Public Document Pack

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A meeting of **Corporate Governance & Audit Committee** will be held in Committee Room 1 - EPH on **Tuesday 24 November 2015** at **9.30 am**

MEMBERS: Mrs P Tull (Chairman), Mr G Hicks (Vice-Chairman), Mr G Barrett, Mr I Curbishley, Mr T Dempster, Mrs N Graves, Mrs P Hardwick, Mr F Hobbs, Mr P Jarvis and Mr S Morley

AGENDA

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

2 **Approval of Minutes** (Pages 1 - 5)
The committee is requested to approve the minutes of its ordinary meeting on 29 September 2015.

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

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

5 **Public Question Time**
The procedure for submitting public questions in writing by no later than 12:00 on Tuesday 23 November 2015 is available upon request to Member Services (the contact details for which appear on the front page of this agenda).

6 **Annual Audit Letter 2014/15 - Ernst & Young LLP** (Pages 6 - 17)
Further to minute 21 of 29 September 2015 to consider and note the key issues arising from the work of the Council's external auditors on the 2014/15 Accounts.

7 **Audit Plan 2015/16 Progress Report - Ernst & Young**
An oral report on progress against the Audit Plan 2015/16 will be provided by Ernst & Young LLP.

8 **Financial Strategy and Plan 2016/17** (Pages 18 - 34)
The committee is asked to consider the attached report and to make recommendations to Cabinet on the Council's five year financial strategy.

9 **Treasury Management Strategy 2016/17** (Pages 35 - 55)
That the committee considers the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Minimum Revenue Provision Policy Statement and the Investment Strategy for 2016-17 and recommends these to Cabinet and Council for approval.

10 **Strategic and Organisational Risk Registers 2015 update** (Pages 56 - 79)
The committee is requested to note a) the current strategic risk register and the internal controls in place plus any associated action plans to manage those risks and b) the high scoring organisational risks and the mitigation actions in place, and to raise any issues or concerns.

11 **Protocol on Investment Opportunities Reserve** (Pages 80 - 93)
The committee is requested to consider the Investment Strategy described in this report (including the Land & Property Sub-Strategy at Appendix 1) and to recommend it to Cabinet for adoption.

12 **S106 exceptions report and update on the implementation of the Community Infrastructure Levy (CIL)** (Pages 94 - 106)
The Committee is requested a) to note the contents of this report concerning section 106 agreements nearing their expenditure date and to raise any concerns, and b) to note progress with the implementation of CIL.

13 **Public Interest Disclosures (Whistleblowing) Policy** (Pages 107 - 115)
Further to minute 223 of 22 January 2015 the committee is requested to consider the Public Interest Disclosures (Whistleblowing) Policy and to recommend it to Cabinet for approval.

14 **Corporate Health & Safety and Business Continuity Management** (Pages 116 - 121)
The committee is requested to consider and note this report which provides details of the progress and current position of the Council's Business Continuity (BC) management arrangements and details of the Council's performance in relation to the health, safety and welfare of its staff and anybody else affected by its undertaking.

15 **Internal Audit - Audit Plan Progress** (Pages 122 - 143)
The committee is requested to consider and note the Audit Reports and Audit Plan Progress report.

16 **Budget Review Task and Finish Group** (Page 144)
To consider and agree the Terms of Reference for this review and to nominate three members to contribute to this review.

17 **Exclusion of the Press and Public**
There are no restricted items for consideration, however the document listed below includes information which is considered to be exempt under Paragraph 3 of Schedule 12A of the Local Government Act 1972 and is **attached for members of the Corporate Governance & Audit Committee and senior officers only (salmon paper)**.

10. Strategic & Organisational Risk Registers 2015 Update
Appendix 2 – Strategic Risk Register

18 **Late items**
The committee will consider any late items as follows:

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

NOTES

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

2. The press and public may view report appendices which are not included with their copy of the agenda on the Council’s website unless these contain exempt information.

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

   a) Members of the Corporate Governance & Audit Committee, the Cabinet and Senior Officers – receive paper copies including the appendices
   b) Other Members of the Council – Appendices may be viewed on the Council’s website.

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

Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 1 - EPH on Tuesday 29 September 2015 at 9.30 am

Members Present:	Mrs P Tull (Chairman), Mr G Hicks (Vice-Chairman), Mr G Barrett, Mr I Curbishley, Mr T Dempster, Mr F Hobbs, Mr P Jarvis and Mr S Morley
Members not present:	Mrs N Graves and Mrs P Hardwick
In attendance by invitation:	Mr P King (Ernst & Young LLP) and Mr S Mathers (Ernst & Young LLP)
Officers present:	Mrs H Belenger (Accountancy Services Manager), Mr N Bennett (Litigation Lawyer), Mrs F Delahunty (Customer Services Centre Manager), Mr A Frost (Head of Planning Services), Mr S James (Principal Auditor), Mrs B Jones (Principal Scrutiny Officer), Ms S Shipway and Mr J Ward (Head of Finance and Governance Services)

16 **Chairman's Announcements**

The Chairman welcomed all to the meeting. Apologies had been received from Mrs N Graves and Mrs P Hardwick.

17 **Approval of Minutes**

The minutes of the meeting held on 30 June 2015 were agreed as a correct record.

18 **Urgent items**

There were no urgent items.

19 **Declarations of Interest**

There were no declarations of interest.

20 **Public Question Time**

No public questions had been received.

21 **Audit Results Report 2014/15 - Ernst & Young LLP**

Mr S Mathers and Mr P King from Ernst & Young LLP presented the report (copies attached to the official minutes). Mr King highlighted points in the executive summary, stating that he planned to sign off an unqualified auditor's report on the Council's financial statements and Value for Money conclusion after this meeting.

Mr Jarvis asked for explanation on the formulaic errors in the Council's model used to estimate non-domestic rates (NNDR) valuations. Mr Mathers advised that the provision the Council included for successful appeals was materially reasonable however he suggested that the formulaic errors were corrected.

Mr Jarvis asked for detail on the claim that the Council's spending per head was high relative to other authorities. Mr Ward advised that the Council's priorities in some areas may result in high quality outcomes and therefore higher service requirements e.g. street cleansing. A review had been carried out a number of years ago which showed that some service areas appeared to be expensive, such as food inspections/safety but on investigation this had been as a result of the number of food outlets in the Chichester district compared to other areas. Mr King confirmed this, saying that if the service was a priority to the Council then the auditors would expect the cost to be higher. Value for money was not simply a question of costs, but a reflection of the Council's priorities and the Council's potential to generate income.

Mr Hobbs asked what procedures and policies were in place to control chasing bad debt. Mr Ward advised that the corporate debt collection team pursued debtors through the courts, but that occasionally low value debts were written off. When the point was reached where it is uneconomic to chase debts, he would be asked to make the decision to write these off.

RESOLVED

That the Audit Results Report 2014/15 be noted.

22 **Statement of Accounts (Audited)**

Mr Ward and Mrs Belenger presented this report (copy attached to the official minutes).

Mrs Belenger recorded her thanks to the accountancy team for the work put in to finalise these accounts by the deadline and for their professionalism in doing so.

Mr Barrett noted that the pension fund deficit seemed to have increased significantly in the last year. Mrs Belenger stated that the fund had been affected by falling real bond yields and that more detailed notes were included in the statement of accounts.

RESOLVED

That the audited Statement of Accounts 2014/15 be adopted.

The Chairman then drew the committee's attention to the Letter of Management Representation. Mr Ward explained that this was a standard letter which the Council issued to the external auditors to give the auditors the assurance they needed that the Council's accounts had been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting and to confirm that the Council had complied with the auditors' requests for access to information to facilitate reviewing the accounts.

RESOLVED

That the Letter of Management Representation be agreed and signed by the Head of Finance & Governance Services and the Chairman.

23 **Regulation of Investigatory Powers Act (RIPA) Policy**

Mr N Bennett presented the report (copy attached to the official minutes).

Mr Morley asked for clarification of the terms 'covert' and 'intrusive' surveillance. Mr Bennett advised that 'covert' surveillance was when the subject was not aware and 'intrusive' was when surveillance was carried out in the subject's home or vehicle.

RESOLVED

1. That the Regulation of Investigatory Powers Act (RIPA) Policy be noted, together with the delegations in Appendix 1.
2. That the committee receive an annual report in the autumn each year with an update on the use of surveillance, on the changes to surveillance procedures and on RIPA training for staff.

RECOMMEND TO CABINET

That the Regulation of Investigatory Powers Act (RIPA) Policy, including the delegations in Appendix 1, be adopted.

24 **Formal Complaints, FOI requests and subject access analysis 2014/15**

Mrs F Delahunty presented this report (copy attached to the official minutes), advising that of the 10 complaints referred to the Ombudsman, one complaint had been upheld and the Council had been required to pay the customer £100. This related to the Council's bailiff visiting the customer in error when the customer had already made an offer of payment to the Council. This money had been retrieved from the Council's bailiff and their procedures had been improved as a result.

Mr Barrett suggested that the trend over the last few years had seen a small increase in complaints. Mrs Delahunty confirmed this saying that customers now had increased access to information and procedures on how to complain, however our numbers were low in comparison to other councils. Included at the complaint first stage was the ability of the customer to have an informal chat with the manager of the team concerned to try and resolve the issue up front.

RESOLVED

That this annual report on Complaints, Freedom of Information Requests and Data Protection Analysis 2014/15 be noted.

25 **Fraud prevention report 2014/15**

Mr S James and Mrs S Shipway presented this report (copy attached to the official minutes). Mr James introduced Mrs Shipway, the Council's newly appointed Senior Auditor, to the committee.

Mr Hicks asked whether 'successful prosecution' meant that the money was recovered. Mrs Shipway advised that it was most likely to be recovered or that overpayments in benefits would be recovered over the course of a number of years by reducing future benefits payments.

The committee noted the loss of the corporate fraud team to the Department for Works and Pensions on 1 December 2015 but acknowledged the creation of a Corporate Fraud Officer post to enable continuity in identifying potential losses to the Council.

RESOLVED

1. That the Fraud Prevention Report 2014/15 be noted.

2. That it be noted that through participation in the National Fraud Initiative (NFI) the Council would actively pursue potential fraud.

26 **Internal Audit - Audit Plan Progress**

Mr S James presented this report (copy attached to the official minutes), advising that the team were on track against the Audit Plan and were now starting key financial control work.

Mr James explained the priority of the recommendations which had been made in the two audit reports – Safety Inspections (Zurich) and Development Management. Mr Frost confirmed that recommendation 3.1.3 in the Development Management audit report related to one instance of a planning enforcement team member not having signed off a planning application when dealing with it on behalf of a South Downs National Park team member although the decision had been properly authorised by the principal officer. He would remind all case officers to sign off their planning applications.

RESOLVED

1. That the Safety Inspections (Zurich) audit report and the Development Management audit report be noted.
2. That progress against the Audit Plan 2015/16 be noted.

The meeting ended at 10.26 am

CHAIRMAN

Date:

Chichester District Council

Annual Audit Letter for the year ended 31 March 2015

October 2015

Ernst & Young LLP

Building a better working world

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The Members
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West Sussex
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22 October 2015

Dear Members

Annual Audit Letter 2014/15

The purpose of this annual audit letter is to communicate the key issues arising from our work to the Members and external stakeholders, including members of the public.

We have already reported the detailed findings from our audit work in our 2014/15 audit results report to the 29 September meeting of the Corporate Governance & Audit Committee, representing those charged with governance. We do not repeat them here.

The matters reported here are those we consider most significant for the Council.

We would like to take this opportunity to thank officers for their assistance during the course of our work.

Yours faithfully

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

Relevant parts of the Audit Commission Act 1998 are transitionally saved by the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 for 2014/15 audits.

The Audit Commission's 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the accountable officer of each audited body and via the Audit Commission's website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2014/15 audit work was undertaken in accordance with the Audit Plan issued in February 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by an Annual Governance Statement (AGS). In the AGS the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements, and on the consistency of other information published with them
- reviewing and reporting by exception on the Council's AGS
- forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources
- undertaking any other work specified by the Audit Commission and the Code of Audit Practice.

Summarised below are the results of our work across all these areas:

Area of work	Result
Audit of the financial statement of Chichester District Council for the financial year ended 31 March 2015 in accordance with International Standards on Auditing (UK & Ireland).	On 29 September 2015 we issued an unqualified audit opinion on the Council's financial statements.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 29 September 2015 we issued an unqualified value for money conclusion.
Report to the National Audit Office on the accuracy of the consolidation pack the Council needs to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 29 September 2015.
Consider the completeness of disclosures on the Council's AGS, identify any inconsistencies with other information which we know about from our work and consider whether it complies with CIPFA/SOLACE guidance.	One minor change to the Council's AGS was made as a result of our work. There were no other issues to report.
Consider whether we should make a report in the public interest on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether we need to take any other action in relation to our responsibilities under the Audit Commission Act.	No issues to report.

As a result of the above we have also:

Issued a report to those charged with governance of the Council with the significant findings from our audit.	Our Audit Results Report was issued on 29 September 2015 to the Corporate Governance & Audit Committee.
Issued a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	Issued on 29 September 2015.

In January 2016 we will also issue a report to those charged with governance of the Council summarising the certification (of grant claims and returns) work we have undertaken.

2. Key findings

2.1 Financial statement audit

The Council's Statement of Accounts is an important tool to show both how the Council has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and issued an unqualified audit report on 29 September 2015.

Our detailed findings were reported to the 29 September 2015 Corporate Governance & Audit Committee.

The main issues identified as part of our audit were:

Significant risk 1: Risk of management override
Our work identified no material misstatement due to fraudulent financial reporting or other evidence of material fraud.

We also raised a relatively small number of other issues relating to qualitative aspects of accounting practices issues faced during the audit, in particular the need for the Council to improve the approach it takes to the valuation of property, plant and equipment assets.

2.2 Value for money conclusion

As part of our work we must also conclude whether the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This is known as our value for money conclusion.

In accordance with guidance issued by the Audit Commission, our 2014/15 value for money conclusion was based on two criteria. We consider whether the Council had proper arrangements in place for:

- securing financial resilience, and
- challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 29 September 2015.

Our audit did not identify any significant matters.

2.3 Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Authority for Whole of Government Accounts purposes. We had no issues to report.

2.4 Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's AGS, identify any inconsistencies with the other information which we know about from our work, and consider whether it complies with relevant guidance.

We completed this work and identified one area where further disclosure was required to reflect the position at the Council. The Council amended the annual governance statement to include this.

2.5 Objections received

We did not receive any objections to the 2014/15 financial statements from members of the Public.

2.6 Other powers and duties

We identified no issues during our audit that required us to use powers under the Audit Commission Act 1998, including reporting in the public interest.

2.7 Independence

We communicated our assessment of independence to the Corporate Governance & Audit Committee as part of our audit plan in February 2015, and as part of our audit results report in September 2015. In our professional judgement the firm is independent and the objectivity of the executive director and audit staff has not been compromised within the meaning of regulatory and professional requirements.

2.8 Certification of grant claims and returns

We will issue the Annual Certification report for 2014/15 in January 2016.

3. Control themes and observations

As part of our work, we obtained enough understanding of internal control to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we must tell the Council about any significant deficiencies in internal control we find during our audit.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the Council's financial statements. We did, however, bring a small number of issues to the attention of the Corporate Governance & Audit Committee as those charged with governance and raised a small number of associated recommendations which were accepted by the Council.

4. Looking ahead

Description	Impact
Highways Network Asset (formerly Transport Infrastructure Assets): The Invitation to Comment on the Code of Accounting Practice for 2016/17 (ITC) sets out the requirements to account for Highways Network Asset under Depreciated Replacement Cost from the existing Depreciated Historic Cost. This is to be effective from 1 April 2016. This requirement is not only applicable to highways authorities, but to any local government bodies that have such assets. This may be a material change of accounting policy for the Council. It could also require changes to existing asset management systems and valuation procedures. Nationally, latest estimates are that this will add £1,100 billion to the net worth of authorities.	The Council will need to demonstrate it has assessed the impact of these changes. Even though it is not a highways authority, the requirements may still impact if it is responsible for assets such as: • Footways • Unadopted roads on industrial estates • Cycleways • Street Furniture The Council is aware of the issue, but it is not clear at this stage to what extent it has been considered and is expected impact on the Council.
Earlier deadline for production and audit of the financial statements from 2017-18 The Accounts and Audit Regulations 2015 were laid before Parliament in February 2015. A key change in the regulations is that from the 2017-18 financial year the timetable for the preparation and approval of accounts will be brought forward. As a result, the Council will need to produce draft accounts by 31 May and these accounts will need to be audited by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements. The Council is aware of this challenge and the need to start planning for the impact of these changes. This will necessarily include review of the processes for the production and audit of the accounts, including areas such as the production of estimates, particularly in relation to pensions and the valuation of assets, and the year-end closure processes. The Council has already made some changes to reduce the size and increase the understandability of its financial statements by excluding unnecessary disclosures, but further work will be required to continue to consider how earlier close down and audit can be achieved.

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2015

Financial Strategy and Plan

1. Contacts

Report Author:
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Tel: 01243 534805 E-mail: jward@chichester.gov.uk

2. Executive Summary

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

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

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

The key recommendations from this report will help to formulate the 2016/17 budget, and level of Council Tax.

3. Recommendations to Cabinet:

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

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

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

3.4. **That in order to achieve a balanced budget over the medium term, officers should work up options for consideration by cabinet to implement a new deficit reduction programme.**

4. Background

4.1. The 5 year Financial Strategy and the principles contained within it underpin the forthcoming budget cycle. Whilst some economic projections appear to be on the up side, and inflation remains low, public sector spending is still set to reduce for the foreseeable future. The government's 2013 spending review has delivered challenging settlements for 2014/15 and 2015/16, and it is anticipated that the forthcoming spending review, due on 25 November, will undoubtedly continue the trend of ever reducing government funding into 2016/17 and beyond. The Council, therefore, has to manage service delivery with increasing costs, whilst also addressing continuing reductions in available government resource.

4.2. **The 2016/17 Settlement**

The 2015 spending review is not expected until 25 November, long after this report will have been published, and unfortunately after the committee will have met. There have, however, been recent announcements in the press that the Department for Communities and Local Government (DCLG) have agreed to 8% per year reductions for 4 years, or cumulative reductions of 30%. This does not however mean that we should plan for a similar reduction, as services within DCLG's spending allocations will receive differing levels of priority, and therefore different levels of funding reductions. District authority services have fared poorly in this regard in previous settlements. We will not know the implications of this for Chichester until the draft funding allocations are announced in late December.

The government have also announced full localisation of business rates (Non-Domestic rates or NDR) by 2020. Although no detail is available as yet as to how this will be achieved, it is clear that there will, just as there is under the current 50% localisation methodology, be a need to balance the available resources from NDR with local need for funding. Therefore, a system of tariffs and to-ups will still be in place to distribute funding between authorities. The government have also indicated that alongside this there will also be new burdens passed onto local authorities. It is therefore unlikely that we will see significant increases in our funding as a result of this change in the NDR system.

It seems quite possible that there will be a further cap on business rate increases (multiplier) in 2016/17 which will presumably attract another off-setting grant – and possibly other reliefs for small businesses.

