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A meeting of **Corporate Governance & Audit Committee** will be held in Committee Room 2, East Pallant House on **Thursday 26 January 2017** at **9.30 am**

MEMBERS: Mrs P Tull (Chairman), Mr G Barrett (Vice-Chairman), Mr G Hicks, 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 - 7)
The committee is requested to approve the minutes of its ordinary meeting on 24 November 2016.

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 12:00pm the day before the meeting is available here or from Democratic Services Officer (whose contact details appear on the front page of this agenda).

6 **Certification of claims and returns annual report 2015-16 - Ernst & Young LLP** (Pages 8 - 17)
The committee is requested to consider the attached report from Ernst & Young LLP summarising the results of work on the Council's 2015-16 claims and returns.

7 **Audit Progress Report - Ernst & Young LLP** (Pages 18 - 27)
The committee is requested to consider the attached report from Ernst & Young LLP giving an overview of the final position against the Council's 2015-16 audit plan and initial plans for the 2016-17 audit.

8 **Budget 2017-18 Review**
The committee's members on the Budget Task and Finish Group, Mrs P Tull, Mr Barrett and Mr Hicks, will provide an oral report on the outcomes of this review which included projected outturns and variances for 2016-17.

9 **Treasury Management Strategy Statement for 2017-18** (Pages 28 - 62)
The committee is requested to consider the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment

Strategy and relevant prudential indicators for 2017-18 and recommend these to Cabinet and Council for approval.

10 **Internal Audit - Audit Plan Progress** (Pages 63 - 82)
The committee is requested to consider and make comment on the audit reports and to note progress against the audit plan.

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

12 **Late items**
The committee will consider any late items as follows:
(a) Items added to the agenda papers and made available for public inspection
(b) Items that the 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 where it is likely that there would be disclosure of "exempt information" as defined in section 100A of and Schedule 12A to the Local Government Act 1972.

2. Restrictions have been introduced on the distribution of paper copies of supplementary information circulated separately from the agenda as follows:
   a) Members of the Overview & Scrutiny Committee, the Cabinet and Senior Officers receive paper copies of the supplements (including appendices). Other members may request a copy of the supplementary information or a copy is available in the Members' Room, East Pallant House.
   b) The press and public may view this information on the council's website here here unless they contain exempt information.

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

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 intention 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.

Minutes of the meeting of the **Corporate Governance & Audit Committee** held in Committee Room 2, East Pallant House on Thursday 24 November 2016 at 9.30 am

Members Present: Mrs P Tull (Chairman), Mr G Hicks, Mrs N Graves and Mr S Morley

Members not present: Mr G Barrett, Mr I Curbishley, Mr T Dempster, Mrs P Hardwick, Mr F Hobbs and Mr P Jarvis

In attendance by invitation:

Officers present: Mr J Ward (Head of Finance and Governance Services), Mrs H Belenger (Accountancy Services Manager), Mr M Catlow (Group Accountant (Technical and Exchequer)), Mrs K Dower (Principal Planning Officer (Infrastructure Planning)), Mrs L Grange (Housing Delivery Manager), Mrs J Hotchkiss (Head of Commercial Services), Mr S James (Principal Auditor), Mrs B Jones (Principal Scrutiny Officer), Mrs T Murphy (Parking Services Manager), Ms C Peace (Planning Obligations Monitoring & Implementation Officer), Mrs S Peyman (Sport and Leisure Development Manager) and Mr W Townsend (Health and Safety Manager)

90 Chairman's Announcements

Apologies had been received from Mr G Barrett, Mr I Curbishley, Mr T Dempster, Mrs P Hardwick, Mr F Hobbs and Mr P Jarvis. Members were reminded that the committee was quorate with three members (four were in attendance).

