The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.
- Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled-down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.
- The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

Forecast:

- Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank's desire to move from emergency levels as by fears of inflationary pressure.
- Investors have priced in multiple rises in Bank Rate to 1% by 2024. While we believe Bank Rate will rise, it is by a lesser extent than expected by markets
- Gilt yields have risen sharply as investors factor in higher interest rate and inflation expectations. From here, we believe that gilt yields will be broadly steady, before falling as inflation decreases and market expectations fall into line with our forecast
- The risk around our forecasts for Bank Rate is to the upside over the next few months, shifting to the downside in the medium term. The risks around the gilt yield forecasts are initially broadly balanced, shifting to the downside later

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.15	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	-0.15	-0.15	-0.15	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
3-month money market ra													
Upside risk	0.10	0.15	0.20	0.20	0.30	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	0.10	0.15	0.35	0.40	0.45	0.60	0.65	0.65	0.60	0.60	0.60	0.60	0.60
Downside risk	0.00	-0.05	-0.25	-0.25	-0.30	-0.45	-0.50	-0.50	-0.45	-0.45	-0.45	-0.45	-0.45
5yr gilt yield													
Upside risk	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.65	0.65	0.65	0.65	0.65	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Downside risk	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
10yr gilt yield													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.05	1.05	1.05	1.05	1.05	1.05	1.00	0.95	0.95	0.95	0.90	0.90	0.90
Downside risk	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.30	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.40	1.40	1.40	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.30	1.30
Downside risk	-0.35	-0.40	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
50yr gilt yield													
Upside risk	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.30	1.30	1.30	1.30	1.25	1.25	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

PWLB certainty rate = relevant gilt yield + 0.80%

Update: Impact of COVID-19 Omicron variant

The uncertainty surrounding the new coronavirus variant and its effect on the UK economy and rates/yields is significant. Volatility is likely to remain heightened as investors assess the developments around Omicron.

Arlingclose already expected UK growth to wane over the next six months due to the effect of higher inflation and other pressures on households, and our forecast for Bank Rate was already lower than market expectations. The Omicron variant increases the risks to the downside and raises the spectre of other variants arising in the future.

Appendix 3 – Capital Strategy

Capital Strategy 2022-23 to 2026-27

Contents

Introduction

This capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local services and how associated risk is managed by the council.

This Capital strategy reflects the Council's capital investment and financing intentions in December 2021. Given the continuing economic uncertainties faced at present the position described within is very likely to evolve in line with the Council's ongoing pandemic response and development of its capital intentions.

Our Strategic Aims & Objectives

The Council's Corporate Plan was approved on 23 January 2018 and runs until 31 March 2022. An updated corporate plan is presently being considered for adoption early in 2022 covering the period 2022/2025. Until this plan is formally adopted, the Council's priorities remain:

- Improving the provision of and access to suitable housing;
- Supporting our communities;
- Managing our built and natural environments to promote and maintain a positive sense of place;
- Improving and support the local economy to enable appropriate local growth; and,
- Managing the council's finances prudently and effectively.

Each of these priorities is underpinned by several objectives, setting out what the Council aims to achieve. Below these objectives sit further, more specific, actions the council will undertake and, where appropriate, these are accompanied by specific, measurable targets.

Impact of COVID-19

As part of the Council's response to the COVID-19 pandemic four groups were established to have oversight of the delivery of the recovery action plans:

- Housing and Community
- Economic Recovery Group
- Planning, Health and Environmental Protection Recovery Group
- Organisational Recovery Group

The Leader, Chief Executive and the Director of Corporate Services provides oversight of the four groups, monitored progress and co-ordinated resources.

The Recovery Groups were short-term groups focused on the delivery of the Covid Recovery Actions Plans approved by Council. These groups fulfilled their purpose and came to an end in 2021, although the Economic Recovery Group was replaced by an Economic Development Panel formed to continue to oversee the longer term economic recovery actions necessary.

Approval process

The Council approves a capital programme on recommendation from the Council's Cabinet. This programme consists of significant projects that qualify as capital expenditure and a planned programme of scheduled asset replacements (ie; the Asset Replacement Programme or ARP).

The Council follows the following key principles in determining its capital priorities:

- All key decisions of the Council should relate back to the Corporate Plan
- The revenue budget and capital programme must remain balanced and sustainable over a rolling 5 year period.
- The Council will not use its reserves to fund ongoing services.
- Savings in the revenue budget or external funding are identified before any new revenue expenditure, including capital expenditure that has revenue consequences, or any reduction in planned income is approved.

Cabinet is responsible for the acquisition, management, maintenance and disposal or letting or all Council properties together with review and implementation of the Council's Asset Management plan and this Capital Strategy. The Director of Growth & Place has delegated authority to let, manage, repair and maintain properties.

The Directors of Corporate Services and Growth and Place are responsible for providing professional advice to Cabinet and Council in the discharge of these functions, with the Director of Corporate Services being responsible for making arrangements for raising and repaying loans as necessary and overall treasury management of funds until they are needed.

Supporting carbon reduction

Following the Declaration of a Climate Emergency in 2019, the Council has committed to working towards a carbon emissions reduction across the district of 10% year-on-year until 2025, supporting the national drive to deliver net zero carbon by 2050.

More about the Council's response to climate change can be found on the Council's website at https://www.chichester.gov.uk/climatechange

Our Assets

The Council's asset base at 31 March 2021 was

Total Assets £290m

Property, Plant & Equipment	Investment Property	Other Long Term Assets	Current Assets
£128m	£14m	£61m	£87m

Capital Programme

The Council's present capital intentions are summarised in Table 1

Table 1: Capital programme and major schemes 2021/22 to 2025/26

Capital Expenditure (£m)	2021/22	2022/23	Later	Total
Total approved spend **	34.9	9.3	15.2	59.4
Major schemes – approval by year				
Projects and Schemes				
Disabled Facilities Grants	3.0	1.4	4.0	8.4
St. James Industrial Estate - Refurbishment and Replacement of Units	7.2	-	-	7.2
Southern Gateway Project	4.1	-	-	4.1
Westgate Leisure Centre: Decarbonsiation	1.4	-	-	1.4
Freeland Close Redevelopment	2.5	-	-	2.5
Community led housing	0.7	0.4	-	1.1
Infrastructure Business Plan				
• School places	1.2	-	2.4	3.6
• Southern Gateway: 3G sports pitch	-	0.9	-	0.9
• Southern Gateway: road, pedestrian and public realm improvements	4.0	-	-	4.0

Capital Expenditure (£m)	2021/22	2022/23	Later	Total
• Westhampnett Waste transfer station and Household Waste recycling	0.3	2.2	-	2.5
• Early Years Places, Whitehouse Farm Development	-	-	2.1	2.1
Asset replacement programme				
• Vehicle Replacement	2.3	0.9	1.3	4.5
• Other asset replacements	3.2	0.3	2.6	6.1

*** 2021-25 programme - Autumn 2021*

Affordability

The Council recognises that, due to its nature, the capital programme is constantly changing, so the resource position is regularly updated and monitored to ensure that the programme remains affordable. The Council's resource projection at mid-November 2021 is shown below.

Table 2: Resources available to finance our Capital programme (£m)

Resources 2021/22 to 2025/26	Total
Reserves at April 2021	66.9
New Resources expected in period	
- Capital receipts	-
- Interest on Leases	1.1
- Interest on Investments	1.5
- Revenue contributions	7.5
- External income, including CIL	30.8
- New Hones Bonus 2021/22	1.5
- Lower tier support grant	0.1
Total Resources	109.4
Less commitments	
- Earmarked revenue funding	-26.4
- Minimum Reserves Provision	-4.0
- LEP Grant	-5.0
- COVID 19 Recovery	-8.0
- Other	-0.3
	-
Capital Programme	
- Approved capital projects	-48.8
- Current Asset replacements	-10.6
Available Uncommitted Resources	6.3

Tables 1 and 2, taken together demonstrate that the Council currently expects to be able to fully fund its approved capital and asset replacement programmes from existing and expected resources.

The main risk managed by the Council is that the expected resources shown in the table above will not be received or will be received significantly later than forecast. To mitigate this risk, in the above analysis the Council has not anticipated any income from capital receipts.

The receipt of capital resources is closely monitored by the Council's Finance and Estates teams and is regularly reported to the Portfolio holder and to Cabinet. An annual statement on resource projections against capital needs is included with the Council's financial strategy that is presented each year to full Council for approval.

An assessment is made by the Council's Financial Services Division of the best financing method for all major capital investments at the earliest stage of the proposal's development. Whilst the present intention is to remain debt free through this period, the Council will assess on a case by case basis what financing options exist and which represents the best value for money.

Guidance issued by the Government requires all Councils to be transparent where they plan to use capital receipts flexibility to part fund individual projects. As the Council currently makes significant revenue contributions to fund its capital programme, the Council presently does not intend to make use of this flexibility.

The Director and Corporate Services is satisfied that the proposed capital programme is prudent, affordable and sustainable and this is set out in more detail in the Council's 5 year financial strategy.

Managing our assets

To ensure that capital assets continue to be of long-term use, the Council has an asset management Plan (AMP) which provides the policy framework for the operational work of asset management, asset acquisition and disposal.

Asset Replacement

The Council recognises that it is not sufficient to simply provide for the initial purchase cost of capital assets. Investment in assets requires a long-term view to be taken of the cost of those assets across their entire lifespan.

The Council's revenue budget incorporates repairs and maintenance to council buildings, removing dependency on reserves to fund what is a recurring revenue cost. Commercial investments are let on fully repairing and insuring lease terms to protect the Council's assets.

Other lifecycle costs for all Council assets are forecast for 25 years and included in the Council's approved Asset Replacement Programme (ARP). An annual contribution from the Council's revenue budget to fund this programme is made equating to approximately one 25th of the projected total ARP cost.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account and where it is economical to borrow in advance of spend.

In managing these funds, the Council has adopted the following risk statement

> "The Council's priority is the security and liquidity of its Treasury investments in accordance with the priorities set out in the CIPFA Code. Whilst fundamentally risk averse, the Council accepts some modest degree of risk within the limits and counterparty restrictions set out in its Treasury Management and Investment Strategy."

This means that, when investing its surplus cash, the Council does not limit itself to making deposits only with the UK Government and local authorities, it can, and does, invest in other areas such as money market funds and tradable instruments such as corporate bonds and pooled funds. The duration of such investments is always carefully considered to limit that risk of them having to be sold (although they may be) prior to maturity, mitigating the risk of the capital sum being diminished through price movements.

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Corporate Services and staff, who must act in line with the treasury management strategy approved by Council. Half yearly on treasury management activity is presented to the Corporate Governance and Audit Committee and Cabinet.

Investments

Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management. The Council's business model for holding treasury investments is designated as 'hold to collect', in that that Council holds these financial assets to collect their contractual cash flows, rather than with a view to selling the assets to generate cash flows. However, there is no absolute requirement that financial assets are always held until their maturity in all circumstances.

The Council prioritise security and liquidity over yield in holding Treasury investments. That is, it focusses on minimising risk rather than maximising returns.

Cash that is likely to be spent in the near term is invested securely to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments can be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 3: Forecast treasury management investments in £m (31 March)

	2022	2023	2024	2025	2025
Near-term investments	41	29	30	28	30
Longer-term investments	37	37	37	37	37
TOTAL	78	66	67	65	67

These figures do not account for any delays in timing of capital payments. Delays generally increase the available cash balances temporarily above forecast levels.

Borrowing

The Council is currently debt-free and has no borrowing other than that which might occur as part of routine working capital management. Under the Council's current resource projections, there are no plans to borrow to finance new capital expenditure over the medium term.

Although our projections below incorporate some headroom for potential for borrowing should the need arise, funding options for major projects are assessed on a case by case basis by the Council's Financial Services Division. If any future projects are to be funded by borrowing, the project approval process will include the necessary actions to approve any necessary increase to these limits.

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each of the following three financial periods. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 4: Proposed Operational and authorised limits for borrowing (£M)

	2022/23	2023/24	2024/25	2025/26
Operational Boundary – borrowing	10	10	10	10
Operational Boundary– PFI and leases	2	3	3	3
Operational Boundary– total				

external debt	12	13	13	13
Authorised Limit – borrowing	20	20	20	20
Authorised Limit– PFI and leases	5	5	5	5
Authorised Limit– total external debt	25	25	25	25

Further details on borrowing are contained in the Council the treasury management strategy: http://www.chichester.gov.uk/article/24169/Treasury-Management-Strategy. The limits in this table are provisional until the 2022/23 strategy is approved by Full Council.

Liabilities

Decisions on incurring new discretionary liabilities are taken by Divisional Managers in consultation with Director of Corporate Services and within the limits established by the Council's Constitution and Treasury and Investment strategy. The risk of liabilities crystallising and requiring payment is monitored by financial services.

Further details on liabilities, contingent liabilities and guarantees are can be found in the Council's statement of accounts: http://www.chichester.gov.uk/statementofaccounts

Interest Rate Exposures

The Council is not exposed to risk associated with the maturity structure of borrowing, but recognises that its Treasury investments are subject to risk from movements in interest rates. The Council manages this risk by ensuring an appropriate mix of short term fixed and variable rate investments and a portfolio of external investments in pooled funds.

Impact on Council tax

Although capital expenditure is not charged directly to the revenue budget, a Minimum Revenue provision (MRP) is charged to revenue, offset by any investment income receivable. MRP charge is a set aside from council reserves to ensure that borrowing can be repaid when due and the overall net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

As the Council is, and expects to remain, debt free, the Council is not required to make a charge to revenue to finance debt (minimum revenue provision).

Further details on the revenue implications of capital expenditure are published with the Council's revenue budget which is considered each year by Cabinet and Full Council.

Service investments

The Council has made a very limited number of loans to assist local public services and residents, the majority for housing renewal purposes.

Some loans have been made to members of staff for transport purposes. Decisions on minor loans are made by the relevant service manager in consultation with the Director of Corporate Services.

The total value of loans made by the Council to external third parties is disclosed on the Council's annual statement of accounts, although some loans have been treated as capital expenditure in accordance with the Local Authorities (Capital Finance and Accounting) (England) Regulations.