It is also possible that there may be another Council Tax freeze grant on offer for 2016/17, probably equivalent to a 1% increase in Council Tax. The way in which previous Council Tax freeze grants have been handled has not been consistent:

- 2011/12 now separately identified, permanent
- 2012/13 entirely one-off
- 2013/14 now separately identified, permanent

- 2014/15 1% paid in both 14/15 and 15/16
- 2015/16 is expected to be permanent

In this context, “permanent” actually means until the next spending review. There is no guarantee therefore that any of this funding will continue into the 2016/17 settlement. The alternative to taking the freeze grant is an increase in Council Tax. Although not yet confirmed it is likely that this will be capped at no more than 2% (£2.81 per year for a band D property). Such an increase would be a permanent, recurring increase in the tax base. Any increase above 2% would normally require a referendum, which would be very expensive to carry out, and in all probability be unlikely to succeed.

4.3. **Beyond 2016/17**

The previous coalition Government has pursued a very clear fiscal policy which has resulted in significant funding reductions for local government and it seems clear that this trend will continue for the foreseeable future. Certain aspects of state spending are likely to continue to receive a greater degree of protection, education and health for example, while others such as local government will be protected to a lesser extent.

The future of New Homes Bonus (NHB) hangs in the balance. This is currently funded from the government’s share of NDR. So with full localisation of NDR in the future it seems almost certain that NHB will be lost as a source of funding. So far this council has not used NHB to balance its budget, instead reserving the money for one off community projects. This has minimised our risk should this funding source be reduced or removed.

The 5 year financial model (Appendix 1) has been updated to reflect the current officers’ best estimates of what may occur in 2016/17 and beyond. The model assumes the balance of deficit reduction plan will be delivered on schedule, together with further savings and investment returns managed by the commercial and business improvement programme boards. The current model also assumes that significant savings will materialise from the current Leisure outsourcing project should members decide to outsource leisure management. This model will of course be kept under review so that the Council has time to respond should the situation, and government funding, deteriorate faster than currently predicted.

4.4. Beyond 2016/17 it is predicted that our RSG will continue to be progressively withdrawn, and by 2020/21it will have gone completely. It is therefore more important than ever that we look to maximise our ability to raise revenue locally. The Council’s Estates Service have been pursuing a number of investment and asset realisation opportunities. In addition to the economic and community benefits that such investment brings to the district, they also help to reduce our dependence on central government funding. As an alternative, officers are currently investigating investment opportunities in Local Authority Property funds. These are pooled investments in property, and as such are backed by assets providing security over the longer term. Although offering slightly lower returns than our own in house investments (circa 5% versus 8 – 9%) they do offer an alternative relatively good return for long term balances as opposed to traditional Treasury Management deposits.

4.5. Appendix 2 sets out our current level of reserves, the commitments against those reserves, and therefore the potential sum available for Council to invest in new schemes.

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

- **Income from Fees and Charges.** The Council currently relies on £19m of income from its fees and charges to balance its budget. Over recent years we have witnessed a reduction in income from some service areas. However, since 2014/15 we have witnessed a gradual increase in income, primarily in relation to car parks and planning fees. These have been built into the 5 year model.

- **The effects of inflation**. Inflation remains extremely low, and CPI is expected to remain at below 1% for the rest of the year. However, some services have struggled in recent years to pass on the effects of inflation in setting their fees as customers are unable or unwilling to bear the increased cost. Fee levels have not kept pace with inflation in all services.

- **Pay settlements.** Following repeated pay freezes, local government has returned to limited increases. While the current Government is still advocating pay restraint there is a risk over the longer term of increased pressure on national pay negotiations, especially if private sector pay increases outstrip the public sector. The current 5 year model assumes a further 1% increase in the next 3 years, and 2% thereafter. Some services have already struggled to recruit staff, especially where we are competing with the private sector, and some limited use of market supplements has had to be offered to fill vacancies.

- **The localisation of Business Rates.** 50% localisation of NDR brought both opportunity and risk, as a change in the business rate base locally will directly impact our funding. Localisation brings with it volatility as losses on collection will largely fall on local councils in future rather than on the national pool. Of particular concern is the treatment of historic appeal refunds, which will be funded local authorities in future. The government's recent announcement to fully localise NDR by 2020 may present an opportunity to retain more growth, but all of the other associated risks are likely to remain. No details have yet been released. As agreed at the October 2014 Cabinet we have formed an NDR pool with other West Sussex authorities in order to maximise the amount of growth that can be retained locally. Current projections anticipate that £2.5m of business rate growth that would otherwise have been lost to central government will be retained in the current year by the pool. Full localisation may well dispense with the need to continue with business rate pools in the future. However, in the interim it is proposed that we should continue to pool business rates with other authorities in West Sussex to maximise the amount of funding that can be retained.

- **The localisation of Council Tax Reduction (CRT)**. Currently, expenditure on this has fallen since the 2015/16 budget was set.

However, localisation means that any increase in demand for support will have to be met locally in full in future. Government proposals to alter tax credit entitlement may push demand against this budget back up during next year. Current estimates indicate that this can be contained within budget, but a full review of CTR will be undertaken during 2016 in time for setting the 2017/18 CTR scheme.

- **Council Tax increase**. Last year full Council took the decision to freeze Council Tax. The 5 year model has been amended to reflect the position should that decision for 2015/16 continue and the Council Tax remains frozen throughout the next 5 years. The financial effect of a continued tax freeze would be to forego the following annual income, amounting to a total of £2.2m over the 5 year period:

Year	2016/17	2017/18	2018/19	2019/20	2020/21
£'000	142	289	440	595	755

Should members choose to freeze council tax in 2016/17, as we are currently predicting a surplus in that year, but then increase Council Tax by 2% per year in the following years, the following additional income would be generated to assist in balancing the budget over the longer term:

Year	2016/17	2017/18	2018/19	2019/20	2020/21
£'000	-	144	292	444	601

This equates to £1.48m over the 5 year period. The decision to set Council Tax is taken annually by full council.

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

- **The New Homes Bonus** where funding is linked to growth in domestic properties, but is funded nationally by reducing the amount of government grant. This effectively, then, is a distribution of local government funding via a different mechanism, and is not new funding. The future of this source of funding is very uncertain. In the current 5 year model officers have assumed no further years of NHB allocations will be added and the scheme will effectively whither over the period up to 2020, then be removed altogether. Again this may become clearer after the CSR announcements on 25 November.

- **Amended Waste Regulations and increased recycling targets.** New and tougher recycling targets and the need to separate out types of recyclate materials may drive substantially increased waste costs. An indicative estimate of £0.7m per year has been included in the 5 year model based on officers current projections.

- **Cultural grants to the Chichester Festival Theatre and Pallant House Gallery.** These are currently funded from earmarked reserves which will be exhausted in 2017/18. No further provision has been made for these beyond March 2018.

4.7. The Council took early action as the current financial crisis started to emerge and has, from 2010/11 to 2015/16, achieved in excess of £7.8m of savings and increased income. In May 2013, members approved a £2.4m deficit reduction programme. This is on target to deliver savings of £2.8m and the balance of this (£0.5m) is assumed within the 5 year model. Further savings are being tracked via the programme boards, and these are due to deliver a further £2.6m over the next 5 years. It has been via this medium term modelling that the Council has been able to plan ahead, and implement sensible and considered efficiencies in a timely fashion. This planning has helped to avoid making severe service cuts, yet thus far enabled us to balance our budgets. Additionally it has enabled us to preserve the NHB funding for community benefit. A further benefit of careful planning has been that we have been able to implement localised Council Tax Reduction in a way that has protected claimants.

4.8. The current 5 year financial model (Appendix 1) has been updated to reflect current assumptions including government funding reductions and a council tax freeze, as well as projected costs and planned efficiencies. This demonstrates shows a balanced budget over the next 2 years subject to delivery of all of the other uncertainties set out above. However, from 2018/19 we are currently projecting a deficit on the budget, and by year 5 of the model this deficit is projected to be in the region of £1.2m. It remains essential, therefore, that we sustain the sound platform we currently have, and keep under continuing review the projected 5 year position. Officers will work closely with cabinet to identify options to close this projected budget gap.

5. Outcomes to be achieved

5.1. The purpose of this report is to set out the key financial principles that should be applied over the short to medium term to help maintain a robust and balanced financial position for the Council, and which will be used to underpin the annual spending report in February to set the 2016-17 budget and Council Tax requirement.

6. Key Financial Principles

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

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

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

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

(d) Actions:

(i) Members and the Senior Leadership Team (SLT) will need to develop a strategy to eliminate the current projected budget deficit from 2018/19 onwards, as well as prioritise services should either they wish to redirect resources, or the financial position deteriorates beyond the current projections. Options to assist in closing this gap are already being investigated by officers and a report will be brought to members for consideration early in 2016.

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

(a) There is a legal requirement to set a balanced revenue budget and ensure the capital programme is fully resourced. Over the last six years 2010/11 to 2015/16 the Council took action to balance the revenue budget without drawing on general reserves. The Statement of Resource Allocation (Appendix 2) demonstrates that the capital programme remains affordable. Within this, £1.3m has been earmarked as available to support the revenue budget should conditions dictate. Whilst the intention is to set a balanced budget over the medium term, this finite resource remains available to smooth the impact should there be any unanticipated adverse changes to our funding, or where service savings have been unavoidably delayed.

(b) The 5 year financial risk model has been updated as our current best estimate of the budget for the next five years, and is attached as Appendix 1. This indicates that, subject to all the uncertainties set out in part 4 of this report, and assuming that the deficit reduction programme is delivered on schedule, the budget for 2016/17 should be balanced. However a projected deficit from 2018/19 is currently anticipated.

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

(d) Actions:

(i) The five year financial model will continue to be monitored and updated, and Cabinet is given regular briefings on this throughout the year. Senior managers will work up options for members to consider how we will close the current projected deficit.

(ii) Budget monitoring for revenue and capital schemes is completed quarterly by budget managers, and following the demise of the knowledge hub will be reported to cabinet.

(iii) The deficit reduction programme agreed in 2013 is nearing completion, but this too will be monitored and reported. The three programme boards are now also monitoring efficiencies and savings and these will be reported to members.

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

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

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

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

(d) Since 2010-11 the degree to which the revenue budget was supported by interest on investments was removed. This eliminated a key risk to the authority that large variances on interest receipts could have put immediate pressure on the revenue budget. Instead all interest receipts are recycled into funding the capital programme (interest receipts on S106 balances are ring-fenced to those funds). Any change in interest rates has still impacted the overall position of the Council, but has a less immediate impact than it has had for authorities that continue to rely on interest receipts to fund day to day activities. One of the options officers are investigating is the ability to invest a proportion of the Council’s cash balances in long term property funds. This would provide a predictable return which could be incorporated into the base budget to help narrow the budget deficit without creating volatility and risk.

(e) Recent investment decisions in the Council’s property portfolio will generate further revenue receipts for the Council. It is proposed that some of this additional income is recycled via council reserves to enable further investment going forward, rather than taking all of the income into the revenue budget. The precise amount to be recycled in this way will be determined as part of the detailed budget proposals brought to Cabinet in February 2016. The 5 year financial model takes into account income from historic investment decisions such as Barnfield Drive, Crane Street and the Enterprise Hub as part of the Commercial Programme Board.

(f) Actions:

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

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

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

6.4. **In order to maintain a balanced budget in a climate of reduced funding, savings in the revenue budget or external funding will need to be identified before any new revenue expenditure, including capital expenditure that has revenue consequences, is approved.**

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

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

(c) Action:

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

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

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

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

(c) Action:

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

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

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

(b) Actions:

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

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

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

(b) Three programme boars (Infrastructure, Business Improvement and Commercialisation) have been set up to co-ordinate the various projects that the council is engaged in. This enables the council to direct resources to higher priority projects, and enables senior management to intervene to assist projects to remain on track to deliver their planned objectives. The programme boards also track efficiencies as part of their process which aids corporate financial planning. These are now incorporated in the 5 year financial model.

(c) Future service reviews will consider the most efficient ways of working, including working with partners, channel shift, sharing assets, shared services and outsourcing to deliver the best and most effective solutions for services and the community. Each review should also incorporate a commissioning challenge to ensure that the most effective and efficient procurement method is applied.

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

(e) Action:

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

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

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

(a) The objective is to limit increases in Council Tax to modest and affordable levels over the next 5 years, whilst accepting that such an objective may be impacted by national government policy. The previous coalition Government adopted a policy of offering temporary freeze grants. It is not clear whether this will continue into 2016/17. It is also not yet known if the previous requirement to hold a referendum for increases of 2% or above would still apply, although it is anticipated that this requirement will continue. The 5 year financial model currently assumes no annual increase in council tax.

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

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

(b) An NDR pool in West Sussex has been created, thereby enabling us to retain more of the NDR growth locally for investment jointly with other pool member authorities. The Full localisation may in effect do away with the need to form NDR pools to retain this growth. Until then it is recommended that we continue with the current pooling arrangements.

(c) Action:

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

6.10. **New Homes Bonus (NHB) This should be allocated annually, and only committed once received.**

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

(b) The funding is paid as a grant in respect of each new domestic dwelling coming into the tax base (net of any long term empty properties) of the whole District, including the area within the National Park. The amount paid is based on the national average council tax, and is paid for the following six years, split 20% to the County Council and 80% to the Housing authority, i.e. CDC.

(c) It was flagged last year that that there is a risk that, NHB may be amended or replaced following the parliamentary elections. NHB should not, therefore, be relied upon long term to resolve our budget position, and should only be committed after it is received. The unallocated value of this fund is currently £4.9m.

(d) In previous years we have not used the NHB to assist in balancing our revenue budget, and have instead used this source of funding to help reward communities by funding one off projects. With the introduction of CIL, and given the uncertainty surrounding the future of NHB as we await the detail of the 2015 spending review the grants and concessions panel are currently undertaking a review of the use of NHB, along with other grant funding that the council makes available to individuals and groups.

(e) Action:

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

(ii) The grants and Concessions panel are to review the use of this fund and report their recommendations to Cabinet in due course.

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

(a) Action:

(i) The existing pooling arrangement will continue into 2016/17 unless the council opts out of this arrangement. Once the draft settlement has been announced the council will have an option to withdraw from the pool, however, until NDR is fully localised it would remain beneficial to retain the current pooling arrangements.

7. Resources and Capital Programme Principles

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

(a) This is a long-established principle whereby non-recurring resources are used to meet non-recurring expenditure. The revenue budget is no longer reliant on reserves. Interest receipts are diverted to support the capital programme, although officers are considering options for the use of property funds for longer term deposits, and the interest earned could potentially be utilised to support the revenue budget.

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

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

(b) The Capital Programme is an estimate of the capital schemes' likely cost and the funding resources likely to be available to meet that need. This is always subject to amendment if, for example, a scheme cost is higher than anticipated or an anticipated capital receipt is less than expected. The capital programme is by its nature constantly changing and the resource position will be continuously monitored to ensure it remains affordable. The Resources Statement reflects the current level of reserves, anticipated receipts, and commitments, and this is attached at Appendix 2. This currently indicates a surplus of resource of £8.9m.

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

(d) Although the Resources Statement indicates £8.9m as being available, further projects, possibly to supplement CIL or projects that produce revenue income to assist with the Council's revenue budget may be funded from the residual balance of this fund.

(e) Action:

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

(ii) All earmarked reserved are to be reviewed with service managers to ensure that they remain relevant and essential, otherwise the funds should be returned to available balances.

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

save projects should be shorter than the life of the asset.

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

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

7.4. **Treasury Management**

(a) The Council is required to agree its treasury management policy annually, and this year made further changes during the year, following a task and finish group review. Performance reports are also received during the year. The key objectives are security of the principal sums invested, and liquidity. Maximisation of investment return is a secondary objective. As such, removing revenue reliance on investment income not only strengthens the Council's financial position, but also reinforces the primary objective of the treasury management policy. However the use of a property fund would enable the council to invest balances in a long term fund which would provide a predictable return that could be used to assist in closing the projected budget deficit.

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

8. Alternatives that have been considered

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

9. Resource and legal implications

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

10. Consultation

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

11. Community impact and corporate risks

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

12. Other Implications

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

13. Appendices

13.1. Appendix 1 - Five Year Financial Model.

13.2. Appendix 2 – Statement of Resources.

14. Background Papers

14.1. none

5 Year Financial Model

Appendix 1

12/11/2015

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Budget (including NHB)	14,049	14,874	15,024	14,824	15,404	13,984
NHB (assumed to reduce beyond 2016/17)	2,652	3,400	2,900	2,400	1,900	-
Budget (excluding NHB)	**11,397**	**11,474**	**12,124**	**12,424**	**13,504**	**13,984**
(expenditure less fees from income)						
Funding:						
Revenue Support Grant	**(1,598)**	**(1,049)**	**(594)**	**(380)**	**(176)**	**-**
Retained Business Rates (National Non-Domestic Rates or NNDR)	**(2,609)**	**(2,700)**	**(2,800)**	**(2,930)**	**(3,050)**	**(2,880)**
Total Government Settlement (excluding NHB)	**(4,207)**	**(3,749)**	**(3,394)**	**(3,310)**	**(3,226)**	**(2,880)**
Balance funded by Council Tax Payers						
Council Tax	**(7,112)**	**(7,112)**	**(7,182)**	**(7,252)**	**(7,322)**	**(7,392)**
Council Tax Freeze Grant	**(78)**					
Council Taxbase Growth (@ 1%)		(70)	(70)	(70)	(70)	(70)
Deficit after Gov. Funding & Council Tax	**-**	**543**	**1,478**	**1,792**	**2,886**	**3,642**
Deficit Reduction Programme - May '13 Cabinet		**(55)**	**(75)**	**(95)**	**(515)**	**(515)**
Business Improvement Board		**(40)**	**(40)**	**(40)**	**(40)**	**(40)**
Commercial Board		**(1,329)**	**(1,755)**	**(2,006)**	**(2,574)**	**(2,574)**
Infrastructure Board		**-**	**-**	**-**	**-**	**-**
Remaining shortfall / (surplus)		**(881)**	**(392)**	**(349)**	**(243)**	**513**
Increased Recycling Targets				**700**	**700**	**700**
Projected deficit / (surplus)		**(881)**	**(392)**	**351**	**457**	**1,213**

Statement of Resources 2015-16 to 2020-21

Position as at 12th November 2015

Position as at	Sept 2015	*July 2015*
	£m	***£m***
Reserves at April 2015	**34.7**	***34.7***
Less Commitments:		
- Revenue Budget Support	-1.3	*-1.3*
- Provision for one-off costs of future service reductions	-1.0	*-1.0*
- Cultural Grants	-1.0	*-1.0*
- Housing Reserve	-1.0	*-1.0*
- Minimum level of reserves	-5.0	*-5.0*
- Other Earmarked Funding	-11.3	*-10.8*
Non committed reserves	**14.1**	***14.6***
New Resources		
o Right to Buy (RTB) receipts	+0.4	*+0.4*
o Asset Sales	+13.3	*+11.8*
o Interest on Investments	+2.0	*+1.9*
o New Homes Bonus Scheme *(see Note 1)*	+2.7	*+2.7*
Other Reserves (grants, s106, revenue contributions etc)	+4.4	*+4.4*
Available Resources	**36.9**	***35.8***
Current Capital & Projects Programme	**-23.9**	***-21.8***
Current Asset Replacement Programme	**-4.1**	***-4.1***
Uncommitted Resource *(see Note 2)*	**8.9**	***9.9***

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2015

Draft Treasury Management Strategy 2016-17

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 Minimum Revenue Provision Policy Statement and the Investment Strategy for 2016-17 and recommends these to Cabinet and Council for approval.