91 Approval of Minutes

The minutes of the last meeting held on 29 September 2016 were discussed and an update was provided as follows:

- Minute 87, second bullet point - a response from Mrs Ryan had been circulated to members by email.
- Minute 86, first bullet point - Mr Ward advised that our share of the pension fund was currently in surplus. He had met with the WSCC pension fund actuary and due to changing demographics and different discount rates applied to the pension valuation he was recommending a minimum increase to the pension fund of 0.7% over the next three years. An increase of 1% had been included in the financial strategy.

RESOLVED

That the minutes of the last meeting held on 29 September 2016 be approved as a correct record.

92 **Urgent items**

There were no urgent items for consideration at this meeting. It was agreed that agenda item 8 would be taken after agenda item 14.

93 **Declarations of Interest**

No interests were declared at this meeting.

94 **Public Question Time**

No public questions had been received.

95 **Annual Audit letter 2015-16**

Mr King, Ernst & Young LLP, introduced the annual audit letter for the period ending 31 March 2016. The messages were similar to those contained in the 2015-16 audit results report considered at the last meeting and he had nothing particular to point out to the committee. He advised that a statement setting out the impact of the EU referendum on the UK public sector was included at page 25 and this would take some time to work through.

RESOLVED

That the annual audit letter ending 31 March 2016 be noted.

96 **Audit Progress Report 2016-17**

Mr King provided an oral report on the progress of the current 2016-17 audit.

Planning for the audit had been started, the bulk of which would in the New Year and then again after the accounts had been prepared at the end of the financial year. The auditors were required to certify the housing benefit subsidy return to the Department for Works & Pensions (DWP) by 30 November. He was pleased to report that work on that claim was complete and that he would certify the claim immediately after this meeting and send it to the DWP to meet the deadline.

97 **Financial Strategy and Plan 2017-18**

The committee considered the report circulated with the agenda (copy attached to the official minutes). Mr Ward introduced the report, providing an update on the outcome from the Chancellor's Autumn Statement the day before. The four year settlement to 2019/20 had been agreed.

He pointed out two key changes in terms of financial principles. The first was reflected at paragraph 4.9. The Council had invested the full £10m in the Local Authority Property Fund which should achieve a return of between 4 and 5%. Officers were investigating alternative investment vehicles for further investments and a report would be brought to Council in the New Year on the Treasury Management Strategy. The second was that return on the Local Authority Property Fund could be used for revenue purposes. This was included in the five year financial model and was part of £3.8m savings target approved in deficit reduction plan which Cabinet had agreed.

Mr Ward reminded the committee that their role was to consider the Financial Strategy from a risk perspective and to focus on the key recommendations at 3.1 (maintaining a minimum level of reserves) and 3.2 (maintaining the current provision of revenue support to smooth the impact of funding reductions).

The committee made comments, including the following:

- The rural grants which the council gives to rural shops – These are discretionary grants. These grants are applied to local businesses after any mandatory grants such as those announced by the chancellor since those will be at least partly funded by the government.
- The council was not using revenue reserves to fund recurring revenue expenditure, the exception to this being the cultural grants which were funded from revenue reserves and which expire next year. There was a proposal to Cabinet at its December meeting that future cultural grants be funded from base budget in future, if supported.

RECOMMENDED TO CABINET

1) That in the short to medium term the Council maintains a minimum level of reserves of £5m for general purposes.

2) That the current provision of £1.3m of revenue support be maintained to smooth the impact of funding reductions and volatility associated with localisation of business rates.

3) That 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.

4) That in order to achieve a balanced budget over the medium term, officers should monitor delivery of the agreed deficit reduction plan.

98 **Treasury Management 2016-17 Mid-Year Progress Report**

The committee considered the report circulated with the agenda (copy attached to the official minutes).