Further details on service investments are within the Council's investment strategy, which is published with the Council's Treasury management strategy: http://www.chichester.gov.uk/article/24169/Treasury-Management-Strategy.

Commercial Activities

The Council's existing property portfolio generates income of approximately £3m million per year for the General Fund revenue account.

The majority of this income comes from properties held primarily to support the provision of local services, not to make a profit or for any appreciation in value. Examples of these activities include rents from industrial units, commercial ground leases, shops, offices and other lettings to sports, community and voluntary organisations.

Only a small proportion of the Council's built assets are held because rental income and/ or capital appreciation were substantial factors in the decision to acquire or hold them. These are classified as 'investment properties' and disclosed in the Council's statement of accounts. These assets generate around £1m per annum in income which is used to support font line services.

General capital investment in commercial property is likely to take three main forms.

- Freehold or Long Leasehold Purchases
- Commercial development of property with the Council retaining ownership and receiving rental income.
- Partnerships where another party undertakes the development and the Council (as landowner) receives a proportion of the rental value.

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

The Council has an approved investment opportunities protocol that gives priority to acquiring property in the Chichester District, albeit opportunities to acquire properties elsewhere are considered if a justifiable case exists for doing so.

The protocol also provides specific guidance on the enhanced scrutiny required, including:

- Acquisitions should be within the District Council's area, or sufficiently close by to be easily managed
- Priority is given to acquisitions which achieve a community or economic benefit and strengthen the local economy
- The acquisition provides an acceptable rate of return for the additional risk taken on, and will not increase the Council's ongoing revenue costs in the longer term
- Where necessary, specialist advisers are to be employed to provide advice and act for the Council

The Council aims to acquire land and property for the longer term (10 years or more) to reap the benefit of sustained rental income and anticipated capital appreciation.

There is a recognition that, in undertaking investments primarily for financial return, the Council needs to ensure that these decisions are subject to robust decision making and scrutiny as a result of the additional risk being taken on and the potential impact on the sustainability of the authority. The principal risk exposures in commercial property-based revenue strategy are:

- A downturn in the property market. This could lead to falling rents or higher vacancies, potentially meaning that the Council will need to find other sources of revenue, or reduce costs to balance its budgets. This scenario could also lead to falling property values, with a potential risk that the asset would be worth less than the purchase price.
- Government intervention to set limits on commercial activities. This would force the Council to react, which may be against the Council's long term interests.
- Lack of expertise in specialist areas, leading to poor acquisition decisions.

Investment purchases are evaluated using a scoring matrix approach, with a minimum score required of least 100 out of a maximum score of 168 (60th percentile). The score reflects, amongst other things, tenancy strength, tenure, occupiers lease length and repairing terms.

Decisions on commercial investments are made by Cabinet in line with the criteria and process set out in the Council's investment opportunities protocol.

For 2022/23 the Council has followed the recommendations of the Department for Levelling Up, Housing and Communities and included an indicator for the ratio of commercial income to net service expenditure in its investment strategy.

Further details on this and general risk management arrangements are contained in the Council's investment strategy and Treasury management strategy: http://www.chichester.gov.uk/article/24169/Treasury-Management-Strategy

Other long-term liabilities

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees do carry risks to the Council and as such, they are subject to separate risk mitigation procedures before they are entered into.

The only guarantees provided by the Council relate to possible pension liabilities associated with TUPE transfers of staff from public to private sector where staff have remained within the Local Government Pension Scheme.

In these circumstances the provision of a guarantee is a requirement of the Pension Fund. The financial risk of each guarantee is mitigated by a bond which is intended to cover all but the most extreme possible financial exposure.

Other than to cover mandatory requirement under the Local Government Pension Scheme, the Council does not expect to provide financial guarantees to, or on behalf of, any third party.

The Council has disclosed total long term liabilities of £10.3m in its last statement of accounts. The majority of this figure (£5.9m) relates to section 106 contributions which are fees paid by applicants seeking planning permission for the mitigation of the impact of new homes on the local community and infrastructure.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions and recommendations. The Divisional Manager for Property & Growth and the Valuation & Estates Manager are both chartered surveyors and registered valuers and who have significant post qualification experience

The Council currently employs Arlingclose Limited as Treasury Management advisors, and individual property consultants for cases where specialist property advice is required such as major development schemes. It has also elected where possible to be treated as a professional investor under the relevant financial regulations.

TREASURY MANAGEMENT PRACTICE NOTES

TMP 1 – RISK MANAGEMENT

General Statement

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

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

http://www.chichester.gov.uk/article/24169/Treasury-Management-Strategy

This document is integral to the Council's treasury management practices and all staff involved in treasury management activities should familiarise themselves with its contents.

Overall approach

The Council has adopted a set of locally tailored risk indicators that it feels provides a balanced picture of the following risk areas

- Security and credit risk
- Liquidity
- Maturity structure of borrowings
- Long term treasury management investments
- Exposure to market and economic risk

Each of these indicators is prescribed in the Council's annual Treasury and Investment Strategy and they will be monitored and reported in line with the procedures described in TMP6

[1] Credit and Counter party risk management

This risk is the risk of a third party failing to meet its contractual obligations (for example, to pay any investment money or interest back in full, on time)

Statutory guidance restricts the types of investments that local authorities can use and forms the structure of the Council's policy, which is contained in the Council's treasury management strategy.

The Council's key objective is to invest prudently, giving priority to security, then liquidity before yield.

The Council also has regard to the CIPFA publications Treasury Management in Public Services: Code of Practice and Cross-Sectoral Guidance Notes and the sector specific guidance; Guidance Notes for Local Authorities including Police Authorities and Fire Authorities.

The Council ensures that its counter party lists and limits;

- reflect a prudent attitude towards organisations with whom funds may be deposited, and
- limit its investment activities to the instruments, methods and techniques referred to in TMP4 and in the Council's Treasury Management Strategy, published at the link above.

The Council also maintains a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements. This is contained within the Council's Treasury management policy statement and approved each year by the Council.

Once the requirements of security, liquidity and yield are met, as a responsible investor, the Council will priortise investments with banks or institutions who are able to demonstrate a commitment to sustainability. A comply or explain approach will be used as determined in the annual treasury management strategy.

Monitoring Investment Counterparties

The assessment of credit worthiness or credit rating of investment counterparties will be monitored regularly.

The Council obtains credit rating information from its treasury advisers who monitor leading credit rating agencies and notify the Council of any changes in ratings as they occur. This includes and takes account of changes, ratings watches and rating outlooks as necessary.

The Council has established counterparty limits by sector and credit rating and compliance with these limits is reviewed before any investment decision is made.

In considering credit rating, the lowest rating issued by leading credit rating agencies is used, unless an investment-specific rating is available when this will be used.

The Council considers other possible sources of information available to assess the credit worthiness of counterparties. This includes information direct from brokers, news agencies and its treasury advisers monitoring the Credit Default Swaps (CDS) market.

On occasions ratings may be downgraded after an investment has been made, however, the criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest.

Any counterparty failing to meet the criteria or due to adverse information in the public domain, will be removed from the approved list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

[2] Liquidity Risk Management

This risk is the risk that cash will not be available when needed

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

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

To maintain flexibility and liquidity the Council determines a maximum amount of principal that can be invested for periods longer than 364 days and closely monitors known future cash demands. To ensure adequate liquidity is maintained, 'worst case' estimates of cash flows are used when considering the Council's medium term investment position.

The Council has also set an operational boundary for external debt that can be used on a short term basis for daily cash management purposes

[3] Interest rate risk management

This risk is the risk of fluctuations in interest rates creating unexpected and unbudgeted burdens on Council finances

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

The effects of varying levels of inflation, so far as they can be identified, will be controlled by the Council as an integral part of its strategy for managing its exposure to inflation.

It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, to create stability and certainty of costs and revenues, whilst retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.

To achieve this objective the following specific policies are followed:

- maintaining the Council's debt free position and undertake no new borrowing unless the business case is proven for 'invest to save' projects
- retaining an appropriate minimum level of reserves in order to maintain flexibility in the use of interest earned from deposits
- lending surplus funds only to approved counterparties as specified by the Council's Treasury Management Strategy
- minimising short term borrowing by efficient cash flow management
- ensuring that the use of any hedging tools such as derivatives are only used for the management of risk and prudent management of the financial affairs of the council, as set out in the Council's Treasury Management Strategy

[4] Exchange rate Risk Management

The Council does not invest in foreign denominations but does occasionally make payments to foreign suppliers. In so doing we will manage our exposure to fluctuations in exchange rates to minimise any detrimental impact on budgeted income expenditure levels.

Any large contracts let by the Council must be denominated in £Sterling and the Section 151 Officer consulted on any proposed departure from this policy.

[5] Refinancing risk management

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

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

[6] Legal and regulatory risk management

The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements.

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

The Council manages the risk of 'Bail-in' by limiting its exposure to unsecured deposits and also by specifying counterparty investment limits. See TMP4 for further information.

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

[7] Fraud error and corruption, and contingency management

The Council ensures that it has identified the circumstances that may expose it to the loss through fraud, error, corruption or other eventualities in its treasury management dealings. It employs suitable systems and procedures and maintains effective contingency management arrangements, to these ends.

The Council's treasury management system is considered sufficiently resilient to contingencies as it is a hosted solution operated by Logotech. Data is backed up to off-site servers operated by the software supplier.

The Council has a business continuity plan and key functions, including cash management and payments are included in that plan

[8] Fair value risk management

The Council is able to invest in variable Net Asset Value Instruments, or instruments that are revalued to Fair Value each accounting period, subject to the risk management provisions below

For the main classes of such instrument, the risk to security of the principal sum involved are managed as follows

Investment	Risk	Mitigating actions and risk management
Money Market Funds	These funds are likely to be Low Volatility Net Asset value funds	Exposure is limited by restrictions on the total invested in any single Money Market fund
External Pooled funds, including the Local Authority Property Fund	We may incur a loss to the Council's General fund balances if the Fair Value of these investments falls	The Council's investment in external pooled funds (including the Local Authority Property Fund) is limited by the Council's annual Treasury strategy. The Council carefully selects mixed asset and diversified funds to reduce the potential for volatility of capital values. The potential exposure to movements in fair values is considered in determining the adequacy of the Council's revenue reserves and a Treasury indicator has been prepared to monitor this.

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Appendix 5 – Treasury Management Glossary (updated December 2020)

Authorised Limit (Also known as the Affordable Limit)	A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).
Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bail - in Risk	Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon. A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.
Bank of England	The central bank of the UK
Bank Rate	The official interest rate set by the Bank of England’s Monetary Policy Committee and what is generally termed at the “base rate”.
Basis Point	A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in **interest rates** and **bond yields**. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%. In the bond market, a basis point is used to refer to the yield that a bond pays to the investor. For example, if a bond yield moves from 5.45% to 5.65%, it is said to have risen by 20 basis points. The usage of the basis point measure is primarily used in respect to yields and interest rates, but it may also be used to refer to the percentage change in the value of an asset such as a stock.
Bill	A certificate of short-term debt issued by a company, government or other institution, tradable on the financial market
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.

Call Account	A deposit account that can be called back (repayment requested), normally on an instant basis
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR)	The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council’s underlying borrowing need.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Certainty Rate	The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.
CD’s	Certificates of Deposits with banks and building societies
Capital Receipts	Money obtained on the sale of a capital asset.
Capital Strategy	An annual report required by the Prudential Code that sets out a local authority’s high level plans for capital expenditure, debt and investments and its prudential indicators for the forthcoming financial year.
Cash Plus fund	A collective investment scheme similar to a money market fund but with a longer duration (around 6 months)
CIPFA	The Chartered Institute of Public Finance and Accountancy – the professional body for accountants working in the public sector. CIPFA also sets various standards for Local Government
Collective Investment Scheme	Scheme in which multiple investors collectively hold units or shores. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are often referred to as ‘pooled funds’)
Commercial Investment	An investment whose primary purpose is generating income, such as investment property.
Constant Net Asset Value (CNAV)	These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Counterparty List	List of approved financial institutions with which the Council can place investments with.
Covered Bond	Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."
CPI	Consumer Price Index – the UK's main measure of inflation
Credit Rating:	An indicator of how likely a borrower is able to repay a loan. The higher the rating, the more likely a borrower will be able to meet their debt obligations
Debt Management Office (DMO)	The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the **DMADF**. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign credit rating.
Department for Levelling Up, Housing and Communities (DLUHC)	The DLUHC is the UK Government Ministry for Levelling up, Housing, Communities and Local Government in England. Previously this was the Ministry for Housing, Communities and Local Government (MHCLG) and references to either within the strategies are interchangeable for most purposes.
Diversification /diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
ESG	Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments.
European Investment Bank (EIB)	The European Investment Bank is the European Union's non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a "policy driven bank" whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion
Fair Value	Fair value is defined as a sale price agreed to by a willing buyer and seller, assuming both parties enter the transaction freely. Many investments have a fair value determined by a market where the security is traded.
Federal Reserve	The US central bank. (Often referred to as "the Fed").
Floating rate notes (FRNs)	Floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three-

	month Treasury bill or the three-month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.
FTSE 100 Index	The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK company law.
General Fund	This includes most of the day-to-day spending and income of the Council
Gilts	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Gross Domestic Product (GDP)	Gross Domestic Product measures the value of goods and services produced with in a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy
Liability Benchmark	The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance
Liquidity	The degree to which how quickly an asset can be bought or sold without impacting its price.
IFRS	International Financial Reporting Standards.
LIBOR	The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.
Maturity	The date when an investment or borrowing is repaid.
Maturity Structure / Profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by quarter or month-by-month basis.
MIFID2	MiFID II is a legislative framework instituted by the European Union (EU) to regulate financial markets in the bloc and improve protections for investors. The FRC operates UK procedures equivalent to EU Regulations following withdrawal from the EU.
Minimum Revenue Provision (MRP)	An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.
Money Market Funds (MMF)	An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied

	by modest dividends. • **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/$1 and calculate their price to two decimal places known as "penny rounding". • **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received • **Low Volatility NAV (LVNAV)** funds. LVNAV MMFs are permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the fund does not deviate from the dealing NAV by more than 20 basis points.
Multilateral Development Banks	See Supranational Bonds below.
Municipal Bonds Agency	An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.
Operational Boundary	This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.
Pooled Funds	A pooled investment is an investment in a large, professionally managed portfolio of assets with many other investors. As a result of this, the risk is reduced due to the wider spread of investments in the portfolio. See also 'collective investments'.
Property	Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.
Prudential Code	Developed by CIPFA and first introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators
Public Works Loans Board (PWLB)	This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The

	PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
REIT	Real estate Investment Trust – a company whose main activity is owning investment property and is therefore similar to a property fund in many respects
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
RPI	Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.
Risk	The likelihood of incurring a loss from an investment. All investments carry some risk but some are more risky than others. This is closely linked to the CIPFA requirement of security.
(Short) Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (Interest) with maturity durations of less than 365 days
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called **multilateral development banks**). The bonds carry an AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
Treasury (T) -Bills	Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have an AAA-rating.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services, initially published in 2003, subsequently updated in 2017
Treasury Management Practices (TMP)	Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.
UNEFI	United Nations Environment Programme Finance Initiative (UNEFI) is a partnership between the United nations Environment Programme and the global financial sector to mobilize private sector finance for sustainable development
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Variable Net Asset Value (VNAV)	Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The

	NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.
Yield	In general terms, yield is the income return on an investment and usually expressed as an annual percentage.