3. Background

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

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

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

3.4. This report will fulfil the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG guidance, when considered by Council in March 2016.

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

4. Outcomes to be achieved

4.1. The Treasury Management and Investment Strategies for 2016-17 are approved in accordance with the CIPFA's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code).

5. Proposal

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

5.2. In managing the risks associated with the treasury management function, the Council considers the available uncommitted resources to cover any potential investment losses when setting the different investment limits. In the 2015-16 strategy an investment limit of £2.5m per counterparty was set, to take account of the true available resources to cover any losses, which were at a level of 9.3m. These reserves are now considered to be £15.2m, due to the £5m minimum level of reserves, the £1.3m held to give revenue budget support (if necessary) and the current uncommitted resources of £8.9.m as indicated by the Financial Strategy to be reported to Cabinet in December.

5.3. Whilst the maximum investment amount to each of the approved counterparties is not being amended; it is recommended that the maximum period to the secure investment vehicles is increased as set out in table 4 of the strategy. This is to reflect that the estimated balances maintained within the 5 year financial strategy will remain at approximately £30m at the end of each financial year.

5.4. Other changes in the strategy reflect the updated economic outlook, investment interest rate forecasts and taking into account the current assumptions on the Council's spending plans. The indicators declared in the treasury management strategy will be updated as necessary when reported to Cabinet in February 2016 along with the budget.

5.5. Estimated Interest rates

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

Assumptions for 2016-17 Strategy

Assumed Interest Rates	2015/16 Revised	2016/17	2017/18	2018/19	2019/20	2020/21
Investment Rates	0.80%	0.75%	1.00%	1.15%	1.20%	1.25%

The view of the treasury advisor is that bank base rate will remain at 0.50% until the third quarter of 2016, rising by 0.50% a year thereafter, finally settling between 2% and 3% in several years' time. An average rate of return of 0.80% was built into the 2015-16 Treasury Management Strategy and the revenue budget. Whilst the first quarter's performance for 2015-16 indicated that an annualised rate of 0.69% was being achieved. Some new long term investments have been placed recently which were better than the short term rates available.

5.6. The Treasury Management and Investment Strategies will be considered by Cabinet in February and Council in March 2016.

6. Alternatives that have been considered

6.1. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance and Governance, has consulted with the Leader and the Cabinet Member for Finance and Governance on the strategy now to be considered by the Corporate Governance and Audit Committee. The Committee are requested to comment on whether the strategy represents an appropriate balance between risk management and cost effectiveness.

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

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

7. Resource and legal implications

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

8. Consultation

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

9. Community impact and corporate risks

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

9.2. Risk management is covered within the Treasury Management Strategy and specifically within TMP 1, an extract of which is shown in appendix 2.

10. Other Implications

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

fund losses from its unallocated reserves.		

11. Appendices

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

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

12. Background Papers

12.1. None.

Appendix 1

Treasury Management Policy Statement, Treasury Management Strategy Statement and Annual Investment Strategy for 2016-17

1. Treasury Management Policy Statement

Chichester District Council defines its treasury management activities 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. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

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

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

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

2. Treasury Management Strategy Statement

The Treasury Management Strategy details the expected activities of the treasury function in the forthcoming year 2016-17. The publication of the strategy is a statutory requirement.

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

4. Risk Appetite Statement

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

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

~~In particular~~ Wwhen 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 and corporate bonds. The duration of such investments will be limited so that they do not have to be sold (although they may be) prior to maturity, thus avoiding the risk of the capital sum being diminished through movements in prices.

External Context

5. Economic background

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

~~The focus of the Monetary Policy Committee (MPC) of the Bank of England is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the MPC Committee. Despite two MPC members having voted for a 0.25% increase in rates at each of the meetings between August and December 2014, the minutes of the January 2015 meeting showed unanimity in maintaining the Bank Rate at 0.50% as there was sufficient risk that low inflation could become entrenched and the MPC Committee have become more concerned about the economic outlook.~~

Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth nationally is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did not raise policy rates at its meetings in October and November, but the statements accompanying the policy decisions point have made a rate hike in December 2015 a real possibility. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

6. **Credit outlook**

~~The transposition of two European Union directives into UK legislation in January 215 and by July 2015, will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes Directive includes large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses in a failing bank after July 2015.~~

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

The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

7. **Prospects for Interest Rates**

~~The Council's treasury management adviser Arlingclose, forecasts the first rise in official interest rates around the third quarter of 2015 with a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%. Arlingclose believes the normalised level of the Bank Rate post-crisis to range between 2.5% and 3.5%. The risk to the upside (i.e. interest rates being higher) is weighted more towards the end of the forecast horizon. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year. Arlingclose projects gilt yields on an upward path in the medium term, taking the forecast average 10 year PWLB loan rate for 2015/16 to 2.70%.~~

The Council's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.75% for 2016-17.

8. The table below shows the August 2015 HM Treasury Survey Medium Term forecasts for the average annual Official Bank Rate.

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

		Average Annual Official Bank Rate %			
	2015	**2016**	**2017**	**2018**	**2019**
Highest	0.60	1.20	1.90	2.80	3.30
Average	0.50	0.90	1.50	2.10	2.60
Lowest	0.50	0.60	0.90	1.00	1.30

Source: HM Treasury Forecasts for the UK economy: August 2015.

For the purpose of setting the budget, it has been assumed that new investments will be made yielding an average rate of 0.75% for 2016-17.

9. Current Portfolio Position

The Council's treasury portfolio position as at 9 November 2015 comprised:

Table 2: Current Investment Portfolio Position.

Investments	**Actual Portfolio £m**	**Annualised Average Rate %**
Call Accounts	11.415	0.40
Short Term investments	34.90	0.57
Medium Term Investments	12.00	1.34
Long Term Investments	3.00	1.85
Total Investments	**61.315**	**0.75**

Forecast changes in these sums are shown in the balance sheet analysis in table 3 below.

Definitions of investment periods are:

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

Table 3: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m
General Fund CFR	-1.440	-1.315	-1.340	-1.367	-1.395	-1.426
Less: Other Debt Liabilities	-0.125	0.025	.027	.029	.031	.013
Borrowing CFR	**-1.315**	**-1.340**	**-1.367**	**-1.395**	**-1.426**	**-1.440**
Internal borrowing	0	0	0	0	0	0
Usable reserves	-34.700	-31.329	-34.663	-30.639	-30.026	-29.203
Working capital	-4.685	-2.770	-2.485	-2.771	-2.813	-2.888
Investments	**40.700**	**35.439**	**38.515**	**34.805**	**34.265**	**33.531**

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

The Council is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall to £ 33.531m as capital receipts and other revenue resources are used to finance capital expenditure, and reserves are used to finance specific projects and one off revenue expenditure.

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. Table 3 shows that the Council expects to comply with this recommendation during 2016-17 as it maintains its debt free status.

10. Borrowing Strategy

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

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

(a) ~~At present, t~~There are no plans to borrow to finance new capital expenditure in the current 5 year plan but this remains an option if deemed to be prudent. Short term internal borrowing (for schemes that pay back within the 5 year time frame of the capital programme) can be accommodated without incurring external interest charges, provided the resulting savings are recycled into reserves. Longer term pay back periods will have to accommodate both the external interest and a minimum revenue provision (MRP) in accordance with the Council's MRP policy, which links repayment of the debt to the life of the asset.

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

11. **Borrowing Objectives:**

If it considers it necessary to borrowing money, the Council's chief objective is 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.

12. **Borrowing Strategy**

The Council may need to borrow money in the short term to cover unexpected cash flow shortages, (normally up to one month) within the approved operational boundary limit of £5m.

Sources: The approved sources of long-term and short-term borrowing are:

- Public Works Loans Board (PWLB) and any successor body
- Any institution approved for investments (see below)
- 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)

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

- Operating and finance leases
- Hire purchase
- Private Finance Initiatives
- Sale and leaseback

13. **Investment Strategy**

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's financial investment balance has ranged between £37.5 and £60.95 million, but this is expected to reduce to lower levels in the forthcoming year due to the anticipated capital spending programme including any property investment commitments.

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

15. **Strategy**: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2016-17. This is especially the case for the estimated £20 ~~15~~m that is available for longer-term investments. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits, and other local authorities. The new investment options that may be undertaken by this strategy would now include covered bonds, Government Agency Bonds,

Supranational Bonds and Corporate Bonds. This diversification will ~~therefore~~ represent a continuation of the new strategy adopted in 2015-16 ~~material change in strategy over the coming year~~, in order to manage the bail-in risk and spread the investment of surplus funds in a wider range of investment types.

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

Table 4: Approved Investment Counterparties

Sector Limits/ Credit Rating	Banks Unsecured[1] £20m	Banks Secured[1] Unlimited	Government Unlimited	Corporates £10m
UK Govt	n/a	n/a	£ Unlimited 15 ~~5~~ years	n/a
AAA	£2.5m 5 years	£5m 10 ~~5~~ years	£5m 10 ~~5~~ years	£2.5m 10 ~~5~~ years
AA+	£2.5m 5 years	£5m 7 ~~5~~ years	£5m 7 ~~5~~ years	£2.5m 7 ~~5~~ years
AA	£2.5m 4 years	£5m 5 ~~4~~years	£5m 5 ~~4~~ years	£2.5m 5 ~~4~~ years
AA-	£2.5m 3 years	£5m 4 ~~3~~ years	£5m 4 ~~3~~ years	£2.5m 4 ~~3~~ years
A+	£2.5m 2 years	£5m 3 ~~2~~ years	£2.5m 3 ~~2~~ years	£2.5m 3 ~~2~~ years
A	£2.5m 13 months	£5m 2 years ~~13 months~~	£2.5m 2 years ~~13 months~~	£2.5m 2 years ~~13 months~~
A-	£2.5m 6 months	£5m 13 months	£2.5m 13 months	£2.5m 13 months
BBB+	£1m 100 days	£2.5m 6 months	n/a	£1m 6 months
BBB ~~or BBB-~~	£1m next day only	£2.5m 100 days	n/a	n/a
None	£1m 3 months	n/a	**n/a**	**£2m 5 or 10 years** ~~**n/a**~~
~~Money Market Funds~~ Pooled Funds	£5m per money market fund and a maximum £10m in a Property Fund			

This table must be read in conjunction with the detailed notes below and limits stated in Table 6.

[1] Note: The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

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

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

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

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

21. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to the bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts up to 15 ~~5~~ years.

22. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks. These investments are not subject to bail-in, but are exposed to the risk of the company becoming insolvent.

23. ~~**Money Market Funds**: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. Funds that offer same-day liquidity and aim for a constant net asset value will be used as an alternative to instant access bank accounts. .~~

23. **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee which can range between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. Short-term Money Market Funds that offer same-day liquidity and very low volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

24. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into further 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 Council's investment objectives will be monitored regularly.

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

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

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

26. 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. Any counterparty downgrades must be included in the monthly monitoring reports sent to the members of the Corporate Governance & Audit Committee.

27. **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.

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

29. **Specified Investments**: The CLG Guidance defines specified investments as those:

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

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

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

Table 5: Non-Specified Investment Limits

	Cash limit
Total medium and long-term investments	£20 ~~15~~m
Total investments without credit ratings or rated below A- ~~BBB-~~	£10m
Total Limit on non-specified investments	£30 ~~25~~m

31. Use of Specified and Non-Specified Investments

The selection of specified and non-specified investments will be undertaken by the Head of Finance and Governance Services who will keep the making of such investments under continuous review in the light of risk, liquidity and return and the framework set out in this Strategy. ~~A schedule will be included in the Council's TMP's for staff and circulated to members as a background paper to the strategy and when/if it is updated during the year~~.

Investment Limits: The Authority's uncommitted revenue reserves available to cover investment losses are forecast to be £20.1 ~~18.4~~ million on 31st March 2016. These uncommitted reserves include the following items; General Fund Balance £5m, Revenue Support £1.3m, New Homes Bonus £4.9m ~~4.7~~m and currently £8.9 ~~7.4~~m uncommitted resources as stated in the current estimated Resources Statement. ~~reported to Cabinet in February 2015.~~ In order that no more than 25% ~~27%~~ of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts, foreign countries and industry sectors as set out in Table 6. ~~below:~~ Investments in pooled 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 6: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker with Max of £5m in covered bonds
Foreign countries	£5m per country
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£2m in total
Money Market Funds	£10m in total

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

33. **Treasury Management Indicators**

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

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

Table 7: Portfolio Average Credit Rating	Target
Portfolio average credit rating	A+

b. **Liquidity:** The method for cash flow forecasting is set out in paragraph 31.

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

The liquidity measure is to have a minimum of £10m available within 3 months.

c. **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. Under the TM Code the upper limits on fixed and variable rate interest rate exposures, should be expressed as the amount or proportion of net principal borrowed or interest payable, with investments counting as negative borrowing. As the Council is debt free and to provide a meaningful indicator the limits on fixed and variable rate interest rate exposures are expressed as an amount and percentage of net principal of investments: Strictly this is contrary to the TM Code definition.

Table 8: Upper Limits on Interest Rate Exposures

	~~2015/16~~	~~2016/17~~	~~2017/18~~
Upper limit on fixed interest rate exposure of net investment principal	£28m ~~£24m~~ /40%	£24m ~~£22m~~ /40%	£22m ~~£20m~~ /40%
Upper limit on variable interest rate exposure of net investment principal	£70m ~~£60m~~ /100%	£60 m ~~£55m~~ /100%	£55m ~~£50m~~ /100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months ~~the whole financial year~~, measured from the start of the financial year or the transaction date if later. Instruments that mature during the financial year are classed as variable rate.

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

d. **Maturity Profile of Borrowing**

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

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

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

	2016/17 ~~2015/16~~	2017/18 ~~2016/17~~	2018/19 ~~2017/18~~
Limit on principal invested beyond year end	£20m ~~£15 m~~	£15m ~~£9m~~	£10m ~~£6m~~

Table 9 sets out the upper limit for each forward financial year period for the maturing of investments for periods longer than 364 days up to their final maturities beyond the end of the financial period. The limit for 2016-17 equals the total medium and long term investment limit stated in table 5. The next two financial year limits are smaller, effectively limiting the investments that can be made for longer than 2 years and 3 years. In essence this reflects a maturity pattern of the medium and long term debt, in that £5m should mature in 2016-17, and another £5m in 2017-18. The remaining balance would mature beyond 2017-18, up to maximum period of investments allowed as set out in table 4, ~~but no longer than 2019/20.~~

34. Other Items

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

35. Policy on Use of Financial Derivatives:

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

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, 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. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

The use of any derivative will be explicitly explained to the Corporate Governance & Audit Committee in relation to the risk being managed, except in relation to forward deals, as these are undertaken as part of cash flow management.

36. Investment Training:

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

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

To address the training need of members, training will be provided to members of both Cabinet and the Corporate Governance and Audit Committee in advance of them considering the forthcoming year's strategies. The training was provided by the Council's treasury adviser in October 2015.

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

38. Reporting Arrangements

The Council will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities and on the performance of the treasury management function.

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, such reports to be submitted by 30th September in the succeeding 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, Corporate Governance and Audit Committee has responsibility for the scrutiny of treasury management policies and practices.

The Cabinet member for Finance and Governance, and the members of the Corporate Governance & Audit Committee receive monthly monitoring reports of the investments held. The monthly reports should include any negative outlook for investment vehicles used by the Council and appropriate benchmarking.

The Council reports their treasury management indicators as detailed in the sector specific guidance notes; which are set out in an appendix to the Treasury Management Strategy Statement for the Prudential Indicators and Treasury Management Indicators of this report for the forthcoming year, and reported for the out turn in the June after the year end.
39.

39. **Investment of Money Borrowed in Advance of Need**: As the Council does not anticipate the need to borrow in the foreseeable future, except in the short-term for cash flow purposes only, it is therefore not expecting to borrow in advance of need, and so does not need to set out any operational criteria for this situation in the 2016-17 Strategy.

40. **Financial Implications**

The budget for investment income in 2016-17 is £0.246million, based on an average investment portfolio of £32.8 million at an interest rate of 0.75%. If actual levels of investments and actual interest rates differ from those forecast, performance against budget will be correspondingly different and impact the intended use of investment income as set out in the Council's Financial Strategy.

TREASURY MANAGEMENT PRACTICE NOTES

TMP 1 – RISK MANAGEMENT

General Statement

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

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

[1] Credit and Counter party risk management

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

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

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

Monitoring Investment Counterparties

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

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

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

[2] Liquidity Risk Management

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

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

To maintain flexibility and liquidity the maximum amount of medium and long term lending is set at £20m; the balance of surplus funds will be held short term, with a minimum of £10m available within a 3 month period.

[3] Interest rate risk management

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

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

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

Objective: To minimise the financial risk to which the Council is exposed in both cash deposits and borrowing the Council aims:

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

In order to achieve these objectives the following specific policies should be adopted:

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

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

[4] Exchange rate Risk Management

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

[5] Refinancing risk management

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

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

[6] Legal and regulatory risk management

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

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

[7] Fraud error and corruption, and contingency management

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

[8] Market Risk Management

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

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2015

Strategic Risk Update

1. Contacts

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2. Recommendation

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

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

3. Background

3.1. In accordance with the governance arrangements set out in the Risk Management Strategy and Policy, the Strategic Risk Group (SRG) reviews both the strategic and high scoring organisational risk registers bi-annually. The Corporate Governance and Audit Committee last received an update on the risk registers on 22 January 2015.

3.2. Since January, the Corporate Management Team (CMT) has received quarterly updates on both risk registers and its last review was undertaken on the 15 September 2015. The outcome of this was incorporated in the risk registers which were then considered by the SRG on 28 October 2015.

4. Outcomes to be achieved

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

5. Proposal Risk Management Policy & Strategy Framework

5.1. At the recent SRG meeting, members suggested that the following amendments were made to the risk management framework that is attached to the Council's approved Risk Management Policy and Strategy:

- The frequency of review of the strategic partnerships and allied groups should be amend to "as appropriate"
- Programme Boards and their responsibility for risk management to be added.

5.2. The revisions have been incorporated in risk management framework detailed in Appendix 1. It should be noted that as this is not considered a material change to the approved Risk Management Policy and Strategy neither Cabinet nor Council are required to approve these amendments.

6. Update on the Strategic Risk Register

6.1. The strategic risk register was considered by the relevant risk owner prior to the review by CMT on 15 September 2015. The discussions focussed on the risk scores, the current issues and any mitigating action plans that were being delivered to better manage the identified risks.