Mr Catlow presented the report. The committee made comments, including the following:

- The reason the council achieved an overall return of 1.38% against a benchmark for other district councils of 1.10% - This was because we have significantly more funds available to invest than other local authorities and therefore we had achieved higher returns for both internal investment and external funds.
- Centrica, Scottish Gas and Scottish Power corporate bonds – One of the ways a private sector organisation can raise funds is to issue corporate bonds. It is a loan we buy from a corporate entity and on maturity the entity will repay the principal plus the agreed interest. It is a debt instrument. The structure of a corporate bond is that they can be traded. We deal with a company called King and Shaxson who purchase bonds on our behalf and hold them in a custodian account. A lot of work was carried out when considering contracts and agreements; Counsel's advice was obtained and we satisfied the due diligence process to protect the council's interests.
- The first stage in choosing these bonds was to consider the protocols within the treasury management strategy. We regularly consider the ratings of companies and also get a weekly list of secondary bonds on offer; we then carry out a second level of due diligence by looking at their accounts or company warnings.

RESOLVED

That the Treasury Management 2016-17 mid-year progress report be noted.

99 **Strategic and Operational Risks 2016-17**

The Cabinet considered the report circulated with the agenda (copy attached to the official minutes).

Mrs Belenger presented the report reminding the committee of the exempt element of the report on pages 91 -93.

RESOLVED

1) That the current strategic risk register and the internal controls in place, together with the associated action plans to manage those risks, be noted.

2) That the current high scoring programme board and organisational risks, together with the associated mitigation actions in place, be noted.

100 **S106 exceptions report 2016**

The committee considered the report circulated with the agenda (copy attached to the official minutes).

Mrs Dower and Mrs Peace presented the report. Mrs Peyman attended to answer queries. Three projects had reached their expiry date prior to 17 October 2016, all of which were five year notional expiry dates as opposed to the expiry date being explicit within the S106 agreement.

The committee made comments including the following:

- It was likely we would need to return some money to a developer in March 2017 in respect of a bus shelter in Westhampnett. We had received S106 money from WSCC to install and maintain a bus shelter. The shelter was installed by the council and it is being maintained by Westhampnett Parish Council. We were speaking to the parish council to establish whether there were any outstanding requirements before this money was returned to the developer.
- Boxgrove Sports Pavilion - The money had been allocated to a new sports pavilion and had received approval from the portfolio holder and from local district councillors. Quotes had been received for works and a planning application had been submitted for those works. The project was approved and money allocated before the notional date. We were now waiting for the project to commence.
- St Georges Hall – This has been approved and Chichester Contract Services (CCS) was awaiting delivery of the bench. This would be installed by the end of the month.

Mr Oakley, who had requested to speak on this matter, was invited to put forward his questions, as follows:

- Is the danger of handing back the monies removed when the money is allocated, handed to a third party, or spent? – The date for the Boxgrove item was a notional date so we had identified the expiry date. The developer had the right to request return of the money, however the advice from the legal team is that if we can confirm that the money was allocated then we had a strong enough case to fend off any legal claim.
- Concerns regarding Shippams items and the length of time to work up a project to allocation stage - were the ongoing studies with regard to Priory Park in sufficiently advanced stage to allocate or even spend by the due date? The projects which had been allocated to the Priory Park master plan were no longer going ahead as the master plan had been stopped. We had therefore written out to all clubs and organisations in the city to ask them to come back to us with projects that could be eligible for leisure funding. These applications would be reviewed in December to establish which projects were eligible and how quickly they could be taken forward. Mrs Peyman was aware that time was ticking on the public open space money. Work would be undertaken by consultants on a smaller master planning exercise and if projects came up then approval would be sought for projects from the head of service, portfolio holder and relevant district councillors. As these were actual expiry dates, they would be monitored closely.
- Tangmere sites, e.g. the windmill open space were examples of how long it took parish councils to work up and progress projects especially when working with third parties. Fortunately there are residual monies remaining from the original pot so the parish council was trying to spend the last few bits. It would be useful for parish councils to have clarity as to what they can spend this money on and the criteria when putting requests in to the council on particular projects – Parish councils were liaised with regarding which projects would be eligible or not. Repairs and maintenance was not suitable expenditure for S106 monies as the receipt of funds comes through for enhancements or for increasing access

opportunities. However we were willing to receive information from them at an early stage to let them know what was suitable expenditure.