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Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE

10 January 2022

Progress Report – Update on Audit Plan 2021-22

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 audit plan for 2021-22.

3. Update on Audit Plan 2021/22

3.1. The audit plan agreed by committee on 22nd March 2021 comprises 26 full audits and 3 follow-ups. There is contingency time in the plan in the event that in-year follow-ups also need to be carried out should the exceptions raised be significantly concerning and require addressing by the client as a matter of urgency

3.2. As at 10th January 2022, 9 audit reports have been issued as final (31%) and 6 audits are work in progress (21%).

3.3. The audit reports issued as final since the last committee meeting are:

- Rent in Advance/Deposit Guarantee
- Use of B & B accommodation
- Parks Inspection and Monitoring
- Credit card usage follow-up (position statement)
- Loan of IT equipment to staff (position statement)
- Corporate Debt Recovery follow-up (position statement)

3.4. Results of the audits are contained in appendix one. There have been no audits given a ‘No Assurance’ rating and no critical exceptions have been raised.

4. Background

4.1. Not Applicable

5. Outcomes to be Achieved

5.1. Not Applicable

6. Proposal

6.1. Not Applicable

7. Alternatives Considered

7.1. Not Applicable

8. Resource and Legal Implications

8.1. Not Applicable

9. Consultation

9.1. Not Applicable

10. Community Impact and Corporate Risks

10.1. Not Applicable

11. Other Implications

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

12. Appendices

12.1. Appendix 1 - Audits completed since the last committee report.

12.2. Appendix 2 - Rent in Advance/Deposit Guarantee audit report.

12.3. Appendix 3 - Use of B & B accommodation audit report.

12.4. Appendix 4 - Credit card usage follow-up position statement.

12.5. Appendix 5 - Loan of IT equipment to staff position statement.

12.6. Appendix 6 - Corporate Debt Recovery follow-up position statement.

13. Background Papers

13.1 None

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Audits completed since the last Committee meeting (25th October 2021)

Audit title	Critical Risk	High Risk	Medium Risk	Low Risk	Total no of Exceptions	Overall Assurance level	Summary
Rent in Advance/Deposit Guarantee	0	1	7	1	9	**Limited**	1 high risk exception, 7 medium risk exceptions and 1 low risk exception was raised as a result of the audit testing carried out during this audit. The high risk exception related to information recorded for guaranteed deposits and that there is no full record of the total financial exposure to CDC. Please see the full report for further details of this and the other exceptions raised.
Use of B&B accommodation	0	2	1	2	5	**Limited**	2 high risk exceptions, 1 medium risk exception and 2 low risk exceptions were raised as a result of the audit testing carried out during this audit. The high risk exceptions related to: • Recording of decision making for placements • Payment for placements and lack of debt recovery. Please see the full report for further details of these and the other exceptions raised.
Parks – Inspection and Monitoring	0	0	2	4	6	**Reasonable**	2 medium risk exceptions were raised relating to: • The defect identification process • Following defects through from the inspection report to the defect tracker and completeness of defect tracker

Audit title	Critical Risk	High Risk	Medium Risk	Low Risk	Total no of Exceptions	Overall Assurance level	Summary
							4 low risk exceptions were raised relating to: • The signing of inspection records • The timeliness of park inspections • The availability of inspection records • The comprehensiveness of the Council's Retention Scheme and awareness of it

Rent in Advance/Deposit Guarantee audit 2021/2022

FINAL REPORT

Louise Northcott

3rd December 2021

Distribution List: Louise Rudziak (Director for Housing and Communities), Kerry Standing (Divisional Manager), Ivan Western (Housing Delivery Manager), Mark Hughes (Accommodation Services Manager), Chris Dixon (Acting Housing Options Manager)

Contents **Page**

1) Executive Summary
i) Introduction

This audit was carried out as part of the agreed audit plan for the 2021/22 financial year. Audit testing has been restricted to areas that have been assessed as high risk by Internal Audit.

For the period January 2020 to the beginning of June 2021 the total amount for Rent in Advance payments was £17,627.10.

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

- There is an overarching strategy covering the aims and objectives of providing the Rent in Advance/Deposit Guarantee scheme;
- Information regarding the scheme is accessible to those with a housing need or landlords wishing to join the scheme;
- Up to date policies and procedures exist and have been circulated to key staff. Procedures are complied with, including:
    - Only clients that have been referred by the Housing Advice Team are given assistance with securing private rented accommodation;
    - A list of all clients needing properties is maintained, and prioritised in order of need;
    - Homefinder applications are completed and on file for all clients who have received a rent in advance payment or where a deposit guarantee is in place;
    - Clients are made aware that they are responsible for repaying the Council for any rent in advance payments or claims made against the deposit guarantee;
    - A record of all rent in advance payments made or deposit guarantee given is maintained;
    - A review of properties within the Chichester boundary is requested from Environmental Health;
    - An inventory check is carried out for CDC managed properties;
    - Payments are not made for deposit guarantee claims unless there is sufficient supporting evidence provided by the landlord;
- Regular budget monitoring is carried out and action taken to investigate overspends;
- All client information is held securely and backed up regularly;
- Performance of the Homefinder scheme is reviewed on a regular basis and reported to senior management or committee.

ii) Overall audit opinion

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

	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

iii) Summary of findings

Objective 1: There is an overarching strategy covering the aims and objectives of providing the Rent in Advance/Deposit Guarantee scheme – Reasonable Assurance

A medium risk exception has been raised as a result of testing carried out for this objective.

In 2012 CDC set up an internal private rental sector lettings agency called Homefinder. The Homefinder scheme encompasses Rent in Advance/Deposit Guarantee (RIA/DG) and the overall aim of the scheme was to "increase the supply of private rented sector accommodation sufficient to meet both the current demand, as well as the additional properties that will be required to enable CDC to discharge its homeless duty into the private rented sector once the Localism Bill has been enacted. This will help to significantly reduce homelessness in the district, reduce the considerable pressure on Westward House and minimise the need to use costly B&B accommodation". Although the overall aim of the scheme has been set out there are no actions detailed as to how this aim is to be achieved or specific key performance indicators (EX 1.1).

The Chichester District Housing Strategy 2020 - 2025 makes mention of the Homefinder scheme as a method of achieving the objective of 'helping to prevent homelessness through early intervention and support' but does not detail specific actions for the scheme.

Objective 2: Information regarding the scheme is accessible to those with a housing need or landlords wishing to join the scheme – Assurance

A low risk exception has been raised as a result of testing carried out for this objective.

A review was carried out of the CDC website and it was confirmed that there is adequate information for landlords as well as those with a housing need. There is a link to the tenancy deposit scheme and agreement on the website but the information is not fully up to date (EX 2.1).

Objective 3: Up to date policies and procedures exist and have been circulated to key staff and they are being complied with – Limited Assurance

1 high risk and 4 medium risk exceptions were raised as a result of testing under this area.

The Accommodation Services Manager (ASM) updated the Westward House and Homefinder (Lettings Agency) Operating Procedures in April 2021 to include the RIA/DG procedures. A copy of the updated procedures was obtained and a review confirmed this.

Under the Housing Act 1996 Part Vii there are a number of duties that are owed by Local Authorities to applicants. The key 3 duties are 1) Prevention duty, 2) Relief duty and 3) Main housing duty and an assessment has to be carried out to establish whether any duty is owed to the applicant. In total for 2020 and 2021 there were 21 clients who had received a RIA payment or had a deposit guarantee granted. Of the 21 tested, 5 applicants were owed a prevention duty, 14 were owed a relief duty and 1 was owed a main duty. For 1 applicant there was not a homeless file on the Home Connections Homelessness database so it was not possible to tell what duty was owed. However, it could be seen on the database that eligibility and homelessness was established.

Once eligibility for assistance has been established, the Housing Advice Team can refer the client to the Accommodation Services Team if they are in need of a RIA or deposit guarantee in order to be able to secure private rented accommodation. All referrals made to the Accommodation Services team for RIA/DG are recorded on a Homefinder spreadsheet.

Compliance with Operating Procedures

20 clients had received a RIA payment and 1 client had a deposit guarantee between January 2020 and 11th June 2021. Testing on all 21 cases was carried out on compliance with the Operating procedures once a referral has been received. The following issues were found:

- Contact made with new clients regarding securing Private Rented Accommodation is not always being recorded so it is not possible to tell if it within the 72 hours set out in the procedures (EX 3.1)
- A copy of the Homefinder application form was obtained. It was confirmed that this should be signed by the tenant(s), the SPRSO and the ASM. Discussions with the SPRSO confirmed that this part of the process has been overlooked and therefore application forms have not always been completed (EX 3.1)
- A signed agreement should be in place between CDC, the landlord and the tenant for each RIA payment made. This was found not to be the case for all clients tested. (EX 3.1)
- A review of each property (if within the CDC boundary) should be requested from Environmental Health. A review was not seen on file for all of the clients tested (EX 3.1)
- A standing order should be set up prior to the client moving into their property to enable the RIA payment to be repaid to CDC. Testing found that this was not the case for all 20 RIA cases reviewed (EX 3.1)
- All clients that have received a RIA payment should be set up in the housing system WRAPP and payments made allocated to their account. WRAPP accounts are not always being set up or are set up significantly after the payment has been made (EX 3.2)

Deposit claims

The RIA/DG agreement currently states that 'any claim submitted must be made within ten working days of the date of termination of the Tenancy or the Tenant's vacating of the property, whichever is the earlier'. The ASM confirmed that the 10 day deadline is not enforced as it is not really long enough. However, without a deadline it is not possible to tell when the Council's liability against any agreed DG has passed. Issues were found with lack of supporting information for testing carried out on a sample of claims paid out against deposits guaranteed (EX 3.3).

An issue was also identified relating to information around guaranteed deposits and the total amount of financial exposure CDC could be liable for. See EX 3.4 for full details.

Debt monitoring and recovery

Debt monitoring and recovery is carried out via WRAPP by a manual process unlike in Civica whereby letters are automatically generated when debts are not being repaid. This could be drain on resource that be used more effectively elsewhere in the team. See EX 3.5 for full details.

Objective 4: Regular budget monitoring is carried out and action taken to investigate overspends – Assurance

No exceptions were raised as a result of audit testing under this objective.

Budget reports were run in Civica for 2016/17 - 2020/21. An analysis of spend over the past 5 years found that there is a net underspend overall.

Objective 5: All client information is held securely and backed up regularly – Assurance

One medium risk exception was raised as a result of testing under this objective.

Discussions were held with the ICT Support Manager regarding the data backup procedures in place. The process appears to be robust with automated hourly snapshots of the s:drive and database server being taken Monday – Friday plus a weekly snapshot done every Friday that is backed up to tape. The tapes are taken offsite at the end of each Monday, usually by the ICT Manager.

In total the server holds 40 of the hourly snapshots and 5 of the weekly snapshots. When a new snapshot is created the server automatically deletes the oldest snapshot.

During the audit testing it became apparent that not all of the RIA/DG documentation has been scanned onto the system. See EX 5.1 for full details.

Objective 6: Performance of the Homefinder scheme is reviewed on a regular basis and reported to senior management or committee – Reasonable Assurance

A high risk exception was raised as a result of testing under this objective.

On 1/11/2011 Cabinet approved the new in-house lettings agency (Homefinder) with a review to be done after 18 months. The scheme officially came into force on 1/4/2012.

Testing of Cabinet minutes found that a review of the Homefinder scheme was carried out in October 2013 and July 2015. Both reviews concluded that the key objective had been met, namely to improve access to the private rented sector for households who are homeless or threatened with homelessness. A further review is due to be carried out in 2021/22.

It was confirmed by the Accommodation Services Manager that monthly debt reports are sent to the Director for Communities & Housing, the Housing Divisional Manager as well as to the Accommodation Services Manager and the Acting Housing Options Manager. A review of the reports found that they contain lists rather than any data analysis (EX 6.1).

Overall assurance level – **Limited Assurance**

1 high risk, 7 medium risk and 1 low risk exception was raised as a result of the audit testing carried out. Therefore Internal Audit can give Limited Assurance that the Rent in Advance/Deposit Guarantee processes followed are of low risk to the Authority.

Key for risk rating of exceptions:

Priority Level	Description
Critical Risk	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: ▪ The efficient and effective use of resources ▪ The safeguarding of assets ▪ The preparation of reliable financial and operational information ▪ Compliance with laws and regulations And corrective action needs to be taken immediately.
High Risk	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.
Medium Risk	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.
Low Risk - Improvement	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.

<table>
<tr><td colspan="2">EX 1.1 – Overarching strategy and objectives
Risk rating: Medium</td></tr>
<tr><td colspan="2">Findings</td></tr>
<tr><td colspan="2">There does not seem to be any document that sets out CDC’s strategy for RIA/DG or actions needed to achieve the objective of the scheme or key performance indicators, such as:
What marketing is to be done, how frequently or where would be the best place to undertake a marketing campaign
Targets for how many new landlords need to be taken on each quarter/half year/year</td></tr>
<tr><td colspan="2">Risks and consequences</td></tr>
<tr><td colspan="2">Without a clear strategy staff resource may be used ineffectively when they could be better used elsewhere in the Authority.