6.2. The SRG considered the updated risk register on 28 October 2015, and the following recommendations were made:

a. **CRR 1 Deficit Reduction (Balanced Budget)** – That this risk be retitled 'Financial Resilience', and that the principles in the Financial Strategy be added as an external internal control.

b. **CRR 2 Local Plan** – That this risk be moved to the organisational risk register to be monitored at service level.

c. **CRR 4 Project Management** – That this risk be moved to the organisational risk register to be monitored at service level.

d. **CRR 8 Skills/Capability/Capacity** – Following the discussions it was recommended that the risk score should be increased from 2 to 8 and that the risk description should be amended to 'Failure to have resilience in the staff structure and so lack the right number of staff with the right skills to deliver services…..

e. **CRR 9 Business Continuity** – Following discussions it was recommended that the risk score be increased from 4 to 6 and the target score be changed from 4 to 3, based on the likelihood score being decreased from 2 (possible) to 1(unlikely) and the impact score increased from 2 (significant) to 3 (serious).

f. **CRR 10 Contract Management** - That the risk description is amended to "Failure to manage **and specify** contract…."; so as to adequately describe the sentiment regarding proper procurement and specification production.

g. Two issues were suggested to be added to the strategic risk register:

- **CRR 97 Cyber Attacks** which are linked to business continuity and the reputational risk and possibility financial due to any fines if a serious breach occurs due to the sensitive data held by the authority.
- **CRR 98 Devolution Issues** which may have an impact on the services to be provided by the council or other partners.

6.3. Appendix 2 shows the current risk register in light of SRG's comments and the heat map below shows where the individual risks are placed based on the recent assessment against the risk scoring matrix:

LIKELIHOOD		8		
			97, 98	
		10	9, 88	
		3	1	68
IMPACT				

6.4. SRG also requested that the following information is sent to members on a regular basis:

- Quarterly financial information reports
- Quarterly Corporate Plan performance reports against projects and activities.

7. Programme Board Risk Registers

7.1. Three Programme Boards have been set up since the last risk review by SRG. These Boards are for Business Improvement, Commercial and Infrastructure and involved service leads and the relevant portfolio holder. A risk register, if necessary, is compiled for each board. Any high scoring risks from these risk registers would be escalated within the Risk Management Framework for consideration by senior officers and members as necessary.

7.2. The high scoring risks and the associated mitigation plans are shown in appendix 3.

8. Update on the Organisation Risk Register

8.1. The SRG considered the high scoring risks and the associated mitigation plans are shown in appendix 4.

9. Other Implications

	Yes	No
Crime & Disorder:		X
Climate Change:		X
Human Rights and Equality Impact:		X
Safeguarding:		X

10. Appendices

10.1. Appendix 1 – Risk Management Framework
10.2. Appendix 2 – Strategic Risk Register (Exempt Information – para 3)
10.3. Appendix 3 – Mitigation Plans for High Scoring Programme Board Risks
10.4. Appendix 4 – Mitigation Plans for High Scoring Organisational Risks

Risk Management Framework

Appendix 1

Who	Roles & responsibilities	Report Type	By Whom	Frequency
Council	Agree the Risk Management Policy and Strategy Receive and act upon: reports from Cabinet and Chief Executive; reports, recommendations and advice from Corporate Governance & Audit Committee	Annual Governance Statement and other relevant reports	Cabinet and CG&AC	Annually
Cabinet	Consider the Risk Management Policy and Strategy and receive reports on them Hold the political responsibility for risk within each individual portfolio Identify a lead portfolio holder for Risk Management	Risk Management Policy and Strategy and relevant reports	CGAC/Portfolio Holder	As requested
Corporate Governance & Audit Committee (CGAC)	Consider corporate strategic risks and control and monitoring arrangements Review Internal Audit priorities and risk assessments Report to Full Council each year on corporate governance issues and internal arrangements to monitor and control risks	Assurances on effectiveness of risk management Updates on corporate risk and action plans	Head of Finance and Governance Services	Bi-annually
Strategic Risk Group	Consider any strategic and operational risks, the associated controls, management and any mitigation.	Review of previously identified strategic risks and any detailed consideration of any newly identified risks. Workshop held with SLT & members.	Chief Executive	Bi-annually
Corporate Management Team (CMT)	Contribute towards the identification and management of strategic and cross-cutting risks Responsible for effectiveness of risk management and assurance frameworks and any mitigation Regularly review the strategic risk register Quarterly monitoring of strategic and operational risks and associated action plans	Reviews of policy, strategy and framework Corporate and service performance reports with operational and strategic risks	CMT assurance and risk updates Programme and Partnership boards performance	Quarterly
Programme Boards	Responsible for identifying and managing the risks associated with the work programme of the Board.	Review and update of risk register at each meeting. Report any risk that requires escalation to CMT as necessary	CMT Lead Officer & Programme Board Members	Monthly or Bi-Monthly
Strategic partnerships and allied groups	Responsible for the identification and management of risks within their given areas Local Strategic Partnership responsible for considering community risks in their wider sense	Task and finish groups report to LSP Reports on the management of risks Escalate high risks as required	Lead Officer Lead Member	As appropriate
HoS/Service Managers	Contribute towards identification and management of operational risks incorporated in service plans Maintain awareness of and promote risk management policy and strategy to staff Ensure risks have been identified and are addressed and mitigated Ensure supplier and procurement risk is considered in service plans	Report on those departmental/ service/ project risks that require consideration for escalation to the corporate Risk Register Review of risk registers and other risks as standing item at HoS meetings	HoS/Service Managers Project Boards	Quarterly or as required
Employees	Manage risk effectively in their job and report hazards/risks to their service managers	Report incidents/risks following procedures in corporate policies	All employees	As necessary/required

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

Document is Restricted

Appendix 3

Corporate Risk Register – Programme Board Risks Quarterly Update

Risk Status	
	Alert
	High Risk
	Warning
	OK
	Unknown

Infrastructure Board

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	PBR 01	Failure to engage or reach agreement with delivery partners	AF	9	9	9	9	31 March 2016	Improving

Mitigation - Delivery partners will be engaged through the production of the Infrastructure Business Plan and consulted on the draft version. Given the partnership approach to infrastructure planning, areas of potential disagreement should have less impact.

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	PBR 02	Failure of partners to deliver	AF	8	8	8	9	31 March 2016	Improving

Mitigation - Delivery partners will be engaged through the production of the Infrastructure Business Plan and consulted on the draft version. Given the partnership approach to infrastructure planning and the allocation of CIL or other funding in some cases, the likelihood of partners not delivering is reduced.

Commercial Board

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	PBR 03	Staff resources to deliver projects	JH	16	16	16	2	31 March 2016	Improving

Initial Project Proposal Document (IPPD) prepared for additional resources within the Estates team.

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	PBR 04	Financial resources to deliver projects	JH	8	8	8	2	31 March 2016	Improving

Investment fund established, however, this may not be sufficient and therefore opportunities will be considered on a case by case basis.

Appendix 4

Corporate Risk Register - Organisational Risks Quarterly Update

High Scoring Organisational Risks - Mitigation Actions

Risk Status	
	Alert
	High Risk
	Warning
	OK
	Unknown

Commercial Services

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	CRR 54	Westgate - Increased utility costs	JH	9	8	8	4	31-Mar-2016	Improving

Currently awaiting CHP project to achieve potential savings. Current billing is on an estimated basis rather than actual usage due to a technical fault which the supplier will fix imminently.

Community Services

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	CRR 72	Careline - Reducing income due to cancellation of contracts by both individuals and commercial clients	SH	9	6	6	6	31-Mar-2016	Improving

Review conducted and scoring amended regarding income reduction which is mitigated through relationship management which is in place. 2nd element to be added: error or technical fault causes death or injury and consequential reputational damage likelihood 2 impact 3 = risk measure 6. Mitigation in place. Staff training in place issuing of instructions and quality assurance of telephone call handling.

Finance & Governance Services

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	CRR 92	Accountancy Services - Loss of key skills and knowledge	JW	6	6	6	2	31-Mar-2016	Improving

The recruitment campaign undertaken during August and September to fill vacant and new roles in the revised team structure has generally been successful, as only 1 role remains to be re-advertised. Some of the appointed staff have yet to start, so to improve resources temporary staff have been employed. The project work which has been delayed will be reassessed once the majority of the budget work has been completed by the team.

Housing & Environment Services

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	CRR 33	Environment - Coast defence contractors - Emergency response to major storm event	LR	6	6	6	6	31-Mar-2016	Good

No change. Bad weather earlier in the year showed our contractors were able to respond effectively.

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	CRR 51	Housing - Welfare reforms	LR	9	6	6	4	31-Mar-2016	Good

New benefit cap announced by government. Plans to be agreed between the Housing and Benefits teams to work with affected residents.

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	CRR 53	Housing - Residents unable to access affordable homes	LR	9	6	6	4	31-Mar-2016	Good

Housing Strategy currently being reviewed in light of the Housing and Planning Bill. Proposals to come to OSC in January and then on to Cabinet.

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	CRR 67	Environment - Emergency Planning - loss of key staff, long term sickness (single point of failure)	LR	12	6	6	6	31-Mar-2016	Good

Resilience improving due to partnership working with Arun

Planning Services

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	CRR 94	Planning - Lack of member support for site allocation for gypsy & travellers	AF	6	-	6	2	31-Mar-2016	Improving

Consideration of alternative approach if 5 year supply exists or application of criteria based policy to determine planning applications. Member workshops and consideration of alternative sites.

Status	Risk No.	Risks Area	HoS Lead	Original Score	Previous Review Score	Current Score	Target Score	Target Date	Internal Controls
	CRR 96	Planning - Lack of stakeholder/parish council agreement on infrastructure priorities	AF	6	-	6	2	31-Mar-2016	Improving

Formal governance process in place to manage these risks. Individual meetings with parish councils and exploration of the use of the parish element of Community Infrastructure Levy (CIL).

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2015

Overarching Investment Opportunities Protocol

1. Contacts

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2. Executive Summary

This report describes proposals for implementing an investment strategy to preserve and improve the financial and other resources available to the Council. The strategy aims to generate revenue income from capital investment, and is a direct response to the prospect of dwindling central government funding in future years.

The strategy sits within, and adopts the principles incorporated in the Council's corporate Asset Management Plan in respect of land and property transactions. However, as well as land and property, the strategy is open to other forms of investment opportunity to the extent that they support and promote other Council policies, plans and priorities.

To fund investment opportunities as they arise, the investment strategy will draw upon the newly established Investment Opportunities Reserve, supplemented by other available sources of internal and external finance, to the extent that it is necessary to realise approved investments.

3. Recommendations

3.1 That the committee agrees to set up a Task & Finish Group to consider the Investment Strategy described in this report (including the Land & Property Sub-Strategy at Appendix 1 and report back to the January Committee.

4. Background

4.1 At its meeting of 3 February 2015, the Cabinet considered a report on the Council's Budget Spending Plans 2015-16 and resolved that "a new Investment Opportunities Reserve of £824,000 is created" (Paragraph 6.10 of that report).

4.2 The purpose of the reserve is principally to fund investments that will generate increased income given the expectation that central government funding shall continue to diminish over time. Accordingly, the Council recognises the importance of accessing investment opportunities of all kinds to maximise its income earning potential alongside other measures aimed to preserve services while maintaining a balanced budget.

4.3 To this end the Investment Opportunities Reserve has been established comprising capital funds of £824k, which will be used in conjunction with other available resources (capital receipts, earmarked capital & revenue reserves, borrowing etc.) for the purposes of securing investments in land, property, and other assets that will generate higher returns than currently available for alternative cash investments at a time when interest rates remain at historically low levels.

4.4 This report sets out the broad considerations that need to be made, and the procedures to be followed, with regard to future investments to be funded from the Investment Opportunities Reserve. The strategy aims to provide consistency of approach and transparency to decision making.

5. Scope (Terms of Reference)

5.1 The Council will consider all forms of investment within its powers with the principal aim of enhancing the revenue income generating potential from capital investment.

5.2 To this end, the strategy adopts a requirement for new investment opportunities to provide a minimum financial return equivalent to the higher of:

i) 3% above the prevailing 20 year Public Works Loans Board (PWLB) loan rate, or
ii) 3% above the average level attained on treasury management investments in the prevailing financial year.

5.3 At existing rates of interest, the 20 year PWLB rate (being the higher) plus 3% or more would apply, making the target level of return 5.56% (by contrast the use of average returns for treasury management would result in a lower target of 3.87%).For indicative purposes these targets are contrasted against current performance as follows:

Source of Return	Actual Return 2014/15	Actual Return 2015/16 (to 2 November 2015)	2015/16 Difference from PWLB Target Rate of 5.56%
Treasury Management	0.87%	0.81%	-4.75%
Property *	10.24%	9.09%	3.53%
Combined Return	1.05%	1.52%	-4.04%
**Based on acquisition of 4A & 4B Terminus Rd (Willow Park), 8A Terminus Road (Woodruff Centre) & 2-8 Crane Street*			

5.4 The target level of financial return is therefore not a fixed rate, but determined relative to movements in market rates over time. The link between the financial target and the 20 year PWLB borrowing rate is intended to reflect the expectation that investments shall typically be of a long term duration. Similarly, the link between the target and the

Council's treasury management performance reflects the expectation that any form of investment should outperform it's alternative cash equivalent. The proposed addition of a 3% mark-up to both benchmarks is to ensure that the investment opportunities derived from the Strategy are not only worthwhile, but distinct from other forms of investment that may produce more modest returns.

5.5 However, it is also recognised that financial return is not the sole rationale in any investment decision, as there may be other important considerations which may vary in emphasis over time. Such considerations may include either in combination or individually any number of the following

- The extent to which council plans, policies and priorities are supported
- The benefit to the local community, its residents, businesses and partners
- The Impact on the local economy, housing and infrastructure
- The potential to regenerate or develop the local area
- The risks involved, as well the benefits.

5.6 Accordingly, the investment opportunities strategy proposes that (subject to Member approval) flexibility be applied to enable an investment proposal to proceed where there is a strong non-financial reason for doing so, even though the overall level of financial return may fall short of the target financial return.

5.7 Thus, it is intended that a case by case review of each proposed investment be conducted using an appropriate evaluation methodology to establish how well it meets the target financial return and some (or all) of the considerations mentioned above.

5.8 In any event, in cases where it is not expected that the target financial return shall be met, the evaluation shall include comparison against other relevant benchmarks of financial performance where available. This is because although existing Contract Standing Orders do not cover the buying or selling of land or any interest in land, it is nevertheless the requirement to obtain the "achievement of the best consideration in the circumstances and to recognise the Council's community objectives".

5.9 Consequently, while investments shall be selected with a view to 'future-proof' the financial resources the Council has available, it shall also be considered with a view to maintain, extend or improve service delivery for the benefit of the community generally.

6. The Council's Legal Power to Invest

6.1 Generally, The Local Government Act 1972 empowers Councils as follows:

"a local authority shall have power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions" (Part VII, Section 111).

In exercising this power, the Council aims to obtain a mixed portfolio of investments that spreads both the return and risks across a range of assets, such as:

- Land and property acquisition
- New housing investment
- Business Opportunities
- Financial assets (cash or non- cash)

6.2 Where necessary, the appropriate legal advice shall be obtained to ensure the legality of any proposed transaction before it is secured or obligates the Council.

7. Investment Protocol

7.1 The investment strategy is intended to be applied in accordance with the Council's prevailing Contract Standing Orders and Financial Regulations, and therefore is not a substitute.

7.2 Accordingly, the process for considering, approving and recording any form of investment (excepting those relating to investment of cash surpluses made under the Council's Treasury Management Strategy and Annual Investment Strategy) shall follow the provisions under the Asset Management Plan, Contract Standing Orders and Financial Regulations to the extent that they are appropriate for procuring supplies and services, appraisal of contractors and contracts, and any other incidental tasks relevant to the form of investment.

7.3 For any one particular category of investment, the provisions so prescribed in these sources of reference shall be supplemented (where deemed to be necessary) by a "sub-strategy procedure document" making clear any additional requirements to be followed or satisfied. For example, it may set out additional decision criteria or methodology for assessing the suitability of an investment, the benefits or risks associated with the investment, or any additional officer and Member reporting requirements. An example is attached at Appendix 1 being the proposed sub-strategy for Land and Property Acquisitions.

7.4 The Land & Property Sub-strategy procedure is the only one proposed at the current time. Any further procedures that may be proposed in future for other forms of investment shall be submitted in the first instance to the Commercial Programme Board (or other relevant Committee) for approval prior to being adopted.

7.5 Any investment opportunities shall be assessed against the criteria stated in the Council's prevailing capital prioritisation form assessment, and must go through the appropriate approval process before any commitment to the investment is made.

7.5 In any event, formal Member approval by way of a report submitted to the appropriate Committee shall be obtained in advance of committing to any form of investment where Contract Standing Orders and Financial Regulations require this.

8. Investment Risks for the Council

8.1 The Strategy 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.

8.2 To mitigate the impact of uncertainty the investment objective shall be 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).

8.3 Accordingly, the consideration of any investment shall include a risk assessment that shall aim to measure 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.

8.4 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.

• 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.

8.5 In order to manage some of the risks associated with the acquisition of assets under this investment protocol a thorough and due diligence process must be adhered to identify any potential risks as part of the evaluation process.

9. Resource & Financial Considerations

9.1 The Investment Opportunities Reserve currently has £824k available for capital investment. As investments are made over time (and the amount available diminishes to fund future investments) there will be a need to replenish the fund or supplement the amount available with other financial resources.

9.2 Where this need arises, the Head of Finance & Governance shall be consulted to consider the availability of other sources of internal or external finance by which to supplement the Investment Opportunities Reserve, or otherwise to fund new investments. Among the options considered shall be the scope for making contributions from revenue underspends that occur at year end, or transferring a proportion of in-year capital receipts to the Reserve.

9.3 In these respects the use of existing internal resources such as capital receipts or other surplus reserves is likely to be preferred to prudential borrowing from external sources. But such borrowing as may be considered necessary and approved shall be conducted within the approved limits for Prudential Borrowing applicable.

10. Consultation

10.1 This report has been prepared by officers comprising the Capital Investment Development Group who have met on several occasions in 2015. The report has duly been considered by the meeting of the Commercial Programme Board held on 28 July, and Corporate Management Team meeting on 12 August.

11. Community impact and corporate risks

11.1 The community impact of any particular investment proposal is indeterminable at this stage as it is dependent on the ultimate type of investment entered into (e.g. whether property related, purely financial, or other form of investment).

11.2 The corporate risks are those covered above by Section 8 of this report.

12. Other Implications

12.1 Such investments as may be made shall be done so ethically in a manner that is consistent with other Council policies, values and practices, and does not inadvertently result in promoting, supporting or delivering outcomes that the Council would not wish to occur.

12.2 Other implications considered include:

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

13. Appendices

Appendix 1 - Land & Property Sub Category Report

14. Background Papers

None

Appendix 1

Investment Opportunities Protocol - Land & Property Sub Category

1. Introduction

1.1 This is the land and property sub category protocol which is under the overarching investment opportunities protocol, so as to provide specific guidance to officers dealing with property investment acquisitions. The strategy also provides guidance regarding retention of revenue producing property assets and guidelines for dealing with request by tenants or other parties to purchase or change the Council's interest in a property.