- Would parish councils be discouraged from buying new items if the maintenance was considered to be too high for future? They were advised about the ongoing maintenance required when they made a proposal to buy something. Parish Council CIL receipts could be used to cover repairs and maintenance.
- Does CIL money cover maintenance of public art instalments? CIL was designed to assist growth in the area so public art was probably not covered.

RESOLVED

That the contents of this report concerning section 106 agreements nearing their expenditure date be noted.

101 **Corporate Health & Safety and Business Continuity - Progress Update**

The committee considered the report circulated with the agenda (copy attached to the official minutes).

Mr Townsend presented the report. The committee made comments including the following:

- The figures were higher for 2014-15 than 2013-14 as the Grange came on board; of the RIDDOR incidents four out of five were over 7-day injuries arising from waste collection activities. The Facilities Manager had also broken bones in his arm.
- A defibrillator is available in the building. Facilities staff and first aiders are trained in its use. Emergencies should be phoned through to 4444.
- Mrs Graves had had an accident with a swinging door and had seen her doctor and osteopath the next day. This incident had been included in the health & safety figures.
- The leisure centres would still be reporting health and safety incidents in their report to the contract manager, Mrs Peyman. A quarterly monitoring report is received which includes reports on incidents and accidents which is compared with previous years' figures and this is reported to the Commercial Programme Board.

RESOLVED

1) That the report on corporate health and safety and business continuity management be noted.

2) That future reports on health and safety be brought to the committee in June each year.

102 **Budget Task and Finish Group - 2016 review**

The committee considered the report circulated with the agenda (copy attached to the official minutes). Mr Ward presented the report.

RESOLVED

1) That the terms of reference for the Budget Task and Finish Group be approved.

2) That the Mr Barrett, Mr Hicks and Mrs Tull be approved as the committee's representatives on this group.

103 **Exclusion of the Press and Public**

RESOLVED

That the public, including the press, be excluded from the meeting for the following items on the grounds that it is likely that there would be a disclosure to the public of 'exempt information' of the description specified in Paragraphs 1 (information relating to an individual) or 3 (information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part I of Schedule 12A to the Local Government Act 1972 and because, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

104 **Internal Audit - 2016-17 Audit Plan Progress**

The committee considered the report circulated with the agenda (copy attached to the official minutes).

Mr James presented the report, providing an update on the recommendations made in the Car Parks G4S Audit. The progress report was on target; three audits had been deferred however some time had been spent on the Car Parks G4S audit in lieu of other audits.

RESOLVED

1) That the Car Parks G4S Audit report and progress against the Audit Plan be noted.

2) That an update report be presented to the March meeting on the recommendations in the Car Parks G4S Audit.

The meeting ended at 11.16 am

CHAIRMAN Date:

Certification of claims and returns annual report 2015-16

Chichester District Council

December 2016

Ernst & Young LLP

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Dear Members

Certification of claims and returns annual report 2015-16

We are pleased to report on our certification work. This report summarises the results of our work on Chichester District Council's 2015-16 claims and returns.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Public Sector Audit Appointments Ltd (PSAA) made arrangements for certifying claims and returns in respect of the 2015-16 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this claim we followed a methodology determined by the Department for Work and Pensions (DWP) and did not undertake a full audit of the claim.

Statement of responsibilities

The 'Statement of responsibilities of grant-paying bodies, authorities, Public Sector Audit Appointments and appointed auditors in relation to claims and returns', issued by PSAA, serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

Summary

We checked and certified the housing benefits subsidy claim with a total value of £37,142,860. We met the deadline for this work.