If it is not clear how the aim of the scheme is to be achieved then actions may be taken that do not progress the aim of increasing the supply of private rented accommodation.</td></tr>
<tr><td>Agreed action</td><td>Officer responsible and by when</td></tr>
<tr><td>Draft a revised policy document which sets out the objectives of the RIA/DG scheme This will be a succinct statement summarising:
Who the scheme is targeted at in what circumstances
How the scheme relates to other forms of assistance e.g. Discretionary Housing Payments
What the ‘offer’ looks like in terms of responsibilities of each of the respective parties
Establish targets for creation of new tenancies enabled by the provision of RIA/DGs
Marketing of the scheme will focus on efforts to persuade landlords to accept CDC referrals via the RIA scheme.</td><td>Private Rented Sector Officer to provide initial draft policy by 17/12/21
Targets to be agreed by Housing Solutions Manager and policy finalised by 1/1/22</td></tr>
</table>

EX 2.1 – Information on the CDC website **Risk rating: Low**	
Findings	
The CDC website has a link to the tenancy deposit scheme and agreement leaflet. The leaflet is dated June 2011 and some of the information included on this is out of date, such as the amount repayable per week by the tenant and the number of weeks rent the deposit guarantee covers. The link to the current Local Housing Allowance rates also does not work.	
Risks and consequences	
If information contained on the website is out of date then when clients are given the most up to date information this may impact on whether the client is able to use the scheme.	
Agreed action	**Officer responsible and by when**
• Remove the 2011 leaflet from the website. • Update text to reflect revised policy as agreed and referred to at 1.1 • Ensure that the information is kept up to date when there are any changes to the scheme	Private Rented Sector Officer - Immediate - 1 January 2022 and ongoing if changes are made

EX 3.1 – Compliance with procedures for client contact, completion of Homefinder application, EH review and standing order set up **Risk rating: Medium**
Findings
Compliance with the Operating Procedure for the sample of 20 RIA and 1 DG clients tested highlighted the following issues: • According to the Operating Procedures contact should be made with a client within 72 hours of referral. For 9 of the 21 cases contact made was not recorded by the SPRSO on his contact spreadsheet therefore it was not possible to tell if the contact was timely. • A Homefinder application form should be completed by all clients and signed by the tenant(s), the SPRSO and the ASM. For the 21 applicants tested there was only 1 Homefinder application form on file. The SPRSO confirmed that this part of the process has been overlooked and therefore application forms have not been completed. • When a RIA payment is made, an agreement is put in place which should be signed by CDC, the landlord and the tenant. For the 20 clients tested, 2 agreements were not on file and were being requested from the estate agency and 1 was not signed by the tenant. • Environmental Health should carry out a review for each property within the CDC boundary and confirm whether the property needs any work to be carried out before a tenancy can proceed. Accredited landlords do not need a separate EH review as this is covered as part of the accreditation process. Of the 21 applicants tested, 11 were in accredited properties and 3 were outside the CDC area. For the remaining 7 clients an EH review was seen on file for 5 properties. An EH review was not requested for 1 property and there was no review on file for 1 property. • A Standing Order should be in place between the client and CDC for all clients with an agreed RIA payment before they move in. 20 of the 21 clients tested had received a RIA payment. Checking in WRAPP found that a SO had been set up for 11 clients. For the other 9 clients, 2 clients did not have a RIA account set up in WRAPP, 1 debt is with Corporate Debt Recovery, 1 WRAPP account was delayed in being set up so no payments have been received yet, the SPRSO contacted 3 clients during the course of the audit about setting up a SO, and is contacting 2 other clients about getting a SO set up.

Risks and consequences	
If contact is not made in a timely manner then clients may become homeless before the authority has been able to provide assistance. This could result in them needing to be placed in Bed & Breakfast accommodation which is significantly more costly than using Westward House or private rented housing. If applications are not completed by clients then it is not possible to clearly demonstrate that clients are eligible for RIA/DG assistance. If agreements are not signed appropriately then clients may deny that they have agreed to pay the RIA payment back to the Council. If EH reviews are not requested or saved on file then CDC cannot demonstrate that an assessment has been carried out to confirm that the property is suitable for habitation. If standing orders are not set up or are delayed in being setting up then CDC cannot recoup the monies paid out in RIA payments and will result in loss of income to the Authority or delays in payments being repaid which could affect cash flow.	
Agreed action	**Officer responsible and by when**
• Full review of the RIA/procedures • Checklist for the placing of clients using the scheme • Weekly (visual) check that procedures are followed • Regular (visual) audit to assure paperwork is complete and scanned into the appropriate folder	Accommodation Services Manager • 17th December 2021 • 17th December 2021 • In place 17th December 2021 • In place 17th December 2021

EX3.2 – Compliance with procedures for setting up clients on WRAPP
Risk rating: Medium

Findings

Compliance with the Operating Procedure for the sample of 21 clients tested highlighted the following issues:

- 3 of the 21 clients did not have RIA accounts in WRAPP as at 13/8/21 with a value of £2,342.72 which is 13% of the total payment amount for 2020 and 2021 (to beginning of June) (£17,627.10).

- The number of working days between these 3 RIA payments being made in Civica and the date of testing (13/8/21) were 78, 226 and 366 days respectively.

- 2 other accounts were delayed in being set up by 82 and 97 working days.

The standing order form should have the WRAPP account reference number on it in order that payments received can be allocated to the correct account. Payments without a reference number may sit in the suspense account until it is possible to identify where the payment should be transferred to.

The Business Support Officer confirmed that a regular reconciliation is carried out between WRAPP and Civica which should pick up if there are any payments that have been made to clients where a WRAPP account hasn't been set up. Of the 5 accounts that either did not have a WRAPP account set up or the set up was delayed, 1 was paid in 19/20, 3 were paid in 20/21 and 1 was paid in 21/22.

The BSO took the reconciliation over at the beginning of 21/22. The 20/21 year end reconciliation only highlighted 1 of the 3 clients that did not have a WRAPP account. The BSO undertook an investigation of the differences between WRAPP and Civica and sent these over to the ASM on 26/4/21. As at the 20/8/21 these issues had not been fully resolved by the ASM or the SPRSO.

Risks and consequences

If accounts are not set up in WRAPP then there will be no record on the debt monitoring reports that a payment has been made to the client. This means that no debt monitoring or recovery will be possible.

Payments cannot be allocated if there is no WRAPP account in place. This could lead to items on the suspense account being

unresolved and use up significant officer time trying to resolve them.	
Agreed action	**Officer responsible and by when**
• Full review of the procedures	Accommodation Services Manager • 17th December 2021
• Meeting with all parties that feed into the current process to ensure procedures are followed.	Business Support Officer • 22nd November 2021
• Checklist for the placing of clients using the scheme to include robust method of passing information to the Business Support Officer	Business Support Officer • In place 22nd November 2021
• Weekly (visual) check that procedures are followed	Accommodation Services Manager • 17th November 2021
• Regular (visual) audit to assure paperwork is complete and scanned into the appropriate folder	Accommodation Services Manager • 17th November 2021

<table>
<tr><td colspan="2">EX 3.3 – Supporting evidence for deposit claims
Risk rating: Medium</td></tr>
<tr><td colspan="2">Findings</td></tr>
<tr><td colspan="2">A report was run from Civica for budget code S2601 for 20/21 (old code) and S2620 (new code) for 21/22. Claims are coded against detail code 04J03 so the expenditure for these codes was drilled down on and the 2 reports combined. There were 33 transactions on the report.

Testing was carried out on a sample of 5 claims to establish how promptly the claim had been made and that there was supporting evidence on file for the claim. For 1 of the claims the check-in inventory showing the condition of the property at the start of the tenancy was not on file. For 3 of the claims it was not possible to see an invoice to support the payments (with a total value of £1703.51)</td></tr>
<tr><td colspan="2">Risks and consequences</td></tr>
<tr><td colspan="2">If the check-in inventory is not on file then it is not possible to tell whether the damage was existing at the point that the tenant moved in or if the damage was caused by the tenant.

Without invoices to support payments then it is not possible to tell that work has been carried out by a contractor to rectify damage or that items have been purchased to replace broken/damaged items. This could mean that landlords are making unsubstantiated claims that they are not entitled to payments for.

This could lead to a financial impact if payments are made that should not be.</td></tr>
<tr><td>Agreed action</td><td>Officer responsible and by when</td></tr>
<tr><td>• Full review of the procedures

• Checklist for the processing of claims to include no claims to be paid until all supporting documentation (including the checklist) has been electronically saved in the claims folder.

• Regular reviews to assure paperwork is complete and scanned into the appropriate folder</td><td>Accommodation Services Manager 17 Dec 2021

Accommodation Services Manager 17 Dec 2021

Accommodation Services Manager</td></tr>
</table>

EX 3.4 – Financial Exposure for Guaranteed Deposits **Risk rating: High**	
Findings	
Guaranteed deposits are not recorded in WRAPP as no payment is made unless a legitimate claim is made by the landlord. Deposits that have been guaranteed are only recorded on the Homefinder spreadsheet. WRAPP is updated when tenancies have ended however the Homefinder spreadsheet does not have a column to record this. Therefore it is not possible to know easily when CDC's liability for paying out against a guaranteed deposit has ended. Tenancies can last for many years and CDC's liability to pay against a guaranteed deposit only ends once 10 days from the termination of tenancy or property vacation has passed. This means that CDC does not have a record of how much financial exposure it could have should all landlords claim the maximum possible against the guarantee. The Divisional Manager and the Accommodation Services Manager are aware of this fact.	
Risks and consequences	
If eligible landlords all claimed the maximum possible against the guaranteed deposit then this could have a serious financial impact on CDC's resources and this may result in reserves needing to be used that weren't forecast. This could lead to budget cuts across the Authority either relating to staffing or service provision.	
Agreed action	**Officer responsible and by when**
Carry out an analysis of outstanding DGs in order to form a realistic view of the potential risk of claims being made. Existing pattern suggests that: - Average length of tenancies is approx. 17 months - Very few claims are made for tenancies starting >5 years ago - So, risk mainly relates to outstanding DGs which granted from 2017 onwards. Establishing how many of these DGs relate to tenancies which are still current will provide an indication of potential exposure to future claims Going forward we will monitor the total potential exposure by recording this in an additional column on the Homefinder spread sheet.	Accommodation Services Manager 17/12/21

EX 3.5 – Debt monitoring and recovery process Risk rating: Medium	
Findings	
Debts are set up in the WRAPP system rather than Civica. The Business Support Officer runs monthly Tenant Account Listing reports from the system showing all accounts with unpaid debts on them. These are split by whether they are former or current debts. Unlike CIVICA the WRAPP system does not generate debt recovery letters automatically at set timescales; accounts have to be manually monitored and letters have to be written, printed and posted by the Business Support Officer. .	
Risks and consequences	
Using a manual process to monitor debts is more time intensive and there is also a risk that debts are overlooked when they should have been chased up. This is an ineffective use of staff resources and could lead to potential loss to the Council if debts are not chased up.	
Agreed action	**Officer responsible and by when**
Investigate the potential options for using Civica or improving functionality of WRAPP	Accommodation Services Manager/Housing Solutions Manager/Finance March 2022

EX 5.1 – Scanning of documentation **Risk rating: Medium**	
Findings	
Through testing it became apparent that not all documentation has been scanned onto the system. The SPRSO needed to look for the signed RIA/DG agreements at Westward House for 5 out of the 21 clients tested.	
Risks and consequences	
If Westward House became inaccessible then it would not be possible to access paper documents which could impact on service provision. If signed RIA/DG agreements are not available then the client could deny all knowledge of the requirement to repay the monies loaned. It may then be difficult to recoup monies and could lead to debts being written off, which impacts on CDC's finances.	
Agreed action	**Officer responsible and by when**
Ensure relevant documentation is scanned	PRSO 1st December

EX 6.1 – Debt monitoring information Risk rating: Medium	
Findings	
It was confirmed by the Accommodation Services Manager that monthly debt reports are sent to the Director for Communities & Housing, the Housing Divisional Manager as well as to the Accommodation Services Manager and the Acting Housing Options Manager. A review of the reports found that they contain lists rather than any data analysis such as month on month or year on year changes in debt levels, or collection rates of debts. The information is also not reported to the Corporate Governance and Audit Committee or any other committee.	
Risks and consequences	
Without any analysis of debt figures then the recipients of the information cannot tell whether the debt situation is improving or getting worse and taking action as necessary to address the situation such as taking on additional staffing for debt recovery. Unrecovered debts result in loss to the Authority and will impact on finances.	
Agreed action	**Officer responsible and by when**
Review financial reporting arrangements with a view to providing usable intelligence on the performance of this and other schemes	Housing Solutions Manager March 2022

Use of Bed and Breakfast Accommodation audit 2021/2022

FINAL REPORT

Louise Northcott

13th December 2021

Distribution List: Louise Rudziak (Director for Housing and Communities), Kerry Standing (Divisional Manager), Ivan Western (Housing Solution Manager), Chris Dixon (Acting Housing Options Manager)

Contents	**Page**

1) Executive Summary:

2) Exceptions raised

1) Executive Summary
i) Introduction

This audit was carried out as part of the agreed audit plan for the 2021/22 financial year. Audit testing has been restricted to areas that have been assessed as high risk by Internal Audit.

For the period January 2020 to the 6th August 2021 the total number of B&B placements was 178. The 2021/22 gross budget for B&B is £375,000 with spend for the first half of the year at £92,580.

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

- Up to date policies and procedures on client placement are in place, and staff are aware of them;
- Eligibility for accommodation has been assessed and placement decisions are documented and authorised;
- Invoices are checked for accuracy prior to payment and costs not covered by Housing Benefits are recouped from the client;
- Regular budget monitoring is carried out and action taken to investigate overspends;
- Regular reconciliations take place between WRAPP (Housing Tenant Rent System) and the general ledger (Civica Financials)

ii) Overall audit opinion

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

	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

iii) Summary of findings

Objective 1: Up to date policies and procedures on client placement are in place, and staff are aware of them – Limited Assurance

A high risk exception has been raised as a result of testing carried out for this objective. Findings from testing under objective 2 directly link to the objective 1 findings and have been merged into one exception (EX 2.1).