2. Background

2.1 With low rates of interest for deposited reserves the Council has recognised that land and property can generate a return on capital with the additional potential of capital and rental growth in the longer term. Retention of income producing properties and acquisition of carefully selected investment purchases has therefore become an important element of the Council's investment opportunity strategy. In line with this at its meeting of 3 February 2015, the Cabinet considered a report on the Council's Budget Spending Plans 2015-16 and resolved that "a new Investment Opportunities Reserve of £824,000 is created" (Paragraph 6.10). The potential for land and property investment purchases are not, however, restricted to the sum available from this reserve

2.2 This report sets out the considerations that need to be made, and the procedures to be followed, with regard to future property investment and retention. The strategy aims to provide consistency of approach and transparency to the decision making process.

2.3 In addition to providing guidance for the purchase of new investment properties and land, this strategy also provides guidance regarding the retention of existing income producing property assets, and generation of income through land and property development and other property transactions and initiatives.

3. Scope (Terms of Reference)

3.1 A key aim of investing in land and property is for the enhancement of revenue income from capital investment above the levels obtainable from other forms of investment. This reflects the Council's aim to acquire, develop and retain property assets to provide increased financial resilience in the context of decreased funding from central government.

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

3.3 For these reasons priority will be given to acquiring property in the Chichester District, albeit opportunities to acquire properties elsewhere shall not be excluded altogether if a justifiable case exists for doing so.

3.4 Additionally the Strategy recognises that it does not stand alone but sits within the context of other corporate policies and plans to which due regard shall be given, such as:

- Planning Policies (Local Plan, Local development Schemes, Master Planning Strategic sites etc.)
- Economic Strategy
- Economic Development Action Plan
- Asset Management Plan
- Estates Service Plan – Chichester Enterprise Gateway , Barnfield Drive Development
- Medium Term Financial Plan – size and sources of available funds

3.5 This protocol may need to consider any future strategies that may be developed over time and so the list stated in 3.4 is not exhaustive.

3.6 The Council will pursue a mix of land and property investments for leasing or rent (e.g. industrial, retail or office related units etc.) subject to satisfying the decision criteria specified in Section 6 below.

3.7 The investment strategy aims to acquire land and property for the longer term (10 years or more) to reap the benefit of sustained rental income and capital appreciation as land and property values recover from the effects of economic downturn in recent years.

3.8 From time to time the Council has issues when other parties seek to obtain interests in property that it may not be in the Council's interests to grant them. For example the Council has retained freehold ownership of most of the land at the Quarry Lane and Terminus Road industrial estates and it is not considered to be in the Council's interests to release this in a piecemeal fashion when requested by occupying tenants. Similarly the Council has been willing to extend leases where this facilitates regeneration or redevelopment but not where it is felt that this will prolong the retention of poor standard buildings. More generally the council wishes to retain revenue earning properties and does not wish to sell to occupying tenants. It will assist officers in dealing with requests of this nature if there are underlying policies that they can refer to.

4. The Council's Legal Power to Acquire Land and Property

4.1 Generally, the Local Government Act 1972 empowers the Council to acquire any land and property or right which facilitates, or is conducive or incidental to, the discharge of any of its functions. Where necessary, the appropriate legal advice shall be obtained to ensure the legality of any proposed transaction before it is secured or obligates the Council.

4.2 The strategy will apply to all acquisitions of land and property for investment purposes. For the purpose of this strategy, an acquisition is defined as acquiring a legal interest in land and property, namely the taking of a freehold, leasehold or licence in land and property for investment purposes.

5. Local Property Market & Investment Opportunities

5.1 The Council's existing property portfolio generates income of approximately £2.5 million per year for the General Fund revenue account.

5.2 This income comprises rents and licence fees principally from 57 industrial units, 66 commercial and industrial ground leases, 36 shops, 19 offices, 27 lettings to sports, community and voluntary organisations, 7 kiosks and concessions (including the Chichester

Traders Market), miscellaneous lettings such as the crematorium and bus station, 26 commercial access agreements and 82 residential access agreements.

5.3 Signs of gradual improvement in property markets in the South East following the aftermath of the 2008 financial crisis and economic downturn in the UK and other European countries for the years that followed mean that it is in the interests of the Council to make further acquisitions as early as possible before property values increase further.

5.4 Within the Chichester area investment opportunities are limited and potential acquisitions must be considered as they arise. Retail, industrial and commercial properties are the properties most likely to meet the Council's criteria for investment acquisition.

5.6 The Investment Opportunities Reserve currently holds funds of £824,000 but the Council will consider using General Reserves should funds in the Investment Opportunities Reserve be insufficient to acquire a property deemed to be of significant importance or value. Additionally, the Council may consider the possibility of Prudential Borrowing to meet the shortfall providing the outcomes specified in Section 6 below are satisfied and the Council would not exceed its Prudential Borrowing Limits (See Financial Implications below). The use of general reserves is likely to be preferred to borrowing if funds are available.

6. Investment Decision Criteria

6.1 The following matters will be taken into account either in isolation or in combination (e.g. as part of an appropriate evaluation matrix) in assessing the suitability of an investment. It is intended that each investment shall be looked at on its own merits, and the criteria are to be treated as a guide rather than there being a requirement for compliance with every condition.

Acquisitions should be within the Chichester District Council Area:

- Acquisition will be preferred if a community or economic development benefit is achieved through Council ownership, and the acquisition assists in strengthening the local economy. Properties with existing income producing tenancies or pre-lets are likely to be preferred to vacant properties. The suitability of the tenants from an ethical point of view will be considered as part of the evaluation of any investment opportunities. The strength of tenant covenants, length remaining on leases and terms of leases will also be taken into consideration (ideally seeking acquisitions, pre-let to tenants of good covenant on fully repairing and insuring terms, with an unexpired term of at least 5 years and how secure the tenant is);

The acquisition provides an acceptable rate of return compared to placing the funds on deposit for an equivalent period, and also other benchmarks of performance for a similar investment. The rate of return required will vary according to the type of land or property interest being acquired. In the market secure income produces a lower yield than riskier investments but both may be acceptable if the return reflects the circumstances, risk and level of landlord involvement.

Any risks associated with the investment opportunity should be identified and any mitigation actions should be identified in order to ensure that any residual risks are not contrary to the risk appetite of the Council.

Other considerations

- Acquisition will expedite existing agreed Council strategies, plans or priorities;

- Acquisition supports partnering arrangements beneficial to the Council and the local community;

- Acquisition will consolidate the Council's existing land holding portfolio to facilitate larger developments;

- Acquisition will assist in the modernisation of the District's business infrastructure and/or encourage inward investment, re-location or business start-up;

- Acquisition is not in conflict with strategic planning policies

- Acquisition will not increase the Council's ongoing revenue costs in the longer term;

- Acquisition should generally be good quality commercial land and property but not necessarily limited to traditional sectors, e.g. retail, office and industrial but also consider other innovative land and property opportunities;

Guidance for Land and Property retention, development and other property initiatives

- The Council will retain revenue producing property assets and will usually reject requests by tenants and other interested parties to acquire the Council's freehold interest.

- As an alternative to acquisition, property development (such as the Enterprise Gateway) may be an alternative way of generating revenue income from land and property. There will also be a regeneration/economic development interest arising from this.

- Other property initiatives such as site assembly, taking lease surrenders or buying subordinate leasehold interests will be pursued to improve the Council's property holdings and revenue income.

- Re-gearing of leases, particularly at Quarry Lane and Terminus Road, where existing leases are not on modern terms with modern rent review patterns will be carried out when the opportunity arises. However this is to be used as an incentive to tenants to redevelop sites or substantially refurbish outdated premises and there will be an assumption that extended or re-geared leases will not be granted where a tenant is only seeking a more secure term without undertaking the redevelopment or refurbishment.

- Where a property has strategic value to the Council, some of the above criteria may be relaxed e.g. land capable of development or required to enable development.

7. Property Investment Procedure

7.1 In all cases where the acquisition of an interest in land or property is being considered, the acquisition must be carried out and negotiated by the Estates Service (or otherwise to be determined and agreed).

7.2 The Council will usually appoint an agent who has introduced a potential acquisition to act on behalf of the Council in the negotiations. As part of that instruction the agent will usually be expected to provide a purchase report and valuation. If that is not the case, in respect of a significant acquisition, a valuation will be commissioned by the Council from an appropriately qualified third party.

7.3 When a property is identified as a potential investment, it is proposed that the following "Acquisition Protocol" is applied:

ACQUISITION PROTOCOL

1. Potential land or property for acquisition is identified by Estates Section, and Legal & Finance staff informed.
2. Estates Team in consultation with other officers evaluate each potential land or property acquisition in accordance with the decision Criteria (Section 6 above).
3. If the potential investment meets the decision criteria Estates Section refer the proposal & evaluation to Senior Leadership Team (or Commercial Programme Board) for approval to report to Cabinet/Council.
4. If the Senior Leadership Team (or Commercial Programme Board) approves the proposed investment the Recommendation is referred to Cabinet /Council by way of a formal Report.
5. If Cabinet / Council approval is obtained, Legal Services are instructed by Estates Section to proceed with formalising the acquisition (Estates Section to assist Legal Services throughout the process until completion).

To ensure that investments meeting the Council's decision criteria are not lost when time is limited, it is recommended that the Head of Commercial Services in consultation with and approval of the Head of Finance and Governance and Cabinet Member for Commercial Services, be given delegated authority to proceed to negotiate "subject to contract" after Point 2 above has been completed. No final or binding offer shall be made by any Council Officer unless all the protocols have been satisfactorily fulfilled.

8. Possible Risks for the Council

8.1 The Strategy recognises that any form of investment is not without risk since property values and rental streams may vary over time, especially where the property is to be retained over many years. Property values and rentals can rise over time but tenancy issues, need for repairs and voids can also occur and could affect the income received from a property. Accordingly, the strategy operates within the context of the following identifiable risks that the Council consider to be acceptable.

- Acquisition Risk – the property market has been in recession, with less institutional activity, but has signs of increased competitive activity from smaller property companies. This means it is likely that the Council will be one of several bidders for any good-quality properties and may be an unsuccessful bidder on a number of occasions.

- Cost Risk – Abortive costs, including legal costs, survey fees, officer time, all may be incurred in abortive transactions including costs for initial feasibility investigations.

- Lack of suitable sites/buildings –the property market is restricted and is dominated by secondary or tertiary assets that may not be of the quality the Council would acquire. There may therefore be a shortage of suitable stock in the locality.

- Property market risk – property is an inherently riskier asset than other asset classes because of its physical characteristics, which need to be managed and maintained. This is ideally compensated by increased returns. However, the property market is not a certain market and the Council may not achieve its target returns if market conditions deteriorate in future years following acquisition.

- Transactions may occur prior to a property ever coming to the market. Obtaining prompt information to identify properties for sale is vital. This can be done through the Estates Section maintaining close contacts with property owners and agents in the locality, but may not always result in a successful acquisition.

8.2 Accordingly, the Council shall evaluate risks of acquisition on each occasion in order to mitigate the likelihood of the risks occurring, or to minimise abortive costs.

8.3 The risks associated with an investment opportunity once identified, along with any mitigation actions, must also then be assessed or considered against the whole property portfolio. The rate of return normally reflects the perceived risk of an investment opportunity or acquisition (i.e. the higher the risk the higher the rate of return), so it is necessary to ensure that the portfolio is balanced and has a wide range of the rates of return in order to manage the risks.

9. Financial Considerations

9.1 Land and property Investments are likely to produce a higher return than interest received on bank deposits but there are potential risks and costs.

9.2 The Council presently has sufficient reserves to fund limited land and property acquisitions. Future disposals will provide additional potential capital and a new Investment Opportunities Reserve has been established – this being a capital fund derived from a transfer from revenue resources to fund capital expenditure.

9.3 Should funds fall below the amount necessary to acquire a proposed property that is deemed to be beneficial and meets the decision criteria in Section 6, the Head of Finance & Governance may consider the option to supplement the shortfall by Prudential Borrowing (within the Council's approved limits for Prudential Borrowing) if the return on investment is equal to or exceeds the cost of borrowing plus the anticipated rate of return. Use of existing reserves is however likely to be preferred if funds are available. The principals contained in the Council's Financial Strategy should be considered when identifying funding sources.

9.4 Accounting guidelines define Investment Properties as properties held "solely for rental or capital appreciation". However, in practice the majority of the Council's income derives from a much broader property portfolio (see Para 5.2).

9.5 Consequently, for any proposed acquisition the Estates Section and Legal Services shall provide Accountancy Staff with the information necessary to ensure properties are correctly classified for financial reporting and accounting purposes, including a comprehensive assessment of the revenue and capital implications.

9.6 In particular, where properties are acquired for leasing to third parties, an assessment shall be required to ensure the leases arising may properly be treated as an operating lease – as this will ensure that revenue budgets may receive the full benefit of the income generated. With this aim in mind, an important consideration is that the lease term is not for the major part of the property's economic life. Furthermore, at the start of the leases, the net present values of future lease payments must not amount to substantially all of the fair value of the properties concerned.

9.7 Expenditure on Council owned property could also impact on the Council's additional VAT allowance (i.e. Partial Exemption Limit). Therefore, it is likely to be in the Council's interests to waive the exemption and opt to tax on new properties acquired, if that option has not already been exercised by the previous landlord. The status of tenants and their ability to reclaim VAT will be an influence to determining whether to opt to waive the VAT exemption.

10. Other implications.

10.1 The Property Investment Strategy described in this report is intended to be applied in accordance with the Council's prevailing Standing Orders and Financial Regulations, and therefore is not a substitute.

10.2 Accordingly, the procedures for procurement of supplies and services, appraisal of contractors and contracts, and other incidental tasks relating to the acquisition and retention of properties for investment shall follow standing arrangements.

10.3 Any investment opportunity must also adhere to the capital prioritisation assessment protocol.

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2015

S106 Exceptions Report and Update on the Implementation of Community Infrastructure Levy (CIL)

1. Contacts

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2. Recommendation

2.1. The committee is requested to note the contents of this report concerning section 106 agreements nearing their expenditure date (as set out in Appendix 1) and to raise any concerns.

3. Background

3.1. Section 106 (S106) financial receipts nearing the expiry date for expenditure need additional monitoring and input from officers and managers of the services concerned with spending S106 money. This is in accordance with the Section 106 Protocol approved by Corporate Governance and Audit Committee at its meeting of 15th September 2011. Under the protocol the Committee is due to receive an exceptions report each November detailing all contributions due to be spent within a two-year deadline.

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

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

4. Outcomes to be achieved

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

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

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

5. The updated position on those contributions received that will reach their target expenditure by end of November 2017

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

5.2. Definitions used in the report are as follows:

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

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

(c) Spent: outgoing expenditure already approved and undertaken

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

5.3 All the expenditure targets concerned are the notional 5 year targets that we apply for monitoring purposes rather than specifically written into the agreements. This is because the applicant can seek to vary an agreement, independently of or through a further planning application, after 5 years.

5.4 With respect to the matter of Farr's Field bus shelter, a sum of £25,000 was secured, at the request of West Sussex County Council, and not the District Council, for the provision of a bus shelter near the site. In the past, before the "Total Access Demand" (TAD) methodology was introduced. West Sussex County Council, in response to planning consultations, used to ask for contributions towards bus shelter provision but relied on the District Council to consult on and deliver the bus shelter, and then maintain the shelter in the future. Problems arose in negotiations with WSCC to find a suitable location for the bus shelter in the Farr's Field area, meaning it has not been possible to fulfil the obligation and spend the contribution for its intended purpose. The agreement was specific in requiring that the bus shelter be installed within 5 years of the receipt of the obligation and the funds were paid to the Council on 29 January 2008 so the specific target for expenditure has long passed. Therefore, following consultation with the developer arrangements are being made for the funds to be returned.

5.5 Other contributions

None of the contributions received for Affordable Housing; Waste and Recycling or Recreation Disturbance Mitigation reach their expenditure date by the end of November 2017.

6. Outstanding receipts

6.1. At the time of writing there are three outstanding contributions, which total £68,745 for Community Facilities, Sport and Leisure and Recreation

Disturbance contributions in respect of the Land north of Chaucer Drive development in West Wittering. As this site has reached a trigger date for payment, the developers have been invoiced and payment is expected shortly.

7. Update on Implementation of the CIL

7.1 Consultation on the CIL Draft Charging Schedule (DCS) ended on 5 January 2015. This generated a number of representations mainly related to the viability assessment and proposed CIL DCS rates with a number requesting that the Council activates the discretional relief for exceptional circumstances which is available within the CIL Regulations to partially address some of these concerns.

7.2 An independent examination in public by a planning inspector appointed by the Planning Inspectorate was held on 9 June 2015. After raising a number of post hearing questions, which the Council replied to and which were subject to consultation by interested parties, the Examiner indicated that his report would be issued to the Council shortly. If the Council's DCS is found to meet the requirements of the Planning Act 2008 in relation to legal compliance and viability, it is expected that the CIL will be adopted early next year.

7.3 Officers are continuing to work on the processes and procedures associated with the implementation of CIL including the acquisition of Exacom, a dedicated web based system to facilitate the management, collection and enforcement of CIL and S106 obligations, that is compatible with the Councils existing planning application system, Uniform/IDOX. The software will be installed and tested in the coming months along with customisation of templates. There are also a number of training sessions for officers arranged in preparation for implementation of CIL. We are also ensuring the Council's Uniform and CIVICA Systems are ready. A dedicated CIL Officer has been appointed to address CIL collection and monitoring. The post will be funded from CIL receipts as, under the CIL Regulations, the Council is allowed to retain up to 5% of the CIL revenues for the purpose of monitoring and administering CIL

7.4 **How CIL will affect planning obligations**

Developer contributions are currently collected through Section 106 (Planning Obligations). Planning regulations state that there should be no 'double charging' for infrastructure through CIL and Section 106, so once adopted, the majority of developer contributions will be secured via CIL. However, S.106 planning obligations will continue to play a key role in relation to affordable housing and certain site specific requirements. A Planning Obligations and Affordable Housing Supplementary Planning Document (SPD) has been prepared to show how S106 planning obligations, planning conditions, and Highways S278 agreements will work together as a set of tools to help achieve sustainable development. This has also been through a formal consultation process and it is intended that this SPD will be adopted by the Council. The document has been amended as a result of the consultation responses. The revised document will be reported to Cabinet, together with a pre-adoption statement at the same time as the Community Infrastructure Levy Charging Schedule is to be adopted.

7.5 The new CIL Officer was the S106 Planning Obligations Monitoring Officer and so this post is currently vacant with monitoring of existing agreements being undertaken jointly between the new CIL Officer and the Conservation and Design Manager. Approval has now been given to fill the S106 Monitoring Officer post for a fixed term of 2 years and recruitment will be undertaken over the coming weeks. Appointment of a new officer will ensure that current S106 agreements and funds received will continue to be closely monitored.

8. Resource and legal implications

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

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

8.3. Staffing implications – Authorisation for recruitment of a new S106 Monitoring Officer has been approved as stated in paragraph 7.5 above.

8.4. IT requirements – as detailed in 7.3 above.

8.5. Property implications - none

9. Consultation

9.1. Internal CDC officers involved with the S.106 process were consulted, and the matters set out in Appendix 1have been agreed by the S.106 Officer Monitoring and Liaison Group for referral to SLT and CGAC.