Fees for certification work are summarised in section 2. The scale fees for 2015-16 are available on the (PSAA website (www.psaa.co.uk)

We welcome the opportunity to discuss the contents of this report with you at the Corporate Governance and Audit Committee meeting on 26 January 2017.

Yours faithfully

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

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification Value of claim certified	£36,969,257 £37,142,860
Amended/Not amended	Amended
Qualification letter	Yes
Fee – 2015-16 Fee – 2014-15	£ 7,847 £13,217

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid. The DWP require appropriately qualified auditors to certify housing benefit subsidy claims, and determine the methodology auditors follow when certifying them.

Our certification guidance stipulates the level of initial testing auditors are required to perform and requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out to determine if errors detected in the prior year's claim have reoccurred.

We then either report the extrapolated value of detected errors in a qualification letter or, if appropriate, agree an amendment to the claim with the Council.

We have highlighted any errors detected during our work and the responses below.

- As a result of our testing of claim compilation, specifically validation reports and manual adjustments:
    - the claim form was amended to reduce Rent Allowance local authority and administrative delay overpayments by £43,003. There was a corresponding increase to eligible overpayments. This was to correct an omitted manual adjustment for a validation report. The direct impact of this adjustment was to increase subsidy by £17,201.

      There was also an indirect impact. The DWP award no subsidy for local authority and administrative delay overpayments if the total exceeds a threshold. The impact of this adjustment was that total overpayments of this type moved from above the threshold to below the threshold. As a result the Council will receive an additional £160,356 in subsidy; and
    - minor amendments were made to the claim form to correct other manual adjustments. The total impact was to increase subsidy by £190.
- From an initial sample of twenty Non HRA (Housing Revenue Account) Rent Rebate cases:
    - we identified one case where expenditure was misclassified between eligible and technical overpayments by a value of £1,634. There was no impact on benefit paid to the claimant but this type of error would result in the incorrect subsidy being claimed from the DWP. As there was a small population of other cases that could be impacted by this type of error, testing was extended to cover all of them. A further fourteen errors were detected. To

correct this error, an amendment of £10,362 was agreed to the claim form which reduced the total subsidy payable to the Council by £4,145; and

- o we identified four cases where technical overpayment had been understated by a total value £1,568. The error arose through the system inappropriately netting technical overpayment when a claimant moved from a Non HRA Rent Rebates property into a Rent Allowances property. This error will never have an impact on benefit paid to the claimant or subsidy recovered from the DWP. As such, we reported the errors detected to the DWP as an observation in our qualification letter only.

- From an initial sample of twenty Rent Allowance cases:

  - o we identified four cases, with total value £23,039, where the claim forms could not be traced and the Council was unable to produce evidence that claim forms were received. This was due to the original claim forms, which pre-dated 2006, being destroyed in a fire at the Council's storage archive. As in prior years we reported this matter to the DWP in our qualification letter; and

  - o we identified two cases where State Retirement Pension (SRP) had been incorrectly uprated causing the underpayment of benefit with total value of £24. Extended testing was performed to the sub population of cases which have SRP. The testing identified fifteen cases where SRP had been incorrectly uprated with no impact on benefit paid and two further underpayments of benefit with total value of £55. For the underpayments, amendments have been made to individual claims in 2016-17, ensuring that the benefit paid to claimants has been corrected. We reported these findings to the DWP in our qualification letter.

2. 2015-16 certification fees

PSAA determine an indicative fee each year for the audit of claims and returns. For 2015-16, these indicative fees were published by the PSAA in April 2015 and are now available on the PSAA website (www.psaa.co.uk).

Claim or return	2014-15	2015-16	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Total Housing benefits subsidy claim	13,217	7,847	7,847

3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2016-17 is £9,913. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2016-17.

Details of individual indicative fees are available at the following web address: http://www.psaa.co.uk/audit-and-certification-fees/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We would discuss the matter with the Head of Finance & Governance Services before seeking any such variation.