The Acting Housing Manager provided a copy of the B&B procedure checklist. He also provided a process listing the steps to be followed when placing a client. A review of the process found some gaps in terms of information recording for placements.

Objective 2: Eligibility for accommodation has been assessed and placement decisions are documented and authorised – Limited Assurance

1 high risk, 1 medium risk and 1 low risk exception was raised as a result of testing carried out for this objective.

A sample of 10 out of the 178 B&B placements was tested. The following issues were found:

- No evidence is maintained of whether best value has been obtained for the placement (EX 2.1)
- A Housing Advice Form should be completed by all clients needing housing assistance. A completed form was not found on file for all clients (EX 2.2)
- Eligibility to receive assistance in the UK should be assessed. Evidence to support this assessment was not found on file for all clients (EX 2.2)
- Once a Housing Advice Form has been received, the applicant should be contacted either within 7 days or that day if they are already homeless. It was not possible to evidence this in all cases (EX 2.2)
- Placements should only be made in accommodation with a current Fire Risk Assessment. This was not the case for all placements (EX 2.3)

Objective 3: Invoices are checked for accuracy prior to payment and costs not covered by Housing Benefits are recouped from the client – Limited Assurance

1 high risk exception (EX 3.1) was raised as a result of testing carried out for this objective.

Testing of the same sample found the following issues:

- A Housing Benefit claim should be completed by all clients being placed in B&B accommodation and progress of the claim should be monitored by the Housing Advice Officer. This could not be confirmed for all 10 clients.
- Clients are advised what they are to contribute to the placement by letter. Not all clients were found to have been informed of this.
- There does not appear to be any debt recovery action taken for clients that do not pay their expected contribution.

Objective 4: Regular budget monitoring is carried out and action taken to investigate overspends - Assurance

No exceptions were raised for this objective.

The Acting Housing Options Manager confirmed that there is no check of the budget situation before a placement is made. However, CDC has a duty under Housing Legislation to provide interim accommodation under the Housing Act 1996 until enquiries into the clients housing situation have been completed, therefore lack of budget cannot be a reason for not providing accommodation.

A review of expenditure against budget S2601 for the 5 year period 2016/17 to 2020/21 confirmed that for 4 of the 5 years an overspend had occurred. A discussion with the Group Accountant (Revenue & Capital) confirmed that budget setting for B&B is zero based and the budgets are based on current demand plus the budget manager's assessment of future increases or decreases that may be required. B&Bs are usually used where there is no availability at Westward House (unless placement at WWH is not appropriate) and is reactive. It is not possible to accurately forecast demand in any given financial year therefore the budget will never fully be in line with demand, leading to overspends.

With the opening of further Council run temporary accommodation planned for 2022/23 it is also expected that the requirement for B&B placements should diminish significantly.

Objective 5: Regular reconciliations take place between WRAPP and the general ledger - Assurance

A low risk exception was raised as a result of testing under this objective.

The Business Support Officer carries out regular reconciliations of WRAPP to Civica. A review of the reconciliation found that it was not possible to tell who had carried out the reconciliation or how often they have been done as they are not signed or dated.

Overall assurance level – **Limited Assurance**

2 high risk, 1 medium risk and 2 low risk exception was raised as a result of the audit testing carried out. Therefore Internal Audit can give Limited Assurance that the B&B processes followed are of low risk to the Authority.

Key for risk rating of exceptions:

Priority Level	Description
Critical Risk	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: ▪ The efficient and effective use of resources ▪ The safeguarding of assets ▪ The preparation of reliable financial and operational information ▪ Compliance with laws and regulations And corrective action needs to be taken immediately.
High Risk	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.
Medium Risk	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.
Low Risk - Improvement	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.

EX 2.1 – Procedures and recording of decision making Risk rating: High	
Findings	
The Acting Housing Manager provided a copy of the B&B procedure checklist. He also provided a process listing the steps to be followed when placing a client. There is nothing mentioned about recording information to show which B&Bs have been contacted and why the particular B&B has been used for the placement. For the sample of 10 placements tested, 9 did not have any information recorded on the Home Connections database or the s:drive to support why the clients had been placed there and whether any other B&B providers had been contacted to establish if they had any vacancies.	
Risks and consequences	
If there are no records of which B&Bs have been contacted and why the decision has been made to use a particular B&B then it is not possible to demonstrate whether best value has been obtained for the placement. This could impact on the Authorities finances if more costly placements are used where there could be more cost effective accommodation available.	
Agreed action	**Officer responsible and by when**
This is to be addressed via the checklist that has been introduced (see below). To include reasons for booking (which may just be 'only space available') and justification for using commercial placement as opposed to Westward House.	Acting Housing Options Manager (Chris Dixon): Immediate

EX 2.2 – Supporting information for placements Risk rating: Medium	
Findings	
For the sample of 10 placements tested a Housing Advice Form was found in the system for 9 of them. For the other placement the Home Connections database only contained information relating to a previous placement for that client. An initial assessment is carried out of the housing situation and eligibility for assistance. The same sample was tested to confirm that this had been assessed. For 1 of the 10 there was no documentation on file to confirm that the client was eligible for assistance in the UK. An email is sent to clients once a housing advice form has been received by the team. This states that contact will be made within 7 days or that same day if the client is already homeless. Testing of the same sample found that it was not possible to tell when contact had been made for 2 of the clients.	
Risks and consequences	
If there is insufficient assessment information on file then it may not be possible to evidence that a full and thorough assessment has been carried out and that the client is eligible to be accommodated. If clients are not contacted promptly then the Authority may not be able to demonstrate it is meeting its accommodation duty under the Housing Act 1996. These issues may impact on CDCs finances as well as its reputation.	
Agreed action	**Officer responsible and by when**
All B&B placements should have a Housing Advice Form (HAF). Interim accommodation duties usually only arise once a homeless application is made and the HAF is a precursor of this. There are very rare exceptions (e.g. out of hours B&B placements). A new placement process including an accountability-based checklist is being implemented. This will provide a double backstop to reduce missed actions (e.g., HAF) and ensure regular (at least fortnightly) review of progress. The aforementioned rare exceptions will have the safety net of a HAF needing to be completed after B&B placement to complete all checklist actions".	Acting Housing Options Manager (Chris Dixon): Immediate

EX 2.3 – Fire Risk Assessments for B&B accommodation **Risk rating: Low**	
Findings	
Legislation does not set out how frequently Fire Risk Assessments (FRA) should be carried out. The Regulatory Reform (Fire Safety) Order 2005 requires risk assessments to be kept up to date. If any changes to the property take place then it is a legal requirement that another fire risk assessment is undertaken. All properties, except 1, had provided an FRA dated within the last 3 years. All placements had been made in a property with an up to date FRA, except for placements at the Travelodge. The Acting Housing Options Manager confirmed that usage of the Travelodge is kept to a minimum A review of the total nights clients spent in Travelodge's for the period 1/1/20 to 6/8/20 found that only 534 of the total 8570 night were spent in Travelodge's (6%).	
Risks and consequences	
Without a copy of the Fire Risk Assessment then it is not possible to evidence that placements have been made in suitable accommodation.	
Agreed action	**Officer responsible and by when**
Obtain Fire Certification for the Chichester Travelodge Review position of all B&Bs in regular use.	Housing Solutions Manager (Ivan Western) 1/1/2022

EX3.1 – Payment for B&B placements and debt recovery **Risk rating: High**
Findings
The cost of the B&B placement should be covered by Housing Benefit it at all possible. Clients are informed that they are required to pay a weekly service charge for the elements of the placement that are not covered by Housing Benefits. For the same sample of 10 B&B placements testing found that: • There was no evidence for 1 placement that a HB claim had been made. • For 1 other placement the claimant was found to be ineligible as the required checks could not be made due to the claimant providing an incorrect national insurance number. These 2 claimants had not been invoiced for the cost of the accommodation provided. • There was no evidence that a letter regarding service charges had been sent to 1 of the clients. A discussion with the Acting Housing Options Manager confirmed that clients are not invoiced for their weekly service charge or any other accommodation costs not covered by Housing Benefit. Charges are added to their account in WRAPP. A review of the accounts confirmed that 6 of the 10 had not paid any service charges, 2 had made partial payments and 2 had paid in full. The total outstanding service charge for these clients is £1,616.86. The Acting Housing Options Manager stated that in most instances clients that do not pay their service charge are not chased to pay. A review of Civica confirmed that none of the 8 clients who hadn't fully paid their service charges had been invoiced for the outstanding debt. Debts are set up in the WRAPP system rather than Civica. The Business Support Officer runs monthly reports from the system (Tenant Account Listing) showing all accounts with unpaid debts on them. These are split by whether they are former or current debts. Unlike CIVICA the WRAPP system does not generate debt recovery letters automatically; accounts have to be manually monitored. Although the BSO runs the TAL reports there is no one chasing up outstanding debts.
Risks and consequences
If the costs of placements are not covered by Housing Benefits and clients then this will have an impact on CDC's finances. Lack of debt recovery will also impact on CDC's finances.

Agreed action	Officer responsible and by when
HB Claims must be made at time of placement wherever possible (see earlier comments on use of check list) Collecting debt from B&B service charge to be rolled into the BSO role at WH. Review charge currently being levied for non-eligible items, consider reduction to notional £10/£12 per week.	Acting Housing Options Manager (Chris Dixon) - immediate Accommodation Services Manager (Mark Hughes) 1/1/2022 Housing Solutions Manager (Ivan Western) 1/1/22

EX 5.1 – Completion of reconciliations **Risk rating: Low**	
Findings	
The BSO's reconciliation spreadsheet was reviewed. It was not possible to tell who had completed the reconciliations and when they had been carried out.	
Risks and consequences	
If the completed by section of the reconciliation is not filled out then it is not possible to tell whether it has been undertaken by an appropriate officer. If reconciliations are not completed in a timely manner then it may be harder to resolve discrepancies.	
Agreed action	**Officer responsible and by when**
BSO to sign and date reconciliations between WRAPP and Civica	Accommodation Services Manager 1/1/22

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Appendix 5

Internal Audit Position Statement

Loan of IT Equipment to Staff

Stephen James

Internal Audit & Corporate Investigations Manager

December 2021

1 Introduction

1.1 Staff were required to work from home, and consequently staff requested that certain items of IT were provided to enable to enable them to do so. At the time the Council had to demonstrate that it was satisfying a business need to enable staff to work from home.

2 Scope

2.1 A review was undertaken to ascertain how IT equipment loaned to staff due to the COVID lockdown was recorded.

3 Outcome

3.1 Initially spreadsheets were prepared to record items which had been taken home by staff, but these were not comprehensive.

3.2 Discussions were held with the ICT Development Manager, the records that are held do not fully reflect the position relating to items which have been taken by staff.

3.3 Staff have been required to work from home for approximately eighteen months. SLT made the decision that the equipment issued to staff be written off as a goodwill gesture to allow them to continue to work from home on a part-time basis.

3.4 No further work will be undertaken.

Internal Audit Position Statement

Corporate Debt Recovery

Louise Northcott
Senior Auditor
December 2021

1 Introduction

1.1 A Corporate Debt Recovery audit was undertaken in 2019/20. 6 high risk and 2 medium risk exceptions were raised during this audit. Initially this audit was planned to be followed up in the 2020/21 audit plan. However, with the restrictions on debt recovery put in place by Central Government due to the Covid pandemic the follow up was postponed until 2021/22.

2 Scope

2.1 A review of the current position was undertaken in December 2021 to establish the progress that had been made with the implementation of the exceptions raised in the initial audit.

3 Outcome

3.1 Discussions were held with the Debt Recovery Team Leader and the Income & Payments Manager to establish the current situation. Some progress has been made on the exceptions raised, namely:

- There are now up-to-date procedures in place for the Corporate Debt Recovery Team
- An SLA has put in place between the Corporate Debt Recovery Team and the key services (Housing, Licensing, Trade Waste, Environmental Protection and Estates)
- Currently a dashboard for debts is being tested in Civica which Divisional and Service Managers will be able to use to easily establish the debt information for their service and take action where required.

3.2 Limited debt recovery has been able to happen since March 2020 due to the Covid pandemic and restrictions on debt recovery put in place by Central Government. Therefore no real progress has been made on some of the exceptions raised.

3.3 A further follow up is planned to be undertaken in 2022/23 assuming debt recovery has fully resumed.

Chichester District Council

Corporate Governance and Audit Committee 10 January 2022

Appointment of External Auditors 2023/24 to 2027/28

1. Contacts

Report Author
Mark Catlow - Group Accountant, Financial Services
Telephone: 01243 521076 E-mail: mcatlow@chichester.gov.uk

2. Recommendation

That the Committee makes the following recommendations to Council on 25 January 2022:

2.1 That the Council accepts Public Sector Audit Appointments' invitation to opt into the sector-led option for the appointment of external auditors to principal local government and police bodies for five financial years from 1 April 2023; and,

2.2 Delegate authority to the Director of Corporate Services (S151 Officer) to sign the notice of acceptance of the invitation to opt in.

3 Background

3.1 Under the Local Audit and Accountability Act 2014, the Council has to appoint external auditors to complete audits from 2023/24 to 2027/28 following the end of the current audit contract. To opt into the national scheme the Council needs to return completed opt-in documents to Public Sector Audit Appointments Limited (PSAA) by 11 March 2022.

3.2 Up to this point the Council (along with 98% of all Councils) has chosen to opt-in to sector-led appointment arrangements conducted by Public Sector Audit Appointments Ltd (PSAA) as the 'appointing person' under the Local Audit and Accountability Act 2014 (the 2014 Act).

3.3 PSAA, a not for profit organisation set up by the Local Government Association (LGA) has been appointed as the appointed body for procuring external auditors under a national contract. They have invited the Council to opt-in to sector led procurement of local audit contracts from 2023/24.

3.4 Systemic problems with the framework for public sector external audit have been the subject of a number of recent reports, including the Redmond Review and there has been considerable criticism of how the present arrangements for local audit are operating.