10. Community impact and corporate risks

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

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

10.3. Provided allocation of funds has taken place, the risk of having to return funds to a developer is considered minimal.

10.4. There is a potential risk of non-payment by developers or a risk that developers may seek to re-negotiate agreements reducing potential income. There are procedures in place for dealing with these potential situations.

11. Other Implications

	Yes	No
Crime & Disorder:		✔

Climate Change:		✔
Human Rights and Equality Impact:		✔
Safeguarding:		✔

12. Appendices

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

13. Background Papers

13.1. None

Appendix 1 - Details of receipts reaching their expenditure target by contribution

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

Expiry date within 2 years of 14/10/2015

Leisure

BX/10/05085/FUL - Land at Windmill Park, Halnaker Halnaker			Proposed Development
S106 Date : 23/05/2011			Erection of 31 no. residential dwellings with associated access, car parking, landscaping and highway works.
Received :	£28,537.00	Spending officer – Sarah Peyman. November 2014 - A response from Boxgrove Parish Council is still awaited regarding prioritization of their proposals and provision of 3 quotations for the works in order to obtain authorisation for the spend. March 2015 – Boxgrove Parish Council state that they are looking to make improvements to their sports pavilion and would like to utilise the funding from BX/10/05085/FUL to assist with this. June 2015 - Followed up with another email to PC on 19/5 but waiting for a response on project progress. August 2015 - Update received from Parish Council at end of June stating that they are proposing to use the funds for the improvements to the sports pavilion but they are still currently at architect stage. October 2015 – no change.	
5% Fee:	£1,426.85		
Remaining :	£27,110.15		
Allocated :	£0.00		
Spent :	£0.00		
Expires :	04-Aug-16 *		

WH/04/01070/FUL - Land West Of Devils Rush (former Apollo Garage site) Stane Street			Proposed Development
S106 Date : 12/01/2005			Residential development of 7 no. houses and 12 no. flats.
Received :	£20,000.00	Spending officer – Sarah Peyman. The Leisure payment £6,670 was for the provision of the bus shelter and the remaining balance is for maintenance. June 2015 - Still no requirement to date for any maintenance. August 2015 - As before, no further spend to date. October 2015 - no change.	
5% Fee:	£0.00		
Remaining :	£13,330.00		
Allocated :	£13,330.00		
Spent :	£6,670.00		
Expires :	15-Mar-17		

Public Open Space

CH/10/01013/FUL - Land at 30 The Avenue, Hambrook 30 The Avenue		Proposed Development
S106 Date : 10/11/2010		Erection of 23 residential dwellings with associated garages and car parking, landscaping and highways work.
Received : £6,000.00	Spending officer – Sarah Peyman. November 2014 - A response from Chidham and Hambrook PC is still awaited regarding identification of proposals, once received the spend will be authorised under delegated powers. March 2015 – The parish councils has been reminded of the need to respond with appropriate projects. June 2015 - parish council emailed 19/5 but no response to date. August 2015 - All of this funding has been requested by the Parish Council towards the development/improvement of the play area. Awaiting for authorisation for the spend. October 2015 - no change.	
5% Fee: £121.12		
Remaining : £5,878.88		
Allocated : £0.00		
Spent : £0.00		
Expires : 14-Mar-16 *		

BX/10/05085/FUL - Land at Windmill Park, Halnaker Halnaker		Proposed Development
S106 Date : 23/05/2011		Erection of 31 no. residential dwellings with associated access, car parking, landscaping and highway works.
Received : £8,000.00	Spending officer – Sarah Peyman. November 2014 - A response from Boxgrove Parish Council is still awaited regarding prioritization of their proposals and provision of 3 quotations for the works in order to obtain authorisation for the spend. March 2015 – Boxgrove Parish Council state that they are looking to make improvements to their sports pavilion and would like to utilise the funding from BX/10/05085/FUL to assist with this. August 2015 - Parish are currently looking to utilise these funds on their play area. October 2015 - no change.	
5% Fee: £400.00		
Remaining : £7,600.00		
Allocated : £0.00		
Spent : £0.00		
Expires : 04-Aug-16 *		

CCN/06/04244/FUL - Site D St Richards Hospital East Field		Proposed Development
S106 Date : 22/12/2006		Site 'D' St Richards Hospital. Erection of 100 no. residential dwellings, private and affordable, and all associated infrastructure.
Received : £12,202.00	Spending officer – Sarah Peyman. Spent on Oaklands Park improvements. October 2015 – awaiting information for spend of remaining funds.	
5% Fee: £0.00		
Remaining : £569.00		
Allocated : £0.00		
Spent : £11,633.00		
Expires : 15-Aug-17		

CCW/06/02510/FUL - 10-12 Fishbourne Road East Fishbourne Road East		Proposed Development
S106 Date : 14/09/2006		Proposed development of 17 no. residential units and associated works (mix schedule on layout plan).
Received : £3,137.80	Spending officer – Sarah Peyman. Following consultation with the Parklands Residents Association, a scheme has been approved under delegated powers for meadow planting, trees and bench seating at Sherborne Recreation ground. 13/05/13 Meadow area and tree provided at Sherborne Road. £2,040 spent and the remainder is to provide benches and/or boulders. August 2015 - Very small amount remaining. Currently liaising with Chichester Contract Services regarding potential use of the remaining budget. October 2015 - no change.	
5% Fee: £0.00		
Remaining : £86.80		
Allocated : £0.00		
Spent : £3,051.00		
Expires : 06-Jul-17		

D/07/04732/FUL - Stockbridge Garage 1 Birdham Road		Proposed Development
S106 Date : 17/12/2007		The erection of 6 no three bed houses and 4 no two bed houses together with parking and associated external works.
Received : £2,034.00	Spending officer – Sarah Peyman. March 2015 – The parish councils has been reminded of the need to respond with appropriate projects. June 2015 - Parish are looking to introduce new signage for the playing fields estimated to cost approx £2,000. August 2015 - The parish recently requested the release of these funds for the installation of a basketball facility at Wiston Avenue. The project has been approved and we are awaiting receipt of the invoice for payment. October 2015 - no change.	
5% Fee: £0.00		
Remaining : £2,034.00		
Allocated : £0.00		
Spent : £0.00		
Expires : 26-Jul-16 *		

HT/07/01474/FUL - The Forge, South Harting Elsted Road		Proposed Development
S106 Date : 11/07/2007		The Forge, Elsted Road, South Harting,Petersfield. Erection of no 16 dwellings including the replacement of the forge with all associated landscaping and car parking at The Forge, South Harting.
Received : £2,349.00	Spending officer – Sarah Peyman. Money received March 2012, no projects identified yet. August 2015 - Emailed Harting Parish Council at the end of May but still no response. Chased again for information relating to proposed spend. October 2015 - no change.	
5% Fee: £0.00		
Remaining : £2,349.00		
Allocated : £0.00		
Spent : £0.00		
Expires : 06-Mar-17 *		

Community Facilities

BX/10/05085/FUL - Land at Windmill Park, Halnaker Halnaker			Proposed Development
S106 Date : 23/05/2011			Erection of 31 no. residential dwellings with associated access, car parking, landscaping and highway works.
Received :	£45,725.00	Spending officer - David Hyland. March 2015 - DH has been and still is in communication with Boxgrove Village Hall regarding possible spend and their proposed projects. They have been changing their minds and specifications for works but, if all goes to plan, potentially we are going for solar panels and a generator. According to their last email (26/2/15), they were hoping to invite local contractors to formally provide quotes, which they aimed to be with us by the end of March. May 2015 - Discussions still on-going over specifications for the solar panels and generator. August 2015 - Correspondence with Parish Clerk on 16 July over specifications. October 2015 - Village Hall Management Committee confirm they will be putting together a comprehensive list of the improvements they would like to progress with the funds available, expected November 2015.	
5% Fee:	£2,286.25		
Remaining :	£43,438.75		
Allocated :	£43,438.75		
Spent :	£0.00		
Expires :	04-Aug-16 *		

CCN/06/04244/FUL - Site D St Richards Hospital East Field			Proposed Development
S106 Date : 22/12/2006			Site 'D' St Richards Hospital. Erection of 100 no. residential dwellings, private and affordable, and all associated infrastructure.
Received :	£75,000.00	Spending officer - David Hyland. Contributions will be required to enhance facilities in this area of Chichester, specifically for Graylingwell and Roussillon Park. October 2015 - Estates Department have completed tender exercise for Changing facility at Northgate Toilets. Awaiting confirmation of balance of funding before seeking delegated authority to release funds (£20k had previously been approved in principle subject to detailed costings).	
5% Fee:	£0.00		
Remaining :	£75,000.00		
Allocated :	£75,000.00		
Spent :	£0.00		
Expires :	15-Aug-17		

D/07/04732/FUL - Stockbridge Garage 1 Birdham Road			Proposed Development
S106 Date : 17/12/2007			The erection of 6 no three bed houses and 4 no two bed houses together with parking and associated external works.
Received :	£7,500.00	Spending officer - David Hyland. All funds allocated to ongoing Donnington Parish Hall extension project. March 2015 – Community Facilities has requested payment of £398 to Donnington Parish Hall, towards tree removal forming part of the ground works for the major improvement/extension to the Parish Hall. The remainder, £1,392 is likely to contribute towards car park improvements. Community Facilities are awaiting for the quotes from suppliers for the works for these improvements. October 2015 - planning application in progress for works to Parish Hall (D/15/01274/FUL).	
5% Fee:	£0.00		
Remaining :	£1,392.00		
Allocated :	£1,392.00		
Spent :	£6,108.00		
Expires :	26-Jul-16 *		

<table>
<tr><td colspan="3">HT/07/01474/FUL - The Forge, South Harting Elsted Road</td><td>Proposed Development</td></tr>
<tr><td colspan="3">S106 Date : 11/07/2007</td><td rowspan="7">The Forge, Elsted Road, South Harting,Petersfield.
Erection of no 16 dwellings including the replacement of the forge with all associated landscaping and car parking at The Forge, South Harting.</td></tr>
<tr><td>Received :</td><td>£12,992.00</td><td rowspan="6">Spending officer - David Hyland. Community Facility spend 29/6/12 - £7,934.96 to Harting Parish Council - Refurbishment of the kitchen at Harting Village Hall. October 2015 - officers will be writing to SHPC to confirm the timeline for the spend, and suggest considering alternative enhancements given the current status of the Henry Warren (Memorial Hall).</td></tr>
<tr><td>5% Fee:</td><td>£0.00</td></tr>
<tr><td>Remaining :</td><td>£5,057.04</td></tr>
<tr><td>Allocated :</td><td>£5,057.04</td></tr>
<tr><td>Spent :</td><td>£7,934.96</td></tr>
<tr><td>Expires :</td><td>06-Mar-17 *</td></tr>
</table>

Public Art

<table>
<tr><td colspan="3">CCS/07/01527/FUL - Osborne House Stockbridge Road</td><td>Proposed Development</td></tr>
<tr><td colspan="3">S106 Date : 11/06/2008</td><td rowspan="7">Demolition of existing buildings. 83 new dwellings; Canal Trust/ commercial building; new access; landscaping; parking.</td></tr>
<tr><td>Received :</td><td>£45,000.00</td><td rowspan="6">Spending officer – Lone Le Vay. Spent along with additional funds transferred from WSCC on Public Art Installation at the Canal Basin. March 2015 -Discussions ongoing with WSCC and Canal Basin Liaison Group about using some of the unspent WSCC public realm money together with residual commissioning funds for some interpretation panels for the artwork. June 2015: Panel Designs have been finalised and information on updated costs of frames and installation being obtained. CDC will liaise with WSCC and the Canal Trust regarding payment for work. August 2015 - Waiting for WSCC to raise orders. October 2015: WSCC Order has been received and the additional funding to pay for the interpretation boards has been Invoiced. At the time of writing the funding has not been received from WSCC and a reminder sent. As soon as funding is received an order will be raised for the installation of the interpretation boards.</td></tr>
<tr><td>5% Fee:</td><td>£0.00</td></tr>
<tr><td>Remaining :</td><td>£305.00</td></tr>
<tr><td>Allocated :</td><td>£0.00</td></tr>
<tr><td>Spent :</td><td>£44,695.00</td></tr>
<tr><td>Expires :</td><td>02-Sep-16 *</td></tr>
</table>

CCTV

PW/06/05235/FUL - Exchange House Station Road		Proposed Development
S106 Date : 22/01/2007		Use of property without complying with condition no.2 (provision of car parking spaces) of permission PW/00/02798/FUL.
Received : £6,694.49	Spending officer – CCTV/Car Parks. £5000.00 received following enforcement action. Interest on the payment received 08/10/12 - £1694.49. October 2015 - Projects for spend to be investigated.	
5% Fee: £0.00		
Remaining : £6,694.49		
Allocated : £0.00		
Spent : £0.00		
Expires : 08-Oct-17		

Chichester Harbour

CH/10/01013/FUL - Land at 30 The Avenue, Hambrook 30 The Avenue		Proposed Development
S106 Date : 10/11/2010		Erection of 23 residential dwellings with associated garages and car parking, landscaping and highways work.
Received : £9,890.00	Spending officer – Tom Day. March 2015 - The remainder of this money is allocated to providing one day a week of the Community Wildlife Officer's time to education and awareness work in Nutbourne, Hambrook and Southbourne including visits to Southbourne primary school, talks to local groups and community events for volunteers. This commitment will ensure that the remaining funds are spent before the repayment date. August 2015 - a further £2,363 has been spent since March, this rate of spend will ensure that the remaining £3,190 is spent within the deadline. October 2015 - a further £4,170 has been spent since March, this rate of spend will ensure that the remaining £1,383 is spent before March 2016.	
5% Fee: £199.65		
Remaining : £1,383.28		
Allocated : £0.00		
Spent : £8,307.07		
Expires : 14-Mar-16 *		

Expiry Date prior to 14/10/2015

Leisure

CCE/00/01073/FUL - Farrs Field, Swanfield Drive Swanfield Drive			Proposed Development
S106 Date :	06/09/2002		The erection of 54 no. 2 bedroom apartments, access roads and parking spaces (61 no. parking spaces).
Received :	£25,000.00	Spending Officer - Sarah Peyman. The contribution was specifically requested by WSCC for a bus shelter costing £25,000. Progress since November 2014 - Negotiations still ongoing regarding transfer of responsibility of maintenance of bus shelters to Chichester City Council. March 2015 – Negotiations ongoing. June 2015 - Advice received from our Legal Team is that in order to be able to spend the money we would need to contact the payer of the money (the Developer) and request that they permit us to spend the money. August 2015 - Developer was contacted and they have requested return of the funds. This is currently being processed. October 2015 - Cabinet approval is required for the refund to be made.	
5% Fee:	£0.00		
Remaining :	£25,000.00		
Allocated :	£25,000.00		
Spent :	£0.00		
Expires :	29-Jan-13 *		

Public Open Space

CCS/05/00876/FUL - St Georges Hall Cleveland Road			Proposed Development
S106 Date :	28/11/2005		Demolition of redundant hall and construction of 7 no. one bedroom flats and 3 no. two bedroom flats.
Received :	£3,051.00	Spending Officer - Sarah Peyman. The remaining funds will be used for the installation of the lectern and interpretation board. Progress since November 2014 - Graphic design services have been commissioned, and scheduled monument consent applied for, once obtained production will take place and panel fitted to City Walls lectern frame and installed. June 2015 - Interpretation board produced and currently waiting for CCS to install. August 2015 - Sign is with CCS waiting for installation. October 2015 - no change.	
5% Fee:	£0.00		
Remaining :	£856.75		
Allocated :	£0.00		
Spent :	£2,194.25		
Expires :	02-Oct-11		

Public Art

CCN/05/00430/FUL - Shippams Factory (Roman Quarter) And Social Club East Street			Proposed Development
S106 Date :	03/03/2006		Comprehensive mixed-use redevelopment, comprising of retail and residential accommodation, together with associated car parking landscape and highway works (after demolition of existing factory and former social club building). Phase N1: The social club site Phase N2: Retail and residential block Phase N3: Listed buildings Phase N4: Inland residentail block Phase N5: Residential block facing East Walls
Received :	£25,000.00	Spending officer – Lone Le Vay. Spent on Public Art Installation at the Roman Quarter only £305 remaining. March 2015 - Interpretation leaflets still to be arranged. June 2015 - No Change. August 2015 - remaining money to be spent on leaflets or returned to the developer to cover maintenance costs. October 2015: The unspent monies are some residual funds left over from the main art commission which has been completed. It is proposed to transfer this money to the management company for the development as a contribution towards future maintenance and upkeep.	
5% Fee:	£0.00		
Remaining :	£305.00		
Allocated :	£0.00		
Spent :	£24,695.00		
Expires :	07-Jun-15		

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2015

Public Interest Disclosures (Whistleblowing) Policy

1. Contacts

Report Author:
Tim Radcliffe – Human Resources Manager
Tel: 01243 534528
E-mail: tradcliffe@chichester.gov.uk

2. Recommendation

The committee is requested to consider the Public Interest Disclosures (Whistleblowing) Policy and to recommend it to Cabinet for approval.

3. Main Report

3.1. The Public Interest Disclosures (Whistleblowing) Policy is reviewed annually by the Principal Auditor to ensure that it remains compliant with legislation and best practice and has been amended slightly. The updates are to the legislation section, post titles and the contacts list.

3.2. Any investigations required as a result of disclosures will be facilitated more easily by the appointment to Audit Services of a Corporate Counter Fraud Officer which has now been agreed.

3.3. To increase awareness of the Whistleblowing Policy, it will be further publicised to staff and to the public via the normal internal channels and on the council's website.

3.4. Cabinet on 1 December 2015 will be requested to approve the policy with any recommendations from this committee.

4. Outcomes to be achieved

4.1. Not Applicable

5. Alternatives that have been considered

5.1. Not Applicable

6. Resource and legal implications

6.1. Not Applicable

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 & Disorder:		√
Climate Change:		√
Human Rights and Equality Impact:		√
Safeguarding:		√
Other (Please specify):		√

Comment [BJ1]: Tim think there will be HR~&E impacts? Can you list here.

10. Appendices

Appendix 1 - Whistleblowing Policy

11. Background Papers

None

Appendix 1

EMPLOYMENT POLICY STATEMENT

Policy Title: PUBLIC INTEREST DISCLOSURES "WHISTLEBLOWING"

Date: October 2015

Policy Statement

The Council is committed to high standards of openness and probity and has approved the following policy statement.

Employees may often be the first to realise when there is something seriously wrong within an organisation. However, they may be reluctant to express their concerns because they may feel that speaking up would be disloyal to their colleagues or the organisation or because they may fear that they may be victimised or harassed if they express their concerns openly. In these circumstances an employee may choose to ignore the concern rather than report what may just be a suspicion of malpractice.

This policy empowers and encourages employees to raise serious concerns within the Council rather than ignoring a problem or raising the matter externally. A declaration of this nature is called a Public Interest Disclosure "Disclosure" and is commonly referred to as "Whistleblowing" and less commonly referred to as making a "Disclosure" or "Confidential Reporting".