4. Summary of recommendations

This section highlights the recommendations from our work and the actions agreed.

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
Ensure that State Retirement Pension figures used in the assessment of entitlement are being correctly uprated annually.	M	For 2016/17 the Council will ensure that all pensioner records are checked against Client Information System data. Both the 2015 and 2016 amounts will be verified and amended, where necessary. We accept that this is a reasonable and proportionate response to the issue raised.	From 2016/17.	Revenues and Benefits Manager
Ensure that all manual adjustments to the claim form are carefully reviewed to ensure they have been accurately made.	M	For 2016/17 the Council will ensure that all manual adjustments made as a result of system validation reports are carefully reviewed to ensure they have been accurately made. Particular focus will be placed on ensuring all necessary adjustments (both Non HRA Rent Rebates and Rent Allowances) from the BENCHK 087 report are made. It was an omitted adjustment from this validation report that resulted in the most significant adjustments to subsidy that were reported in Section 2.	From 2016/17.	Revenues and Benefits Manager

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Chichester District Council

Corporate Governance & Audit Committee Progress Report

January 2017

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INVESTOR IN PEOPLE

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6 January 2017

Dear Committee Member

Audit Progress Report

We are pleased to attach our Audit Progress Report.

The purpose of this report is to provide the Committee with an overview of the final position against the Council's 2015/16 audit plan, and our initial plans for the 2016/17 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

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

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Public Sector Audit Appointments Ltd (PSAA) has issued the ''Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 'Terms of Appointment' (updated September 2015) issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Governance Committee, and is prepared for the sole use of the audited body. 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.

2015/16 work program

Our 2015/16 Annual Audit Letter was presented to the November 2016 Corporate Governance and Audit Committee.

This letter communicated to Members and external stakeholders, including members of the public, the key issues arising from our audit work. We had already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the September 2016 Committee.

Our progress report accompanying the 2015/16 Annual Audit Letter in the November 2016 Committee informed Members that our work on the certification of the Council's claims and returns was completed in November 2016.

We are presenting our annual report on the certification of claims and returns to the Corporate Governance and Audit Committee today. This completes our work programme in relation to the 2015/16 financial year.

2016/17 audit

Fee letter

We issued our 2016/17 fee letter to the Council on 11 April 2016. This was reported to the June 2016 meeting of the Corporate Governance and Audit Committee.

Financial Statements

We adopt a risk based approach to the audit and, as part of our continuous planning we have held a number of meetings with key officers and other stakeholders to ensure the 2016/17 audit runs as smoothly as possible and to identify any risks and technical accounting issues that require our early consideration. Recent meetings include:

- November 2016 – attendance at the Corporate Governance and Audit Committee; and
- December 2016 – our quarterly meeting with the Head of Finance and Governance Services to update our understanding of the challenges and risks you are facing.

Planning and interim visit

We are scheduled to complete our initial planning work, including the walkthrough of the key financial systems in February 2016.

There are no significant matters arising from our initial planning work or meetings that we need to bring to your attention at this stage.

We will update the Committee when the testing of controls and early substantive testing has been completed. This work is also scheduled for February 2017.

Internal Audit

Internal Audit is a key part of the Council's internal control environment that we review during our assessment process. This process helps us to assess the level of risk of material errors occurring in the financial statements and informs the level of testing that we are required to complete in support of the audit opinion. We consider Internal Audit's progress with their annual audit plan and the results of their testing of financial systems and, where it is appropriate to do so, we will undertake procedures to enable us to place reliance upon this testing.

Post statements visit

We are currently finalising our resource planning for our post statements work in the summer in discussion with the Accountancy Services Manager. We will communicate and agree the proposed timings of our visit shortly.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries. These tools facilitate our analysis of these data sets and allow us to focus our testing in areas of highest risk.

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, will be presented to the Corporate Governance and Audit Committee in March 2017.