3.5 Whilst they have reduced audit fees, they have not had an entirely positive effect on the local audit market and the quality of audit delivery under the new arrangements has been far weaker than under the previous Audit Commission regime. The Department for Levelling Up, Housing and Communities (DLUHC) in its capacity as interim system leader for local audit, has recently highlighted that an unprecedented 91% of 2020/21 local audits missed the statutory deadline of 30 September to issue the external auditor's opinion on the Council's financial statements. Chichester District Council was one of these.

3.6 Despite this, the Government's view remains is that PSAA remains the organisation best placed to act as the appointing body for the next round of auditor appointments. It has encouraged Councils to 'think carefully' before opting-out.

4 Future audit arrangements

4.1 For the reasons set out below, the recommendation of the Director of Corporate Services is that, despite misgivings over the quality and timeliness of services delivered under the last national framework, the Council should opt in to contractual process being led by PSAA:

a) collective procurement reduces costs for the sector and for individual authorities compared to a multiplicity of smaller local procurements;

b) if it does not use the national appointment arrangements, the Council will need to establish its own (or a joint) auditor panel with an independent chair and independent members to oversee a local auditor procurement and ongoing management of an audit contract;

c) it is the best opportunity to secure the appointment of a qualified, registered auditor - there are presently a very limited number of accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement; and,

d) Supporting the sector-led body offers the best way of ensuring there is a continuing and sustainable public audit market into the medium and long term.

4.2 It is therefore recommended that Audit and Governance Committee recommend to Council that the Council opts in to the national contract.

5 Alternatives Considered

5.1 The Council could appoint an auditor itself or jointly with other local Councils. The reasons for rejecting local audit appointment, either solely or as a joint exercise as are set out below.

5.2 It would mean establishing an independent auditor panel which must be wholly, or a majority of, independent members. Independent members cannot be current and former elected members (or officers) and their close families and friends.

5.3 Whilst setting up an auditor panel would allow the Council to take maximum advantage of the local appointment regime and have some local input to the decision, recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract may increase costs compared to the national appointment option.

5.4 It is not clear that by managing our own procurement we would be able to secure sufficient competitive bids. Auditors can only be appointed from a short list of auditor currently approved to perform local audits. The possibility that firms active in the local area could register with to perform local audits exists but the specialised nature and scope of Local audit is so different to a Companies Act audit that many firms will find the barrier to entry far too high.

5.5 One potential gain would be having some control over the Council's auditors. With self-appointment, the Council may be able to secure better commitment to delivery and local tailoring of audit approach from the auditors than has been seen in recent years but potentially at a cost. Alongside this, as the local audit approach is specified centrally, the reality is that there would be little opportunity to tailor audit coverage to local priorities other than at an additional cost to the Council.

6 Resource and Legal Implications

Resource implications

6.1 There is a very strong likelihood that current external audit fee levels will increase when the current contracts end. The scope of audit has increased, requiring more audit work alongside the well-publicised concerns about capacity and sustainability in the local audit market.

6.2 Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large scale collective procurement arrangement.

6.3 If the national scheme is not used some additional resource would be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional budget may be required for audit fees from 2023/24.

Legal Implications

6.4 Section 7 of the 2014 Act requires a relevant Council to appoint a local auditor to audit its accounts for a particular financial year not later than 31 December in the preceding year.

6.5 Section 12 of the 2014 Act makes provision for the failure to appoint a local auditor. The Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

6.6 It is a legal requirement under the 2014 Act that where a local Council is operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the Council.

7 **Consultation**

7.1 Not applicable

8 Community Impact and Corporate Risks

8.1 Not applicable

9 Other Implications

Are there any implications for the following?		
	Yes	No
Crime and Disorder The Council has a duty "to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area". Do the proposals in the report have any implications for increasing or reducing crime and disorder?		X
Biodiversity and Climate Change Mitigation Are there any implications for the mitigation of/adaptation to climate change or biodiversity issues? If in doubt, seek advice from the Environmental Strategy Unit (ESU).		X
Human Rights and Equality Impact You should complete an Equality Impact Assessment when developing new services, policies or projects or significantly changing existing ones. For more information, see Equalities FAQs and guidance on the intranet or contact Corporate Policy.		X
Safeguarding and Early Help The Council has a duty to cooperate with others to safeguard children and adults at risk. Do these proposals have any implication for either increasing or reducing the levels of risk to children or adults at risk? The Council has committed to dealing with issues at the earliest opportunity, do these proposals have any implication in reducing or increasing demand on Council services?		X
General Data Protection Regulations (GDPR) Does the subject of the report have significant implications for processing data likely to result in a high risk to the rights and freedoms of individuals? Processing that is likely to result in a high risk includes (but is not limited to): • systematic and extensive processing activities and where decisions that have legal effects – or similarly significant effects – on individuals. • large scale processing of special categories of data or personal data relation to criminal convictions or offences. • Any larger scale processing of personal data that affects a large number of individuals; and involves a high risk to rights and freedoms eg based on the sensitivity of the processing activity. • large scale, systematic monitoring of public areas (including by CCTV). Note - If a high risk is identified a Privacy Impact Assessment must be provided to the Data Protection Officer.		X

Health and Wellbeing The Council has made a commitment to 'help our communities be healthy and active'. You should consider both the positive and negative impacts of your proposal on the health and wellbeing of communities and individuals living and working in the district. Is your proposal likely to impact positively or negatively on certain groups and their ability to make healthy choices, for example low income families, carers, older people/children and young people. Are there implications that impact on areas of the district differently? eg the rural areas or those wards where health inequalities exist. If in doubt ask for advice from the Health and Wellbeing team.		**X**

10 Appendices

None

11 Background Papers

None

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Chichester District Council

CORPORATE GOVERNANCE **10 January 2021**

Governance Task and Finish Group

1. Contacts

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2. Recommendation

2.1 To note with thanks the external report from Professor Colin Copus and Mr John Lynch on governance at the District Council

2.2 To note the decision of Full Council to run a trial of evening meetings and to instruct officers to run a community survey in Summer 2022 to provide a wider assessment on meeting timings. To further note the advice that more meetings will be needed if a move to evening meetings is made, as well as other impacts set out in appendix two.

2.3 To note that the role of panels is to enable detailed consideration of matters so that recommendations can be made to committees.

2.4 To note that changes to the local government legislation will be required for any additional amendment as to how meetings are held remotely and that the Council has applied as flexible an approach to how meetings are held that the law allows.

2.5 To recommend to Full Council that any constitutional changes to local meeting practice enabled by future changes in the law are delegated to the Monitoring Officer in Consultation with the Chairman of Corporate Governance and the Leader of Council.

2.6 To note that by operation of the panel systems already operating the Council is in effect running a hybrid model of governance.

2.7 To recommend to Full Council that Council debate the preferred timing of meetings in November 2022 following the trial of evening meetings to inform

the annual committee date setting item for meetings implemented from May 2023.

2.8 To recommend to Full Council the creation of a further panel to provide members with a forum to discuss Housing and Community activity of the Council.

2.9 To carry out a full review of panels to build Consistency of approach between those panels and to clarify their role in making recommendations. This review to include consideration of whether each panel should meet in public or private session.

2.10 To recommend to Full Council that the Constitution be amended such that political balance be achieved across all four panels on the same basis as that applied towards all full committees.

2.11 To recommend to Full Council that all panels be chaired by a relevant cabinet member.

2.12 That Corporate Governance and Audit Committee
a) consider and establish new arrangements for questions to the Executive and how to improve visibility and frequency of this section of the Full Council agenda; and
b) recommend that questions to SLT be held every second meeting of Council as a separate session to that meeting.

2.13 To recommend to Full Council that the calendar for Business Routing Panel be amended such that it meets twice annually and that Panel Chairmen be added to the membership of those meetings.

2.14 To instruct the communications team to report on improvement methods of communication to members including consideration of a high level dashboard.

2.15 To require the monitoring officer to report annually on member training delivery to this Committee.

2.16 That this Committee revisit the subject of Governance and operation of panels in 2023.

3. Background

3.1 The Council is under a duty to manage its activity effectively through a proper system of governance. This report receives the recommendations from a task and finish group charged with reviewing those systems.

4. Outcomes to be Achieved

4.1 The foundation of the work of the Council is effective governance by members. This has to balance the needs of efficiency – such as making decisions quickly in response to its obligations – and transparency – the need for the public to see and understand the decision making and reasons for it.

4.2 Cllr Moss the leader of the opposition submitted a motion to Council in January 2021 to consider hybrid style of governance. This motion was agreed and Council directed for a review of the issue including structural changes which followed the review. That review was carried out through a task and finish group reporting to this Committee.

4.3 The task and finish group met three times, debating the subjects within its terms of reference actively and in detail. A broad input of political views was demonstrated in that debate.

4.4 Debate included the following:

- What makes an effective culture of governance in Chichester
- Communication
- The split between strategic and operational matters
- The process of cross party decision making in a diverse political present.
- Support to shadow cabinet members
- The balance between matching members skill sets to roles against the role of political balance.
- The role of business routing panel
- Resources for governance in a deficit reduction situation
- Evening meetings

4.5 The group saw and debated the conflict between swifter or more efficient decision making by a smaller group against the democratic duties of transparency and breadth of perspectives encouraged by wider participation in decision making. A consensus that not all decisions should be made in the same way was similarly achieved.

4.6 The experience of the pandemic showed the benefits of both approaches – the speed of Council response to the emergency and unforeseen elements by Cabinet and the recovery group more consensual working were both seen as having their place. Members debated the benefits of remote meetings as to transparency and indicated they were happy with the increase in open and accountable democracy they represented – whilst also noting the benefits of face to face meetings.

4.7 Broadly the legal requirements which apply to decisions which have to be made by particular bodies was noted and understood. Officers also advised on the requirements of financial and scrutiny functions and the need to ensure future governance continues to meet those legal obligations under the Executive decision regulations. The current restrictions upon remote meetings (temporarily suspended during the pandemic) are back in place and those again place outlines within which any changes have to be achieved.

4.8 The roles of different types of meetings were discussed and the differences were confirmed as being:

- Task and Finish Groups — To complete a single task making recommendations to a committee.
- Panels — To undertake broad assessment of strategy looking forward in particular broad areas.
- Sub Committees — To carry out quasi- judicial decision making

- Committees — To debate, consider evidence (including from panels and TFGs) and make decisions.

- Cabinet — To make final decisions within the Executive decision regulations, considering evidence (including from committees, panels and TFGs)

- Overview and Scrutiny — To provide the statutory scrutiny role in particular for Cabinet Decisions

- Full Council — To make decisions of policy and higher budget setting.

The need to maintain separation of these roles and to focus attention of each body upon its own activity and duties was discussed and understood by the Task and Finish Group.

4.9 Members of the Task and Finish Group considered the broad roles to be appropriate to the Council governance and effective decision needs. They agreed with previous points raised at full council that a full Committee model would be unsuitable to Chichester, and noted the views expressed by other councils who had undergone such changes regionally and in the CFGC rethinking council governance in coming to that view. The group took advice from Professor Copus on the existing model applied by this Council and noted that the use of panels was very much consistent with a “hybrid governance” model in carrying out in depth consideration of topics within their individual terms of reference enabling significant input and consideration of evidence by members, whilst retaining the final determinative role of Cabinet.

4.10 However, whilst members of the Group saw that the use of panels was an effective method for considering detail of areas of broad strategy they also noted the existing range of panels does not cover all activities of the Council. There was seen to be a need to cover the areas not addressed through the other panels (DPIP, Environment Panel, and the Economic Development Panel) and the Corporate Governance and Audit Committee, specifically Housing and Community functions. This was seen to be a way of promoting consensual working, enabling a broad input from all parties. There was however some variation in the manner of operation at each panel and the broadening to include an additional panel was felt to be timely to have a wider consideration including such elements as who should chair panels, how and when to introduce financial assessments, how to avoid an overlap with scrutiny review roles (or even compliment those roles).

4.11 Members of the group received reports on the statutory roles of a cabinet and the limitations of their decisions being passed to other committees. They received reports on how panels by their nature consider and recommend, do not decide.

4.12 The group debated whether there was scope to increase visibility of non- cabinet member involvement in decision making. They received advice from the Monitoring Officer as to the operation of the legal duties of officers to be non-political and in particular how that applied to press releases and social media. The use of panels, in particular where they are accessible to the public live or as recordings was seen to be a method to ensure public visibility of members active in debate and another reason to support effective panel activity and using the technology where allowed. The ability of political parties to issue their own publicity and the rights of press access to give independent scrutiny of member involvement were also noted. The officers also presented reports on the current legal limits of remote meetings for certain committees. The group expressed wishes that these be changed promptly if the law does change.

4.13 The group discussed political balance and received reports that political balance for particular panels was not established by law, but that Democratic services officers and the Monitoring Officer were very much aware of the political balance in setting memberships, discussing which members should be on panels with group leaders. Members indicated that they would like something more formal to be established. Members will need to further debate whether political balance alone is required or whether a skills-based membership has a higher priority. This element is referred back to Corporate Governance Committee.

4.14 There was much debate on the methods of members questioning the Executive. The constitutional system for Chichester is far more generous than that seen at other councils in the region but the issue of it being deferred frequently by the Chairman – with clear reasons or not – was seen as problematic. Options to improve this element of full Council are needed and the group wishes to recommend to this Committee that it carry out an options review for this, that review to be presented to full Council.

4.15 Members discussed what might be improved on the way in which they receive communicated information and expressed some support for change. The Task and Finish Group thought this an area which should be .

5. Proposal

5.1 The recommendations include all aspects of the proposal.

6. Alternatives Considered

6.1 The terms of the task and finish group excluded Committee structure. Otherwise the review covered all elements of governance.

7. Resource and Legal Implications

7.1 This report creates no immediate financial implications.

7.2 There are legal obligations under the Local Government Acts to have effective governance. This report works to enable this.

8. Consultation

8.1 Members were consulted through a survey and interview process run by Professor Colin Copus from the Association of Democratic Service Officers. He reported to the task and finish group as to the findings of that process as part of his report.

9. Community Impact and Corporate Risks

9.1 Members of the Task and Finish group repeatedly emphasised concerns that the governance of the Council be fit for purpose so that the public can have confidence in the process, understand the way decisions are made and participate actively as well as ensuring members themselves are visibly engaged and delivering their residents wishes in an evidence based manner. The recommendations are intended to enable these community impacts.