Matters which may prompt a Disclosure include dangerous, corrupt or illegal acts or practices. A more detailed definition is included in this policy.

The Council will endeavour wherever possible to ensure that if an employee makes a Disclosure in good faith and follows the procedure outlined in this policy, he/she will be protected from victimisation or harassment. A disclosure of this nature is referred to as a "Protected Disclosure".

Legislation

Proceeds of Crime Act 2002 and Money Laundering Regulations 2003
Local Authorities (Code of Conduct) England 2001
Public Interest Disclosure Act 1998
Employment Rights Act 1996
Bribery Act 2010

Scope

The policy aims to:

- provide a clear and simple process for employees to follow when making a Disclosure;

- ensure Disclosures are investigated effectively and appropriately;
- enable employees to receive feedback on the outcome of the investigation;
- provide employees with the opportunity and guidance to take the matter further if they are dissatisfied with the Council's response and
- protect employees from reprisals or victimisation if they make a Disclosure in good faith.

There are procedures in place to enable employees to lodge a grievance relating to their own employment or where they believe they have been subject to bullying or harassment at work. The Council's Grievance Procedures and Harassment at Work Procedure should be referred to in these circumstances. The Public Interest Disclosures "Whistleblowing" Policy is intended to cover issues of probity and honesty that fall outside the scope of other procedures.

The issue prompting a Disclosure may have already happened, be currently happening or may happen in the future. An issue that may prompt a Disclosure may include but is not limited to the following:

- criminal or unlawful act;
- breach of a legal obligation;
- breach of Council Standing Orders or policy;
- actions or conduct which falls below established and accepted standards or practice;
- danger to the health or safety of an individual or breach of a Health & Safety rule, guideline or directive;
- where the environment has been, is being or is likely to be damaged;
- improper conduct;
- a miscarriage of justice or
- deliberately concealing information revealing any of the above.

The following areas of suspected misconduct each have a separate process to follow which is outlined below:

- money laundering
- conduct of a member of the Council

Members of the public can also make Public Interest Disclosures under this policy. Please refer to the section below titled "Disclosures by members of the public" (see last page of the policy).

Policy Standards

Generally
The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment employees, including staff on temporary contracts, agency staff and contract workers are encouraged to come forward and make a Disclosure. Subjects of Disclosures may include members of staff; agency workers, contractors or third parties working in partnership with the Council.

Harassment or Victimisation
The Council recognises that the decision to report a concern can be a very difficult one to make, not least because of the fear of reprisal from those responsible for the malpractice.

The Council will not tolerate harassment or victimisation and will take action to protect an employee when he/she makes a Disclosure in good faith. If the employee experiences harassment, victimisation or is treated less favourably, the perpetrator or perpetrators will be subject to disciplinary action which may include dismissal.

Confidentiality
Employees should be able to raise their concerns without the need for secrecy. However where an employee wishes to raise an issue in confidence, the Council will respect this request, except as stated in the paragraph below, and will not disclose the employee's name without the employee's prior consent nor will the Council take any other action which may indicate the identity of the employee who has made the Disclosure.

If concealing the identity of the employee making the Disclosure may result in harm or injury to a third party or allow a crime to be committed, the Council reserves the right to respond to a Disclosure even if in doing so the identity of the employee may be compromised. Circumstances of this nature are very unlikely to occur and would be dealt with extremely carefully in order to do everything possible to support and safeguard the interests of the employee who made the initial Disclosure.

Anonymous Allegations
The policy encourages employees to identify themselves by name in writing if they make a Disclosure. However if an employee is not prepared to do so their Disclosure will still be considered. In these circumstances it may not though always be possible for an investigation to follow and/or action to be taken.

Whilst Disclosures made anonymously are much more difficult to manage and resolve the Council will do its best to investigate and resolve Disclosures made this way.

Untrue Allegations
If an employee makes a Disclosure in good faith, but the subsequent investigation dispels and/or disproves the employee's concerns and/or claims, no action will be taken against the employee. However, if an employee makes a malicious, vexatious or frivolous Disclosure, disciplinary action, including dismissal, may be taken against them.

Guidance Notes when making a Disclosure

Whilst employees are encouraged to commence the process at Stage 1 by making the Disclosure to their manager, they may commence the process at Stage 2 if appropriate to do so.

The employee may invite a work colleague or Trade Union representative to make a Disclosure on his/her behalf and may be accompanied at any meeting arising from their Disclosure by a work colleague or Trade Union representative.

Employees are encouraged to confirm their Disclosure in writing outlining as many details as possible. However if the employee is not prepared to confirm their Disclosure in writing they may make a verbal Disclosure to their manager or other appropriate officer.

Employees are encouraged to make their Disclosure at the earliest possible opportunity.

Although the employee is not expected to prove the truth of their Disclosure they will need to demonstrate to the officer contacted that there are sufficient grounds for an investigation to take place.

Internal Advice
Confidential advice and guidance on making a disclosure and the disclosure process can be obtained from:

- *Nicola Golding – Monitoring Officer ext.4659*
- *Paul Over, Executive Director ext. 4639*
- *John Ward, Head of Finance and Governance ext. 4805*
- *Stephen James, Principal Auditor ext. 4736*

Procedure for making a Disclosure

1. General Disclosures

Stage 1

The employee should make their Disclosure to their manager. A Disclosure may be made in writing or verbally and the employee's manager will take the following action:

- acknowledge verbally or in writing that a Disclosure has been raised;
- discuss, confidentially, the details of the Disclosure;
- indicate how they propose to respond to the Disclosure;
- indicate who will undertake the investigation and the nature and likely duration of the investigation (the investigation will be completed if possible within 20 working days) and
- confirm the outcome of their investigation verbally or in writing.

If the employee is not satisfied with the outcome of the Stage 1 investigation they may appeal and progress to Stage 2 of the process. Alternatively if the employee's manager has failed to complete Stage 1 within the agreed time scale they may progress to Stage 2 of the process.

If the employee feels unable to make their Disclosure to their manager for any reason they may commence the Disclosure process at Stage 2.

Stage 2

Appeals against a decision made at Stage 1 should be made to the Executive Director of Support Services and the Economy who will follow, but not repeat unless necessary, the steps outlined in Stage 1. Appeals may be made in writing or verbally.

Disclosures commencing at Stage 2 should be made to the Executive Director of Support Services and the Economy who will follow, the steps outlined in Stage 1. Disclosures may be made in writing or verbally.

Stage 2 investigations will be completed where possible within 30 working days.

If an employee is unable to or chooses not to make his/her Disclosure to the Executive Director of Support Services and the Economy he/she may make their Disclosure to the Chief Executive.

2. Money Laundering

Money laundering refers to schemes designed to route illegally acquired cash through bank accounts and businesses so that the funds appear legitimate and earned honestly. The proceeds of Crime Act 2002 and the Money Laundering Regulations 2003 make it an offence to “launder” money and places upon each individual the duty to report anyone whom they suspect of laundering money.

If employees have concerns of this nature they are required to contact the Council’s Money Laundering Reporting Officer Mr. J. Ward, Head of Finance and Governance, ext 4805, or the Deputy Money Laundering Reporting Officer Mrs. H. Belenger, Accountancy Services Manager, ext 1045, rather than follow Steps 1 and 2 outlined above.

3. Members of the Council

If a Member of the Council wishes to make a Public Interest Disclosure under this policy he or she should in the first instance write to the Council’s Monitoring Officer (Nicola Golding, Monitoring Officer ext.4659).

4. Conduct of a Member of the Council

If an employee has concerns of a general nature regarding the conduct of a Member of the Council he/she may report their concerns to the Council’s Monitoring Officer (Nicola Golding, Monitoring Officer ext.4659) who will consider whether or not to refer the matter to the Council’s Standards Committee.

The Council’s Response to a Disclosure

The Council will implement the provisions of this policy whenever and wherever appropriate to do so and take whatever action is required to investigate and address Disclosures made in good faith.

When an employee makes a Disclosure, the Council will support and assist the employee and will confirm to the employee the outcome of the investigation unless to do so would lead to a breach of the statutory or contractual rights of the subject of the Disclosure, for example under the Data Protection Act (1998).

The Council will take formal disciplinary action against any employee who harasses, victimises, bullies or treats less favourably in any way an employee who makes a disclosure in good faith.

If an employee is not satisfied with the outcome of Stages 1 and 2 of the process or if they reasonably believe that they would be victimised if they followed the process outlined above, they may consider contacting one of the following:

- *Trade Union*
- ~~*UNISON's Whistleblowing Helpline 0800-597 9750*~~
- *their local Council member (if they live within the District)*
- ~~*Audit Commission*~~
- ~~*Financial Service Authority*~~
- *relevant professional body or regulatory organisation*
- *a solicitor*
- *the Police*
- *their Member of Parliament*
- *the Health & Safety Executive*
- *Citizen Advice Bureau*
- *a solicitor*
- *Public Concern at Work, an independent charity offering specialist legal advice on disclosures (0207 – 404 6609)*

If advice is sought from a third party the employee is requested to discuss the matter discreetly as the Disclosure may have legal implications: defamation; slander; libel etc

Monitoring

The Responsible Officer

The Chief Executive has overall responsibility for the maintenance and operation of this policy. A record of all Disclosures and their outcome will be maintained and reported to the Council as and when appropriate. The identity of the employee making the Disclosure will not be revealed in the summary report.

Contract Workers

Contract workers engaged by the Council should also make Public Interest Disclosures under this policy. They should commence the Disclosure process from Stage 2.

Contract workers should in the first instance write to the Council's Monitoring Officer (Nicola Golding, Monitoring Officer, Chichester District Council, East Pallant House, 1 East Pallant, Chichester, West Sussex, PO19 1TY – Telephone: 01243 534656). It is a requirement that Council managers engaging contractors provide them with a copy of this policy and make them aware their obligation to use it. Managers should record the fact that they have done this. The policy is also shown on the Council's public website under Corporate Compliments and Complaints.

Disclosures by members of the public

Members of the public may also make Public Interest Disclosures under this policy.

Chichester District Council is committed to the prevention of losses through fraud and corruption. Should any member of the public have evidence of dangerous, corrupt or illegal acts or practices within Chichester District Council they are invited to inform the Council under this policy. They should commence the Disclosure process from Stage 2.

Members of the public should in the first instance write to the Council's Monitoring Officer (Nicola Golding, Monitoring Officer, Chichester District Council, East Pallant House, 1 East Pallant, Chichester, West Sussex, PO19 1TY – Telephone: 01243 534656). The Whistleblowing Policy is shown on the Council’s public website under Corporate Complaints.

October ~~2008~~2015

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2015

Corporate Health & Safety and Business Continuity Management

1. Contacts

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

2. Recommendation

3.1 That the Committee considers and notes the report.

3. Background

3.1. This report provides an update on the current position of Business Continuity (BC) management arrangements within the Council.

3.2. This report also covers a brief overview of the Council's performance in relation to the health, safety and welfare of its staff and anybody else affected by its undertaking.

4. Outcomes to be achieved

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

4.2. To ensure that Chichester District Council is assessing its performance for Health and Safety adequately and concentrating its H&S resources in the correct areas to make improvements.

5. Progress Report for Business Continuity (BC) Management

5.1. BC plans covering the first 3 days and over 3 days of there being a business interruption have been written by service teams and are stored on one of the Council's IT drives. This includes a list of all of the critical staff and their contact details. We are in the process of identifying one of the Council's existing web-hosted programs to store the documents to ensure they're available in the event of CDC losing its IT servers.

5.2. The existing Covalent software system is being used to remind Heads of Service to review their plans and the critical staff list on a 6-monthly basis. This will also be used as an auditing tool.

5.3. A BC exercise took place in December 2014. This involved CMT and was unannounced. It involved a mock-up of a major fire within EPH which resulted in losing the majority of the office accommodation and IT. The plans were used and a number of actions to improve them were identified as a result. Those actions were subsequently completed. A further BC exercise took place with the Head of Service for Business Improvement as the first exercise had identified how critical the teams within this service were to ensuring that the Council recovers during and after a business interruption.

5.4. Audits of the BC plans will be conducted by the Corporate H&S team over the next few months. Following this, we shall be requesting an external review of our BC resilience by the Council's insurer, Zurich as part of our risk management allowance.

6. Health and Safety Management

6.1. Total accidents for each year

Year	No of incidents
2012 - 2013	270
2013 - 2014	261
2014 - 2015	300

Service areas are required to record and submit, to the Corporate H&S team, all accidents and incidents, including very minor accidents and near misses. These are all included in the accident statistics in this report. It is important for all accidents, incidents and near misses to be recorded and reported to the Corporate H&S team to enable trends to be identified that can prevent significant accidents or incidents occurring in the future.

It is important to note that 178 of the accidents are categorised as 'not in connection with the work activity' which means they are not as a result of failures of the Policy, organisation or management of the Council.

6.2. Total number of RIDDOR incidents for each year

Year	Total RIDDOR	>7 days absent	Public to hospital	Major	Dangerous Occurrence
2012 - 2013	9	8	1	0	0
2013 - 2014	4	3	0	0	1
2014 - 2015	4	3	1	0	0

RIDDOR (Reporting of Injuries Diseases and Dangerous Occurrences Regulations) are certain categories of accidents that are reportable to the enforcing Authority - HSE (Health and Safety Executive). These include:

- deaths at work
- major injuries (broken bones etc.)
- over 7-day injuries (injuries that result in the person being unable to return to work within a 7-day period); and
- members of the public being taken from the scene to hospital due to an accident that was potentially caused by poor safety management or a physical defect with a building or equipment.

Our RIDDOR figures remained the same in 2014/15 as the previous year. Those figures do not give cause for concern as the majority arise from over 7-day injuries caused by musculoskeletal injuries arising from bin collection activities which often take more than 7 days rest to recover.

6.3. Incidents by injured person category for each year

Year	Staff	Public	Agency	Other	Total
2012 - 2013	95	173	1	1	270
2013 - 2014	92	160	7	2	261
2014 - 2015	109	184	5	2	300

Nearly all of the accidents to members of the public relate to Westgate, Bourne and Grange Leisure centres. Many of these relate to injuries suffered during sports activities (deemed not in connection with the work activity) and do not relate to deficiencies in health and safety management.

6.4. Accident Type

*new category

Accident Type	2012 - 2013	2013 - 2014	2014 - 2015
Exposed to fire	2	0	0
Exposed to, or in contact with, a harmful substance	4	3	1
Fell from a height	2	0	4
Hit by a moving, flying or falling object	19	21	15
Hit by a moving vehicle	3	3	1
Hit something fixed or stationary	11	21	18
Injured by an animal	1	4	3
Injured while handling, lifting or carrying	28	21	23
Near Miss	11	12	20
Not in connection with work activity	151	151	178
Other kind of accident	2	3	2
Pre-existing medical condition	4	0	4
Slipped, tripped or fell on the same level	31	22	19
Contact with electrical discharge	0	0	1
Contact with sharps*	0	0	8
Trapped by something collapsing	0	0	1
Contact with moving machinery or material being machined	0	0	1

6.5. Accident by location work/non work related

	2012 - 2013		2013 - 2014		2014 - 2015	
Location	Total number of incidents	Work related incidents	Total number of incidents	Work related incidents	Total number of incidents	Work related incidents
Cafe	2	0	2	0	4	1
Car Park	3	2	7	2	6	3

Changing Rooms	8	3	14	2	11	1
Dance Studio (Minerva)	1	0	1	0	5	0
Depot, Yard or Tip	13	12	14	14	14	13
External Building Feature	0	0	0	0	3	2
Gym	10	1	13	0	11	2
Health Suite	5	2	1	0	1	0
Industrial Park	0	0	0	0	0	0
Internal Building Feature	0	0	0	0	6	6
Kitchen or Welfare Area	3	3	3	2	3	3
Office	5	4	13	11	4	4
Other	0	0	0	0	1	1
Parks & Open Spaces	3	3	7	5	9	5
Plant Room	0	0	0	0	1	1
Pool	62	13	70	8	70	6
Reception / Public Area	18	7	13	5	14	4
Roof / Loft	0	0	1	1	0	0
Skate Park	13	1	6	0	10	0
Sports Hall	61	10	39	3	63	8
Third Party Premises	1	1	5	5	6	5
Vehicle, Roadside or Round	59	54	48	47	56	55
Workshop	3	3	4	3	2	2
Total	**270**	**119**	**261**	**108**	**300**	**122**

6.6. It appears from the statistics that the annual figure for accidents has increased each year for the last 2 years. There are several reasons for this:

- The Grange Centre was opened at the beginning of the 2014/15 period and has increased the number of reported accidents, as expected;
- The number of accidents 'not in connection with the work activity' increased by 26 in 2014/15 – this again is partly due to the Grange Centre;
- Near Miss reports nearly doubled in 2014/15. This is due to the Corp. H&S team actively encouraging near miss reporting. There is still some way to go in encouraging this further. The purpose of encouraging near miss reporting is to identify trends that could prevent actual accidents occurring.

6.7. **H&S Training Courses**

Course Name	**Number of Staff Trained**
Asbestos Awareness	14
Conflict Management & Physical Intervention	38
COSHH – Managing Hazardous Substances	8
Defibrillator Training	7
Emergency First Aid at Work	4
Evac Chair	2
Fire Awareness	29
Fire Warden	1
First Aid – 2 day Refresher	5
H&S Induction	38

Ladder Safety	6
Legionella Awareness Briefing	1
Manual Handling Awareness - Practical	36
Manual Handling – Computer based training	2
NEBOSH Award in H&S – 3 days	2
NEBOSH Refresher – 1 day	15
Permit to Work	33
Risk Assessment Workshop	15
TOTAL	**256**

7. Alternatives that have been considered

7.1. Not applicable

8. Resource and legal implications

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

8.2 There are legal implications of not complying with Health and Safety legislation, i.e. imprisonment of individuals, fines for the organisation and/or individuals.

9. Consultation

Not applicable

10. Community impact and corporate risks

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

10.2. There is corporate risk of not complying with H&S legislation due to a risk of legal action against the Council. This is a financial risk to the Council through potential prosecution, fines, increase in civil claims, increased insurance premiums, risk of personal and/or corporate liability and reputation.

11. 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 & Disorder:		✓
Climate Change:		✓
Human Rights and Equality Impact:		✓
Safeguarding		✓
Other (Please specify): eg Biodiversity		

12. Appendices

Not applicable

13. Background Papers

Not applicable

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 24 November 2015

Audit Reports & Audit Plan Progress

1. Contacts

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

2. Recommendation

The committee is requested to consider the Audit Reports and the Audit Plan Progress.

3. Main Report

3.1. **Use of Consultants**

The focus and scope of this audit changed as a result of our initial review as there was a very small amount of income that related to consultancy services. From the random sample only one was used for the walkthrough relating to consultancy expenditure for 2014-2015. The company delivered their brief in accordance with requests made of them. However, the procurement process was not strictly adhered to and this led to a breach in the Council's Contract Standing Orders.

Three recommendations have been made one significant and two important.

3.2. **IT Security of Assets**

The scope of this audit was to review the inventory for portable items. During the Audit it became apparent that ICT are currently going through a period of change and have indicated that many of the finding will be addressed. However, there is general concern that the inventory remains incomplete and the whereabouts of all assets is not easily identified. It is essential that a reconciliation of assets is undertaken, in the short term in order to record their current location and ownership.