Value for money

Our initial risk assessment is ongoing. We will report any risks we identify and a proposed work program to address them in our audit plan that is scheduled for the March 2017 Corporate Governance and Audit Committee.

Other issues of interest

Expenditure funding analysis

The 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom contains a new format and reporting requirements for the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement as a result of the 'Telling the Story' review of local authority financial statements. The main changes are:

- reformatting the CIES to report on the same basis as the local authority is organised by; and
- the introduction of the new Expenditure and Funding Analysis.

CIPFA have published a briefing note "Understanding Local Authority Financial Statements in 2016" which provides further information. This is available on the CIPFA website at

http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements

As part of our audit planning, we will seek to understand the preparation that the Council is making for these changes. This early engagement should help to ensure a smooth transition to the new reporting format.

Sector briefings

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings.

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2016/17 Corporate Governance and Audit Committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	**Ongoing**	Audit Fee Letter	Issued 11th April 201**6** Reported June 2016	Completed
Risk assessment and setting of scope of audit	**Dec 2016 - February 2017**	Audit Plan	March 2017	In progress
Testing of routine processes and controls	**February 2017**	Progress Report	March 2017	Work is planned to start in February 2017.
Year-end audit	**Summer 2017**	Audit results report to those charged with governance. Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions. Audit Completion certificate	September 2017	We are currently finalising our resource planning for our post statements work in summer after liaison Helen Belenger (Accountancy Services Manager). We will communicate and agree the proposed timings of our visit shortly.

EY | Assurance | Tax | Transactions | Advisory

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Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 26 January 2017

Draft Treasury Management Strategy 2017-18

1. Contacts

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2. Recommendation

2.1. That the Committee considers the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Prudential Indicators and Minimum Revenue Provision statement for 2017-18.

2.2. The Committee 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 2017.

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 2017-18 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 are outlined and an explanation provided in Appendix 1 to this report.

5.2. Appendix 2 sets out the Council's treasury management policy, treasury management strategy, investment strategy and prudential indicators relevant to treasury management for the forthcoming financial year.

5.3. Appendix 4 sets out draft prudential indicators relevant to Capital expenditure and financing, together with a draft Minimum Revenue Provision statement for 2017-18.

6. Estimated Interest rates

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

Assumptions for 2017-18 Strategy

Assumed Interest Rates	2016/17 Revised	2017/18	2018/19	2019/20	2020/21
Investment Rates	0.82%	0.55%	0.55%	0.55%	0.55%

The view of the Council's treasury advisor is that the likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

6.1. The Treasury Management and Investment Strategies will be considered by Cabinet in February and Council in March 2017.

7. Alternatives that have been considered

7.1. 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.

7.2. 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

8. Resource and legal implications

8.1. 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.

9. Consultation

9.1. 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.

10. Community impact and corporate risks

10.1. 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.

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

11. 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.	✓	

12. Appendices

12.1. Appendix 1 – Summary of amendments between 2016-17 and 2017-18

12.2. Appendix 2- Treasury Management Policy Statement, Treasury Management Strategy Statement, Treasury Prudential Indicators and Annual Investment Strategy for 2017-18.