10. Other Implications

Are there any implications for the following? If you tick "Yes", list your impact assessment as a background paper in paragraph 13 and explain any major risks in paragraph 9		
	Yes	No
Crime and Disorder The Council has a duty "to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area". Do the proposals in the report have any implications for increasing or reducing crime and disorder?		X
Biodiversity and Climate Change Mitigation Are there any implications for the mitigation of/adaptation to climate change or biodiversity issues? If in doubt, seek advice from the Environmental Strategy Unit (ESU).		X
Human Rights and Equality Impact You should complete an Equality Impact Assessment when developing new services, policies or projects or significantly changing existing ones. For more information, see Equalities FAQs and guidance on the intranet or contact Corporate Policy.		X
Safeguarding and Early Help The Council has a duty to cooperate with others to safeguard children and adults at risk. Do these proposals have any implication for either increasing or reducing the levels of risk to children or adults at risk? The Council has committed to dealing with issues at the earliest opportunity, do these proposals have any implication in reducing or increasing demand on Council services?		X
General Data Protection Regulations (GDPR) Does the subject of the report have significant implications for processing data likely to result in a high risk to the rights and freedoms of individuals? Processing that is likely to result in a high risk includes (but is not limited to): • systematic and extensive processing activities and where decisions that have legal effects – or similarly significant effects – on individuals. • large scale processing of special categories of data or personal data relation to criminal convictions or offences. • Any larger scale processing of personal data that affects a large number of individuals; and involves a high risk to rights and freedoms e.g. based on the sensitivity of the processing activity. • large scale, systematic monitoring of public areas (including by CCTV). Note - If a high risk is identified a Privacy Impact Assessment must be provided to the Data Protection Officer.		X
Health and Wellbeing The Council has made a commitment to 'help our communities be healthy and active'. You should consider both the positive and negative impacts of your proposal on the health and wellbeing of communities and individuals living and working in the district. Is your proposal likely to impact positively or negatively on certain groups and their ability to make healthy choices, for example low income families, carers, older people/children and young people. Are there implications that impact on areas of the district differently? eg the rural areas or those wards where health inequalities exist. If in doubt ask for advice from the Health and Wellbeing team.		X
Other (please specify)		

11. Appendices

Appendix One – report from Colin Copus, Emeritus professor of Local Politics, De Montfort University.

Appendix Two – officer report to third meeting of the Task and Finish Group (December 2021)

Appendix Three – Officer's report on evening meeting costs and impacts.

12. Background Papers

Task and finish group meeting notes 21 October 2021

Task and finish group meeting notes 18 November 2021

Task and finish group meeting notes 13 December 2021

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Association of **Democratic Services** Officers

CHICHESTER DISTRICT COUNCIL

REVIEW OF GOVERNANCE

Introduction

Chichester District Borough Council commissioned ADSO to undertake a review of its governance model following a motion to full Council in January 2021 which resolved:

"To establish an Officers and Members Working Group to review the operational model of the Council. The Working Group shall review the Centre for Governance and Scrutiny's 'Rethinking Council Governance for the 20s' paper and consider how to:

- maximise councillor involvement in decision making
- build upon the experience of the Recovery Groups to promote consensual working
- offer continued financial acumen
- provide a strong role for scrutiny and governance
- ensure speed of decision making
- provide open and accountable democracy
- make the most of opportunities to work effectively with residents and local partners"

The aim is to report to Council in the 2021/22 Council Year with agreed recommendations to be introduced at the Councils 2022 Annual Meeting.

Recognising that a change from a "Leader and Cabinet" model of governance to a formal Committee system was complex, resource intensive and undesirable given Chichester's circumstances, the Working Group would make recommendations that could be introduced to deliver a "best of both worlds" Hybrid model.

The review was carried out by John Lynch, ADSO Finance Director and former Head of Democratic Services at four London Boroughs and a County Council and Colin Copus – Emeritus Professor of Local Politics, De Montfort University and Non-Executive Director ADSO, with support from officers at Chichester.

The Research

As part of the review of governance arrangements in Chichester the review team focused on the importance of members' perceptions and experiences of the current system, their views of its strengths and weaknesses and on ways in which they would want to see the system improved.

The research for the review consisted of eleven zoom interviews and a questionnaire sent to all members. Eleven interviews were conducted with members and twelve responses were received to the questionnaire. Given that three responses to the questionnaire were also interviewed the low response rate means that the best way of dealing with the data received is not to present tables setting out the responses to the questions, but rather to use that to enhance the findings of the qualitative research.

The Findings

Decision-making

The overall view expressed by members was that the existing governance system operated well and provided for quick decision-making and ease of identifying those responsible for decisions. It provided a focus for members seeking to understand the reasons decisions had been made and the logic and rational behind those decisions. The majority of members felt they were able to have an input to the decision-making process albeit not to the making of the final decision itself and often more through informal processes than through a formal forum.

It was clear from members' responses however, that it was a simpler process for members of the ruling group to have an input to decision-making than for members of other groups and there was some frustration among minority group members that their views were not fully heard in the decision-making process.

There was general agreement that the current system enables members to have access to and question officers through the decision-making process, although it was also felt that the views of members were not always reflected in the final decision made. Again, the distinction was clearly between members of the ruling group and those of other groups who felt less able to influence the cabinet and officers. Although overall the system did provide for good officer/member working relationships in the decision-making process.

Policy development

The views of members as to their opportunities to become involved in policy-making matched very closely views about decision-making and also reflected differences between majority group members and members from other groups. Examples of cross-party working were given and seen as positive aspects of the current system; such views mostly focused on the council's Recovery Groups. The meetings of the Recovery Groups were cited as examples were cross party and consensual working and policy development worked well.

The nature of the issue itself, which the Recovery Groups focused on were partly the reason for their success, as all members, irrespective of group, sought to address these vital issues in a way that was best for the area. The Recovery Groups may provide a model for any improvements to the current governance system as while they are not decision-making – they are an effective forum for members to use to shape the way the cabinet and officers made decisions.

Overview and Scrutiny were generally felt to be working well and to be an effective part of the governance system. But improvements to scrutiny's exploratory process and long-term policy development impact were signalled by some members who felt it lacked impact on the overall strategic direction of the council.

That the Recovery Group meetings were seen to be a more effective forum for member input to policy indicates that the subject matter and processes of scrutiny need to be refocused and the link to the cabinet and portfolio-holders clarified and developed so as to draw on the positive experiences of the Recovery Group meetings.

Transparency and Openness

Members reflected the often-found view among non-executive councillors that it was difficult for them to have an overview of what was happening on the council and why certain decisions were taken. There is nothing unique to Chichester District Council in the responses we received from members of both the ruling group and the minority groups and the distinctions between them. Members of the ruling group felt that the system was more open and transparent than members of the other groups, although, it must be stressed this is not a unique position for Chichester.

Overall members, across party require the governance system to have:

- clear points of responsibility among executive members and officers
- ease of access to those responsible for decisions
- ease of access to and availability of information for members
- opportunities to debate, critique, challenge and seek justification for decisions and polices
- an ability for decisions to be made and not unnecessarily delayed or hindered
- opportunities for all members to assess and comment on important decisions before they are made or to explore their effectiveness after they are made

Much of the above means that the existing governance system could be easily reformed to provide members with the openness and transparency felt necessary.

Member Engagement

In reporting members' attitudes to openness and transparency above, issues of member engagement have also been revealed. There is a general desire among members to be more aware of what is happening within the council and why and also to feel that their 'voice' is heard, and clear responses received. Much of the views expressed were requesting greater opportunities to debate issues and policy but also focused on technical issues such as the rules for asking questions or moving motions at council meetings and the response time to member queries.

The timing of meetings was raised with a clear difference of opinion of the need for meetings to take place in the evening or during the day. We know that that the council is already aware of the mixed and strength of feelings of members on the issue and that officers have been tasked with holding meetings at different times as a trial.

There was a strong recognition among members that the recent reduction in councillor numbers had produced problems for the governance system and while members want to be more fully engaged in policy, decisions and general awareness of the council and its activities there was no desire for this to be achieved by generating more meetings. Thus, there is a need to explore how information can be made available to members through different methods such as member briefing notes.

While there were some members who expressed a need to change the governance system and use a committee system, this view was not widespread. Indeed, there was little overall desire to change the governance system, even among those who felt more disengaged than others. What members are seeking are more opportunities to be engage, be informed and aware of council activities and to be able to influence or input to council decisions and policy.

It is clear that party politics, or group politics, has a bearing on the views members expressed and about levels of member engagement and two currents of opinion were detected from the research:

First, among majority group members who felt that council business, particularly full council meetings, had become more politicised since the elections and that there was now a more adversarial and less co-operative approach to interactions between the groups – especially in formal council settings.

Second, among the other groups on the council there was a feeling that they were excluded from information, processes of decision-making and that they lacked effective opportunities for debate and engagement or for energising action on issues and policy.

Again, these findings are not unusual across local government, and they do reflect the realities of party politics and inter-group politics. But they do indicate an issue of the political culture of the council which, if not changed, would continue to exist under any set of governance arrangements.

Findings Conclusions

While there is no general desire to change the system of governance within the council, there are frustrations among some members about the adequacy of the opportunities they have to engage, influence, understand and oversee the policies, decisions and activities of the council. While this view was mainly found among members outside of the ruling group there was broad agreement that the Recovery Groups provided a good example of how the council should operate in a more cross-party, deliberative, and investigatory process and that this process should be more prevalent in scrutiny.

While the differences in opinions received from members and satisfaction with and criticism of the current system often ran along group lines, the lack of desire for whole system change was also evident. Encouraging and facilitating cross party, policy-focused work does not require a governance system change, neither does providing members with greater opportunities to be aware of and engaged in council affairs.

Chichester: Options for Change

Introduction

It is important to recognise that as a well-run council with a strong reputation, any changes to be considered are building on a position of strength. Given that initial point, the research among councillors conducted for this review focused on the following aims of the council's overall review of the governance arrangements in operation:

- maximising councillor involvement in decision making
- building upon the experience of the Recovery Groups to promote consensual working
- providing a strong role for scrutiny and governance
- ensuring speed of decision making
- providing open and accountable democracy
- making the most of opportunities to work effectively with residents and local partners

These aims were the most appropriate and realistic for the research team to explore with councillors and they provided the basis of our questions to and discussions with members and the questionnaire that was circulated to members. Indeed, these aims were reflected very strongly, by members, in the research conducted by the ADSO team.

The ADSO team also employed in the research and drafting of this report the findings of the Centre for Governance and Scrutiny's (CfGS) report: Rethinking Governance for the 20s; the team also conducted research with other councils who had reviewed or were currently reviewing their governance arrangements to inform the report.

Context for the way Forward

It was clear from the research among members that there is no great desire for a root and branch reorganisation of the current governance arrangements and while it was the case that two members supported a committee system be adopted, this was not a wide spread view held among members.

The Centre for Governance and Scrutiny Report (referred to above) and ADSO's own research shows that there has been no great return across local government to a committee system and that currently some 74% of respondents to an ADSO survey operate a cabinet and leader system. What has been prevalent across local government is a willingness to review and revise the cabinet and leader system to make it more inclusive of all members' input and more responsive to member engagement and questions.

As the CfGS report and ADSOs own research shows councils which have adopted a hybrid system have in effect amended the cabinet and leader system which introduces an element of committee-based decision-making with ratification by the cabinet, which relies, of course, on that ratification being given. Hybrid systems may also create a series of overview and scrutiny committees related to specific policy areas. An ADSO survey found that hybrid systems are employed by only 1% of councils.

ADSO would be happy to describe some of these hybrid systems when they present their report to the Working Group.

It is clear from our research that Chichester members prefer to amend and improve the current system without a major change of governance arrangements and this approach has the advantage of incremental change and the ability to experiment with improvements to ensure the achievement of the six-bullet point aims above. It is possible to condense these aims into two clear points of focus for change for the council's governance arrangements:

- Deliberative and investigative input and debate for members into long-term strategic policy-making
- Member awareness of cabinet and other decisions being made

With this in mind and reflecting on the findings of the research section in this report the council has the following options for change:

1. Create a scrutiny committee directly linked to each cabinet portfolio to which each portfolio-holder would regularly and directly report, or:

2. Without creating a committee for each portfolio ensure that there is a clear link between each portfolio-holder and a regular scrutiny committee for reporting purposes

3. Building on the experiences of the Recovery Groups, Scrutiny Committees should reflect and operate on policy themed strategic investigations (or further use of task and finish groups) to conduct more and longer-term reviews of policy issues of relevance to Chichester. These reviews should be investigative, research and evidence based to encourage cross-party, collaborative working. Such reviews would not always focus on the 'council' rather on the issues of importance to the area and the role and work of external agencies and bodies, as indicated by the success of the Recovery Groups.
4. A separation of policy scrutiny from pre-decision scrutiny or decision scrutiny into different forum and events.
5. A continued and greater use of pre-decision scrutiny to provide input for members into the decision process and to help inform and support cabinet decision-making
6. Adequate space and opportunities at full council for scrutiny reports to be debated and their findings explored to engage all members
7. The research among members indicated that the council should consider a more detailed review of the structure and effectiveness of the scrutiny system with the aim of strengthening scrutiny and its value to member in policy development and cabinet accountability
8. The requirement for future motions to council to be fully costed should not fall on the individual members promoting motions, rather costings should be provided by officers for the member introducing the motion. It is particularly necessary to ensure the workload involved in this change does not fall on members who currently receive little support in developing and drafting motions. Indeed, such a requirement could be seen to be against the spirit of the aims of increasing member engagement and providing open and accountable democracy unless it is carefully structured and supported
9. To ensure members are fully aware of the decisions, actions and activities of the council, a member briefing system be introduced with regular briefing notes circulated to all members

The above changes are designed in the spirit of members' views expressed in the interviews and questionnaire to avoid a whole scale reorganisation of the governance system and the cost, time and upheaval that would entail. Rather, the suggestions are deliberately shaped to ensure minimal disruption to the system but support and generate greater member engagement and involvement.

Conclusion

The changes suggested above while presenting minor change will help to provide greater opportunities and forum for member engagement across the groups and for members to use their skills to support the council in its work.

Structural change, however, will only work if there is a change of political culture to support the new structures; otherwise, new structures are in danger of making little, if any, change.