Nine recommendations have been made three significant and six important.

4. Background

4.1. Not Applicable

5. Outcomes to be achieved

5.1. Not Applicable

6. Proposal

6.1. Not Applicable

7. Alternatives that have been considered

7.1. Not Applicable

8. Resource and legal implications

8.1. Not Applicable

9. Consultation

9.1. Not Applicable

10. Community impact and corporate risks

10.1. Not Applicable

11. Other Implications

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

12. Appendices

12.1. Appendix 1 Audit Plan Progress Report
12.2. Appendix 2 Use of Consultants Audit Report
12.3. Appendix 3 IT Security of Assets Audit Report

13. Background Papers

13.1 None

Progress Report – Audit Plan

As at 31 October 2015

Appendix 1

Audits	Auditor	No of Days	Days Remaining	Position with Audit
Key Financial Systems - See below for details	Sue Shipway / Julie Ball / Sarah Hornsby/Philippa Watts	40	4	On-going
Members Services	Julie Ball	10	9.5	Planning
PSN	Julie Ball / Sarah Hornsby	15	14.5	Planning
Housing Register	Sue Shipway	5	0	Draft Report
Project Managment	Philippa Watts	10	7	Draft Report
Building Control	Julie Ball	10	5	On-going
Security of Assets	Julie Ball	10	0	Final Report
Personnel and Recruitment pre-checking (Carried Forward from 2014-15)	Sue Shipway / Philippa Watts	25	5.5	Testing
Food Safety	Sarah Hornsby	15	13	Planning
Consultants Review	Sue Shipway	5	0	On-going
Housing Benefits	Sue Shipway/Sarah Hornsby	20	3.5	Testing
Other Audit Activities	**Auditor**	**No of Days**	**Days Remaining**	**Position with Audit**
Audit Reviews	Stephen James/Sue Shipway	15	3	On-going
Corporate Advice	Stephen James / Sue Shipway/ Julie Ball	20	19.5	On-going
Contingency (Seperate analysis available)	Stephen James / Sue Shipway /Philippa Watts/ Julie Ball	120	108	On-going
PSIAS	Stephen James/Sue Shipway	20	13.15	On-going
AGS + supporting evidence	Stephen James	30		On-going

NFI	Sue Shipway	20	15.5	On-going
Follow Ups	Stephen James / Sue Shipway/ Julie Ball	20	16	On-going
Completed Audits				
Safety Inspections - Zurich	Sarah Hornsby	10	0	Agreed Report
Car Parks	Julie Ball	18	17	Follow up only - Covalant updated
Development Management	Philippa Watts	15	0	Agreed Report
Fraud Review and IAS240	Sue Shipway	15	1	Agreed Report
Carried Forward	Sarah Hornsby & Julie Ball	15	15	
Inclusion in Key Financial Systems				
Creditors	Sue Shipway / Philippa Watts / Julie Ball / Sarah Hornsby			
Debtors	Sue Shipway / Philippa Watts / Julie Ball / Sarah Hornsby			
Payroll	Sue Shipway / Philippa Watts / Julie Ball / Sarah Hornsby			Planning
NNDR	Sue Shipway / Philippa Watts / Julie Ball / Sarah Hornsby	40 See Above		Testing
Council Tax	Sue Shipway / Philippa Watts / Julie Ball / Sarah Hornsby			
Bank Reconciliation	Sue Shipway / Philippa Watts / Julie Ball / Sarah Hornsby			
Budgetary Control	Sue Shipway / Philippa Watts / Julie Ball / Sarah Hornsby			

Internal Audit Report
2015-2016

Use of Consultants

Sue Shipway
Senior Auditor
October 2015

Contents

Audit: Use of Consultants
Auditor: Sue Shipway

If viewing on-screen, please click on the links below or use the scrolling arrows

1 Introduction

1.1 The Internal Audit Plan for 2015-16 included a review on the Use of Consultants.

1.2 During 2012 and following a Freedom of Information request, an issue was raised regarding the incorrect coding of consultancy and professional services expenditure. This resulted in the Finance section sending a reminder all Assistant Directors, Accountants and Assistant Accountants of the codes to be used and a definition of what constitutes a consultant, this was:

'Those who have been engaged to provide a service to the Council where the Council then decide what action to take on that advice. The consultation would normally result in the production of a report or project research papers etc.

A consultant advises but is not instrumental in carrying out the work (i.e. They may advise the Council it needs a new museum or swimming pool but they will have no part in the design or construction).'

1.3 The aim of this communication was to ensure that all future expenditure for consultancy be correctly identified and coded to 04E06. Previously this expenditure was all coded to 04E05 professional services.

During 2014-15 the council spent £136k on the consultants fees across a number of Services, this was against a budget of £56k, which resulted in a variance of £80k (141%).

2 Scope

2.1 The scope of this audit for 2015-16 was to establish the processes in place to ensure that:

- All expenditure coded to Consultancy is relevant
- Procedures over the selection of Consultants are followed
- Correct authorisation is obtained prior to engagement of Consultants
- Advice given by Consultants is reviewed and fit for purpose
- Decisions are made as a result of the consultants advice

3 Findings

3.1 A review of all the transactions coded to consultancy between, 1st April 2015 to the 31st August 2015, highlighted that a large amount of the £56k total spend for this period, related to professional services and not consultancy, this has led to a variance on this code of £21k. All staff responsible for coding expenditure should be mindful of the codes they are using to ensure that only consultancy expenditure is coded to 04E06. Budget managers are asked to review all expenditure under the consultancy code to date, in order to rectify any miscoding's for 2015-16

3.2 The outcome of this review triggered further examination of the previous year (2014-15), which also revealed that a majority of the expenditure appeared to have been miscoded to Consultancy (04E06) when it should have been coded to Professional Services (04E05), These miscoding's would certainly explain the variance during 2014-15 of £79.6k (141%), which had not been picked up at the year end because they were outside of the over/under tolerances.

3.3 Discussions with the Group Accountant following the results of these reviews, confirmed that expenditure has been miscoded despite the reminder and advice being given in 2012. It was agreed that further guidance/instruction is required to ensure that invoices are correctly coded and the Group Accountant (Revenue) has agreed to action this.

3.4 An invoice for £18k relating to consultants fees paid to CBRE Ltd was randomly selected by Internal Audit, so that a walkthrough of the processes in place could be undertaken. These consultants were engaged to complete an initial appraisal for the Enterprise Gateway project. This engagement was subject to a procurement process. Three companies were invited to tender but only one, CBRE Ltd returned their tender documents. Internal Audit found that the 'Tenders Received Form' had not been completed, signed or dated, by either the Estates or the Procurement Officer. Therefore the procurement process was not followed in accordance with the Council's Contract Standing Orders. Further discussions with Procurement Officer would suggest that the tender opening process was followed but the completion of the form overlooked.

3.5 Overall, Internal Audit found that all controls reviewed were operating as expected and CBRE Ltd met all the requests and requirements being made by the Council. In addition the Estates service able to demonstrate that the Principal Officer together with the project team, closely monitored and reviewed the appraisal report produced by CBRE Ltd to ensure that it met the brief and this appraisal was subsequently used to make decisions regarding the Enterprise Gateway project.

4 Conclusion

4.1 The focus and scope of this audit changed as a result of our initial review of the 2015-16 expenditure. Generally, there was only a very small amount of expenditure which actually related to consultancy, as most related to professional or legal services. Therefore our testing on the processes in place for the use of consultants was limited. From the random sample of payments made, only the one, which was used for the walkthrough, related to consultancy expenditure and this related to 2014-15.

4.2 That CBRE Ltd were paid consultants and they delivered their brief in accordance with all requests made of them. However, the procurement process was not strictly adhered to and this led to a breach in the Councils's Contract Standing Orders.

5 Recommendations

5.1 There is one significant and two important recommendations to be made relating to the Use of Consultants, these are:

- The procurement process regarding the completion of procurement documentation is followed.
- Budget Managers must be aware of the need to code expenditure correctly, especially when it comes to Consultants and Professional costs.
- Expenditure is reviewed for 2015-16 and any expenditure incorrectly coded must be corrected.

5.2 An Action Table has been produced, see Appendix 1. In order to prioritise actions required, a traffic light indicator has been used to identify issues raised as follows:

Red – Significant issues to be addressed

Amber – Important issues to be addressed

Green – Minor or no issues to be addressed

6 Action Plan – Appendix 1

Paragraph Ref	Recommendation	Officer	Priority	Agreed?	Comments	Implementation Date
3.1	Expenditure relating to Consultancy fees for 2015-16 to date, is reviewed and any miscoding's corrected.	Group Accountant to request this of Budget Managers	Important	Yes	A request is being made, that as part of the quarter 2 monitoring work, all budget managers should review any expenditure transactions on detail code 04E06 for Consultancy against the definition provided above, and correct any miscoding for 2015-16 only using the recode facility offered within CIVICA Financials.	October 2015
3.3	All staff are reminded of the importance to code invoices correctly, especially those relating to consultants and professional fees	Group Accountant to issue reminder	Important	Yes	A reminder had been drafted and sent out to remind all relevant staff of the importance to code invoices correctly to consultancy.	October 2015

3.4	Procurement procedures must be followed in accordance with the Council's Contract Standing orders and all documentation completed accordingly.	Procurement Officer	Significant	Yes	Although 80% of tenders over £50k are already recorded electronically, going forward all contract opportunities over £50,000, where a formal tender is required *(and Procurement are involved/aware)* will be handled electronically via the Council's e - tendering platform. This will then render a hard copy Tender Receipt Form redundant. Furthermore, this will also make the tender audit trail much easier to follow/evidence.	January 2016

Appendix 3

Internal Audit Report
2015-2016

IT Security of Assets

Julie Ball & Sue Shipway
Auditor and Senior Auditor
September 2015

Contents

Audit: IT Security of Assets
Auditor: Julie Ball & Sue Shipway

If viewing on-screen, please click on the links below or use the scrolling arrows

1 Introduction

1.1 The council has a significant volume of ICT assets and the ICT Operations service is responsible for the management of all IT assets across the council.

1.2 To achieve value for money, and full use from the hardware in use it is important that all ICT assets are tracked and managed appropriately. This is now essential under NWOW (new ways of working), where staff and equipment are no longer stationery and working from home is becoming a routine occurrence.

1.3 All IT Inventories are currently now being updated as part of the ICT 'Business As Usual Strategy' (BAU) Transformation Project, so that all ICT assets are held on Track IT, along with requests and history of individual items being ordered, replaced or disposed of.

2 Scope

2.1 The scope of the audit was to review the inventory for portable items to ensure that:

- Policies and Procedures are in place and regularly reviewed
- Controls are in place for the purchase and disposal of small portable items
- Purchases are recorded, updated and reviewed
- Accurate data is provided for Insurance cover purposes

2.2 Testing was carried out according to our findings below.

3 Findings

3.1 Internal Policies, processes and procedures are important to have in place; thus ensuring staff awareness regarding of their roles and responsibilities. Without up to date policies and procedures in place, staff may not be aware of current working practices and this could result in a lack of control over the security of assets.

3.2 The service is responsible for the council's corporate IT Security Policy. Internal Audit was informed by the ICT Operations Manager, that this policy had not been reviewed or updated since 2010, as part of the PSN certification. Audit have since been informed that these have now been updated and are awaiting formal approval by the Head of Service. In future, a more formal annual review will take place and be recorded, even if no amendments are required.

Further policies being reviewed at the time of audit were; the Email Policy and Information Security Incident Policy and Members Information Security Policy.

3.3 No written processes or procedures for; the recording and disposal of equipment were made available when requested. However, since then, audit has been issued with an Equipment Workflow. Unfortunately, this is very basic and does not contain sufficient detail for audit to be able to perform a full walkthrough to confirm the process. It is important that all documents are reviewed on a regular basis and updated accordingly to ensure that they reflect arrangements in accordance with the council's working practices. ICT are aware that the systems and processes in place are not current and regularly reviewed in line with best practice. Internal Audit have been informed that they will be reviewing and implementing policies, procedures and policies using a (BAU) based on an IT Infrastructure Library (ITIL). A spreadsheet is currently being populated to ensure that all policies and procedures are reviewed, and in line with PSN compliance.

3.4 There are various places where the asset information is held. Unfortunately, the master Inventory provided from Track-IT had only limited information at the time it was audited and not one document contained all the relevant asset information. As a result, Internal Audit could not confirm that all purchases made had been recorded for; laptops, mobile phones, VPN's or cameras. Records include a unique identification number against each item, but there was no record of the date of purchase, the cost of the item, or whom the item had been allocated to.

3.5 In addition, the ICT inventories had not been consistently updated for the following: purchases, disposal, resignations, extended leave, re-deployment or termination of staff. Audit testing identified that recorded users of equipment, such as phones and laptops, were no longer employed by the council and/or did not reflect the current whereabouts of an item or who it had been reassigned to. In addition to the TrackIT requests, ICT do receive E forms of starters, changes and leavers, which could be used to populate this combined information, providing all the required information is supplied.

3.6 In future TrackIT will be the designated Configuration Management Data Base (CMDB) for asset management. Whilst ICT confirm that the information is accurate for new assets, it may not reflect accurately older assets; these are currently being transferred from existing spreadsheets and databases as part of ICT's action plan. However, the Service will need to test-check TrackIT, sooner rather than later, to ensure that the asset module is fit for purpose and can record and report on asset data as required. Training on this module will be essential for all staff using it.

3.7 There are three electronic forms Managers complete to notify personnel and ICT that an applicant has been successful, member of staff is transferring to another position or is leaving. The template for these forms need to be reviewed and updated to give a detailed list of all equipment that is required or needs to be transferred or returned.

3.8 Employees are required to sign the ICT Security Policy but do not sign any acknowledgement of receipt or the return of IT equipment. Staff within the organisation should be made aware of their responsibilities and security of the equipment on receipt of and at the point of termination of their contract, to ensure equipment is returned and inventories are updated. The template for these e-forms should be updated to give a detailed list of all equipment that is required or needs to be returned.

3.9 It is the ICT services responsibility to inform the council's insurance officer of the value of IT items on an annual basis, so that insurance cover can be provided. Internal audit were informed by the service that the insurance officer should be notified of all items within one month of purchase. We were unable to confirm that for the items selected as a sample were insured, as insurance values are recorded by bulk and not individual items.

3.10 Further testing found that purchases to the value of £89,687 were made during period July 2014 to July 2015. However, the Insurance Officer had not been informed of any of these items. As the cost of assets is only required annually and allegedly not used by Finance, there needs to be clarification between ICT and the Insurance Officer as to the requirements going forward and procedures amended to reflect any changes.

4 Conclusion

Whilst it is noted that ICT are currently going through a period of change and the indication is that many of the findings will be addressed, there is general concern that the inventory remains incomplete and the whereabouts of all assets is not easily identified. It is essential that a reconciliation of assets is undertaken in the short term, in order to record their current location and ownership.

5 Recommendations

5.1 A number of recommendations have been made and an Action Table has been produced, see Appendix 1. In order to prioritise actions required, a traffic light indicator has been used to identify issues raised as follows:

Red – Significant issues to be addressed

Amber – Important issues to be addressed

Green – Minor or no issues to be addressed

6 Action Plan – Appendix 1

Paragraph Ref	Recommendation	Officer	Priority	Agreed?	Comments	Implementation Date
4.	Although ICT have agreed that there are plans for in place to improve the current system of recording. It is essential for a reconciliation to take place between the current records and equipment held as soon as possible.	IT Manager	Significant	Yes	1. It would be practical to do this once the current NWOW's Laptop Rollout Project is complete and unused desktops are removed from offices. (A dependency of this will also be the big office moves taking place in early 2016.) 2. In future ICT will be introducing an annual asset review exercise.	March 2016 On-going

3.3	All processes and procedures for; recording, transfer and disposal of assets is sufficiently detailed up to date to reflect current practises.	IT Manager	Important	Yes	The ICT BAU Transformation project is inflight and all processes and procedures are currently being reviewed and updated. A spreadsheet is being populated to control this.	March 2016
3.4	A master inventory is to be held on TrackIT, this should include: the cost of the item, date of purchase, unique ID number and who it has been allocated to. The information held should also be current.	IT Manager	Significant	Yes	The process of updating the Asset Database is on-going. The ICT team are in the process of consolidating all previously held information to ensure the information is stored and is accessible in one place -TrackIT.	March 2016

3.5	All movements of assets should be entered onto the master inventory, so that the life of the asset from purchase to disposal is recorded.	IT Manager	Important	Yes	Whilst ICT will be diligent in updating TrackIT with any changes they become aware of, it is important to recognise that ICT can only make changes when they have been notified of such changes	Ongoing
3.6	The asset module within TrackIT needs to be tested to ensure that is it able to capture and report all information required of an asset inventory. If not an alternative method will need to be considered as a matter of urgency.	IT Manager	Important	Yes	As part of the ICT BAU Project there are training Workshops arranged to provide assistance in ITIL based procedures and best practise.	December 2015

3.6	The asset module within TrackIT needs to be tested to ensure that is it able to capture and report all information required of an asset inventory. If not an alternative method will need to be considered as a matter of urgency.	IT Manager	Significant	Yes	IT Manager has agreed that this needs to be completed as soon as possible.	November 2015
3.7	The electronic form for starters/transfers and leavers could be reviewed and updated to record these details.	IT Manager	Important	Yes	The IT Manager is happy to discuss their requirements of equipment being recorded on the e-forms with Personnel. However, ICT will remain reliant on these forms being completed.	December 2015

3.8	Staff should be reminded of their responsibilities and sign for equipment on receipt and return to show a record of issued and received.	IT Manager	Important	Yes	This is completed when the Security Policy is signed and the device is handed over by ICT to the end user and also at IT Essential's workshop and as part of the users general CDC Induction. *Note: ICT will be happy to assist with the process of collecting the kit from the individuals and updating TrackIT. However this is a wider process that needs to be addressed across the organisation and communicated as such.*	On-going

3.9 & 3.10	A process is put in place for the way forward for informing the Insurance Officer of IT purchases to ensure that all ICT assets have sufficient cover of insurance.	IT Manager	Important	Yes	IT Manager has contacted Insurance Officer to confirm requirements and will assist with applying these once known.	October 2015

Agenda Item 16

BUDGET REVIEW

TERMS OF REFERENCE AND SCOPING

Review Topic	Budget 2015-16 outturn and variances
Membership (and Chairman)	3 members of Corporate Governance & Audit Committee and 3 members of Overview & Scrutiny Committee to be sought at their meetings in November 2015.
Terms of Reference	To consider the original budget for 2015-16 and compare this with the projected outturn. To consider the proposed variances on the 2016-17 budget. To comment on these in advance of Cabinet consideration of the Budget 2016-17 in February 2016.
Scope	5 Year Financial Model Statement of Resources 2015-16 to 2020-21 Projected Revenue Budget Variations 2015-16 and 2016-17.
Review Period	December 2015
Officer support	Mr J Ward, Mr D Cooper and Mrs B Jones
Frequency of Meetings	One meeting to be held in early December 2015
Report back to	OSC on 12 January and CGAC on 19 January 2016