The issue that was raised most and most intensely by the members that took part in our research related more to the political culture of the council and the nature interactions between the different groups than it did to structural issues.

All members, irrespective of their groups, are responsible for the political culture of any council and the effectiveness and nature of interactions between groups and individuals. Local politics and council politics in particular, are an emotive, value laden and principle-based set of interactions where tempers can fray, or political machinations take place and strength of feeling and passion around views is no bad thing and does have its place in council activities.

But a culture is required which provides for both political interaction and serious, collaborative policy making and cross-party strategic thinking without one damaging the other. The more opportunities for the latter the less likely are the former to damage relationships between members and officers and between members themselves. The changes we suggest above will help create that balance.

John Lynch and Professor Colin Copus
September 2021

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Officer Report to Governance Meeting

Recommendations

1) To note with thanks the external report from Professor Colin Copus and Mr John Lynch on governance at the District Council
2) To note the decision of Full Council to run a trial of evening meetings and that the Chairman of Corporate Governance Committee instruct officers to run a community survey in Summer 2022 to provide a wider assessment on meeting timings. To further note the advice that more meetings will be needed if a move to evening meetings is made, and the other impacts set out in the appendix to this report.
3) To note that by operation of the panels already operating the Council is in effect running a hybrid model of governance.
4) To note that the role of panels is to enable detailed consideration of matters so that recommendations can be made to committees.
5) To note that changes to the local government legislation will be required for any additional amendment to how meetings are held remotely and that the Council has applied as flexible an approach to how meetings are held that the law allows.
6) To recommend to CGAG that it recommend to Full Council that changes to local practice enabled by any future changes in the law are delegated to the Monitoring Officer in Consultation with the Chairman of Corporate Governance and the Leader of Council.
7) To recommend to CGAG that it recommends to Full Council that Council debate the preferred timing of meetings in November 2022 as an element of the annual committee date setting item for meetings implemented from May 2023.
8) To recommend to CGAG that it recommends to Full Council a further panel to provide members with a forum to discuss Housing and Community activity of the Council.
9) To recommend to CGAG that it carry out a review of panels to build consistency of approach between those panels and to clarify their role in making recommendations.
10) To recommend to CGAG that it recommends to Full Council that the Constitution be amended such that political balance be achieved across all four panels on the same basis as that applied towards all full Councils.
11) To recommend to CGAG that it recommends to Full Council that it instruct the strategic management team to establish new arrangements for questions to SLT and questions to the Executive to be held separate to meetings of Full Council.
12) To recommend to CGAG that it recommends to Full Council that committee and sub-committee meetings be held in person but that meeting of panels should typically be held remotely. That all meetings be recorded and made available to the public where permitted in law.

Background to the Recommendations

Members have debated over two sessions the matters within their terms of reference.

Independent, external advice has been provided by Professor Copus and Mr Lynch in their written report "Review of Governance" and Professor Copus went on to attend the first session of this task and finish group. The basis of their report and its objectives were set out in that report (appendix 2). The Task and Finish group also considered the current best advice on this subject from the Centre for Governance and Scrutiny, "Rethinking council governance for the 20s" – November 2020 edition.

Debate was detailed and the TFG has demonstrated its broad political balance.

The group were briefed on the work being done to trial evening meetings and endorsed that consideration.

The group saw and debated the conflict between swifter or more efficient decision making by a smaller group against the democratic duties of transparency and breadth of perspectives encouraged by wider participation in decision making. A consensus that not all decisions should be made in the same way was similarly achieved.

The experience of the pandemic showed the benefits of both approaches – the speed of Council response to the emergency and unforeseen elements by Cabinet and the recovery group more consensual working were both seen as having their place. Members debated the benefits of remote meetings as to transparency and indicated they were happy with the increase in open and accountable democracy they represented – whilst also noting the benefits of face to face meetings.

Broadly the legal requirements which apply to decisions which have to be made by particular bodies was noted and understood. Officers also advised on the requirements of financial and scrutiny functions and the need to ensure future governance continues to meet those legal obligations under the Executive decision regulations. The current restrictions upon remote meetings (temporarily suspended during the pandemic) are back in place and those again place outlines within which any changes have to be achieved.

The roles of different types of meetings were discussed and the differences were confirmed as being

Task and Finish Groups	To complete a single task making recommendations to a committee.
Panels	To undertake broad assessment of strategy looking forward in particular broad areas.
Sub Committees	To carry out quasi- judicial decision making
Committees	To debate, consider evidence (including from panels and TFGs) and make decisions.
Cabinet	To make decisions within the Executive decision regulations, considering evidence (including from committees, panels and TFGs)

Overview and Scrutiny	To provide the statutory scrutiny role in particular for Cabinet Decisions
Full Council	To make decisions of policy and higher budget setting.

Members of the Group considered the broad roles to be appropriate to the Council governance and effective decision needs. They agreed with previous points raised at full council that a full Committee model would be unsuitable to Chichester, and noted the views expressed by other councils who had undergone such changes regionally and in the CFGC rethinking council governance in coming to that view. The group took advice from Professor Copus on the existing model applied by this Council and noted that the use of panels was very much consistent with a "hybrid governance" model in carrying out in depth consideration of topics within their individual terms of reference.

However, whilst members of the Group saw that the use of panels was an effective method for considering detail of areas of broad strategy they also noted the existing range of panels does not cover all activities of the Council. There was seen to be a need to cover the areas not addressed through the other panels (DPIP, Environment panel) specifically Housing and Community functions. This was seen to be a way of promoting consensual working, enabling a broad input from all parties. There was however some variation in the manner of operation at each panel and the broadening to include an additional panel was felt to be timely to have a wider consideration including such elements as who should chair panels, how and when to introduce financial assessments, how to avoid an overlap with scrutiny review roles (or even compliment those roles). Whilst coming outside the scope of the task and finish group a recommendation to have CGAG review this area was felt appropriate.

Members of the group received reports on the statutory roles of a cabinet and the limitations of their decisions being passed to other committees. They received reports on how panels by their nature consider and recommend, do not decide.

The group debated whether there was scope to increase visibility of non- cabinet member involvement in decision making. They received advice from the Monitoring Officer as to the operation of the duties of officers to be non-political and in particular how that applied to press releases and social media. The use of panels, in particular where they are accessible to the public live or as recordings was seen to be a method to ensure public visibility of members active in debate and another reason to support effective panel activity and using the technology where allowed. The ability of political parties to issue their own publicity and the rights of press access to give independent scrutiny of member involvement were also noted. The officers also presented reports on the current legal limits of remote meetings for certain committees. The group expressed wishes that these be changed promptly if the law does change.

The group discussed political balance and received reports that political balance for particular panels was not established by law, but that Democratic services officers and the Monitoring Officer were very much aware of the political balance in setting memberships, discussing which members should be on panels with group leaders. Members indicated that they would like something more formal.

The Monitoring Officer recommends that an effective way to achieve that could be to amend the constitution such that the statutory balance calculations be carried out for panels in the same way that it is for committees. If done across all Panels this would result in a demonstrably fair and objective method of approaching balance more widely than on a panel by panel basis.

There was much debate on the methods of members questioning the Executive. The constitutional system for Chichester is far more generous than that seen at other councils in the region (see appendix 3) but the issue of it being deferred frequently by the Chairman – with clear reasons or not – was seen as problematic. Options to improve this element of full Council are needed and the group wishes SLT to carry out an options review for this, that review to be presented to full Council.

Appendix One

Data on possible Evening Committee Attendance for Governance Review

Background

Governance group and the Leader have asked me to look at meeting numbers so that an understanding of the impact upon Councillors can be developed. This report sets out data on meetings both historical and best estimates for going forward using comparison data from other local authorities as well as our own modern.gov held data on meetings and attendance.

To assist members in considering the data I am mostly describing attendance as "councillor attendances". By this I mean the number of members attending a meeting multiplied by the number of those meetings per annum. So if a meeting has 5 members required to attend, and it meets 10 times a year that would total 50 "Councillor attendances".

Data available

We are aware of the current intention to hold (in 2022) 28 formal meetings being -

14 Committees
14 Panels or forums

Of those 8 have variable number of meetings per annum and in some of those, they rarely meet (for example fast track grants panel, investigation and disciplinary). It is impossible to do more than guess some of them will be required, with most requiring 5 or 6 members to attend. I have set out comparison data at Table 1 listing attendance for these classes of meetings, and others which I will now also describe.

However of the consistently held meetings they would be 104 planned formal meetings requiring 1485 "Councillor attendances" per annum along with an additional number of unplanned meetings (such as appeal meetings or licensing sub- committee meetings) which on historic data in table 2 is likely to require about 1000 additional "Councillor attendances" at roughly 2500 "Councillor attendances".

I believe this to be an under estimate if moving to evening meetings in that some meetings are likely to extend beyond their current number of meetings because, for example, planning is unlikely to achieve its business in one session as it does when meetings are held in the day. My best guess is that the number of meetings is likely to be up to 150 meetings allowing for that, with an estimated requirement of 3000 "councillor attendances" per annum that is, an increase of about a sixth. It should be noted that this estimate is far lower than the Councillor attendances at Arun of over 5000.

I spent some time looking at Parishes (we have 68 in the district) it is simply impossible for me to say how many evening meetings they hold though on a short skim of a dozen parishes websites it is clear almost every evening Monday to Thursday one of our largest Parishes has a meeting of some kind. Obviously some wards have up to four parishes so the responsibility for meetings can be significant if members attend them all. If we assume that the 68 parishes and that parishes meet 3 times a month then this adds 2448 additional “councillor evenings” meetings. Obviously some, in particular larger Parishes, meet far more often and their demands are accordingly higher.

Additional to this are any appointed positions such as Tony Dignum appointed to the BID meetings and so on. There is a significant variance between members on how many meetings they are required to attend.

Even disregarding Parishes, my best estimate of the number of meetings per annum is therefore about 3000 evening member attendances, meaning that each Councillor will on average attend 83 formal meetings per annum, double that if the parish estimate is correct. Even this is far below the number of evening meetings attended on average at some local councils – I am told members typically attend four evening meetings a week at Arun so my estimates of how many additional days evening meetings take compared to daytime meetings may be an under estimation too (though they have committee rather than strong leader model so that has to be factored in too). See table 2 for more information on Arun “councillor attendances” which shows they have required over 5000 “Councillor attendances” though Arun committee memberships of individual committees, it should be noted, are typically larger than at Chichester so this is not an entirely “like for like” comparator, though it is the closest I am able to identify.

It is worth noting also that some of our members are also County members with further obligations to attend **those** meetings.

Estimating attendance requirements with a move to evenings

With the smaller number of members (36) the absolute minimum number of evening meetings per year will be 3000 / 36 so 83 per Councillor – **about 2 evenings a week on average allowing for Christmas and summer reduction in meetings** will need to be spent at the Council. Members will be very aware of the geographical size of the district and the challenges of travelling into Chichester in the evening in a wet February in the dark from Lodsworth or Petworth. If our attendance was the same as Arun at 5000 “Councillor attendances” then the number of meetings **would be nearer 4 evenings a week.** Of course this may also go some way to explain the significant amount of non-attendance compared to Chichester**.** If we assume Councillors attend one Parish meeting per week – and members will know themselves how often they attend non District meetings of that kind - then an average member would attend evening meetings typically **every night of the week.** They would of course be free to work during normal day work times in normal career roles but members need to consider how to promote Councillor roles to employed persons if all evenings are require attendance at meetings, as well as assessing how much time would also be required to prepare for those meetings, and when.

It is worth noting that many of those external meetings at Parish and other bodies are already evening meetings, the concern for members to consider is how easy it will be to avoid diary congestion and clashes between meetings in the evening if you are already engaged on District business three to five days a week.

Staff and requirements at East Pallant House

Assuming 100 officers support the above range of meetings, and they were to be entitled to unsociable hours payment of 6% (standard in national terms and conditions) and assuming those officers are paid at the higher rate of (say) £35K average then the cost of that will be approximately £230,000 per annum too which will need to be added to the corporate budgets.

Naturally the trial of meetings in November 2022 will establish the practical requirements of evening meetings such as fixed end times, door management and so on. It is not believed that there are any insuperable practical obstructions to evening meetings being held at East Pallant House.

Attendance Rates

Members asked for a comparison of attendance with other Councils who have evening meetings to see if there is a significant difference.

At Chichester our attendance rate has been 97.8% in the last year (with 57 apologies given out of 1741 formal meeting seats).

For Arun (see table 2) the attendance rate in the same period was 87% with apologies offered 999 times out of 5083. In the last year where figures for attendance **in person** in evening meetings is available the figure was lower, 77.23%, anecdotally advice being that evening meeting attendance has been increased significantly by use of remote online meetings. This is currently unavailable for formal meetings going forward as members will recall.

I note that many Arun meetings have a higher membership than for Chichester.

Nicholas Bennett
9th December 2021

Table 1

Current Chichester Committee membership and meetings per annum data

Committee/ panel	*Members (Typical)*	*Meetings P/A 5 yearly average*	*Member Attendances*
Alcohol etc. licensing	10	4	40
Sub committees	3	16	58
Assessment sub committee	3	0	0
Cabinet	7	12	84
Corporate Governance	8	6	48
Council	36	10	360
General Licensing	10	3	30
Grants Panel	8	5	40
Fast track panel	4	0	0
Disciplinary	5	0	0
O and S	11	8	88
Planning	15	16	240
Standards	6	1	6
Appeals	5	0	0
Boundary Review Panel	6	3	15
Business Routing Panel	5	1	15
Parking Forum	6	3	18
DPIP	10	12	120
Environment Panel	6	10	60
Growth Board / Economic	4	4	16
Joint Employee Panel	5	4	20
Strategic Risk Group	5	2	10
Community Forums	2	varies	
All Parishes	36	3	118
Task and Finish groups	5	27	135
Rural panel	5	2	10
TOTAL DAYTIME MEMBER ATTENDANCES			**2515**

Note – this does not include members attending meetings to which they are not appointed.

Table 2

Arun evening meeting attendance data

2019/20

Party	Expected	Attended	Attendance %	In Attendance
Total	4209	3548	77.23%	618

2020/21

Party	Expected	Attended	Attendance %	In Attendance
Total	5083	4411	87.27%	999

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