12.3. Appendix 3 – Treasury Management Practices (TMP's) Extract of TMP 1 Risk Management.

12.4. Appendix 4 – Capital Prudential Indicators and MRP Statement 2017-18

13. Background Papers

13.1. None.

Appendix 1: Key amendments made to 2017-18 strategy

Ref	Item	Amendment	Reason
Page 1	“Generation of investment income…”	Added a sentence relating to the Local Authority Property Fund (LAPF).	To reflect updated budget principles. Income from the Council’s investment in the LAPF is now within the Council’s resource projections.
Page 2	“in accordance with CLG guidance..”	Added new paragraph starting “In accordance with CLG guidance…”	On advice of Arlingclose Ltd
Page 2	Risk appetite statement	Removed sentence “The investment returns are generally used to fund one-off expenditure or capital investment”	To reflect updated budget principles. Income from the Council’s investment in the LAPF is now within the Council’s resource projections.
Page 3	Economic background	Moved Economic background section to Appendix 1	General presentation.
Page 7	Table 5	Added “(excludes pooled funds)” to Credit Rating (None) row	To accommodate the Council’s investment in unrated pooled funds, including the Local Authority Property Fund.
Page 8	Table 5	Provided more specific limits for pooled funds, increased overall limit on MMF investments to £20m.	To update for investments in pooled funds and to implement advice given by Arlingclose Ltd.
Page 9	Corporates	Added paragraph starting “for corporate bonds…”	Amended following advice from Arlingclose Ltd on the definition of principal for a Corporate Bond.
Page 10	Pooled funds	Added paragraph starting “Where investments in pooled funds…”	To clarify that investment limits can accommodate subsequent increases in asset values without breaching the Treasury Strategy limits.

Page 11	Specified Investments	Added sentence “For clarity, under this Strategy, no sovereign rating criteria for investments made with institutions domiciled in the UK is required”	Advice from Arlingclose Ltd
Page 12	Table 6	Increased limits to account for investments in the Local Authority Property Fund and planned investments in pooled funds during 2017-18.	To allow the implementation of strategy objectives. The total non-specified and Medium/ long term investments does not sum to the total of £50m as investments in the LAPF £10m and up to £10m in other pooled funds are counted in both categories.
Page 12	Table 7	Clarified specific limits on Property Fund investments (£10m) and also that MMF and LAPF investments are excluded from pooled fund limits as they have separate limits. Added Note (1) to clarify	To ensure clarify over the limits available for pooled funds: - MMF total £20m - LAPF/ Property £10m - Any other pooled fund £5m/ £10m total
Pages 13-14	Performance indicators	Updated to latest style of benchmark reporting used from Quarter 2 2016-17	Update to match current practices
Page 13	7.2 Liquidity	Removed requirement to maintain £10m within a three month rolling period.	Explanation included in section 7.2
Page 15	Table 10	Increased in line with general increase in funds subject to Treasury Management	To allow the implementation of strategy objectives.
Page 15	Table 11	Increased amounts allowed at longer durations	To accommodate the Council’s investment in Pooled funds ;eg, £10M LAPF, up to £10m in other pooled funds

Page 17	8.4	Added paragraph	Advice from Arlingclose Ltd
Page 18	10	Added paragraph starting “The Cabinet member for Finance and Governance..”	To reflect current practice

Appendix 2 - Treasury Management Strategy - updated

Treasury Management Policy Statement, Treasury Management Strategy Statement and Annual Investment Strategy for 2017-18

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 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.

- The generation of investment income to support the Council's spending plans is an important, but secondary objective. Other than the income from the Council's investment in the Local Authority property Fund or other long term pooled funds, returns are generally used to fund one-off expenditure or capital investment.

2. Treasury Management Strategy Statement

In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy'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.

The Department for Communities and Local Government (CLG) has also 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.

This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

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.

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

3. 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. However, whilst fundamentally risk adverse, the Council will accept some modest degree of risk

The use of different investment instruments and diversified high credit quality counterparties along with country, sector and group limits, as set out in this Strategy, enables the Council to mitigate the nature and extent of any risks. Relevant risks are described in Treasury Management Practices (TMP) 1.

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

4. **Local Context**

On 30 November 2016, the Council held £60.1m of investments, which comprised a diversified range of investments as set out in table 1, below

Table 1: Investment Portfolio Position – 30 November 2016.

Investments	£000	Annualised Return %
Short term Investments (cash, call accounts, deposits)	33,788	0.89
Money Market Funds	7,350	0.43
Corporate Bonds	3,949	0.68
Total Liquid Investments	**45,087**	**0.79**
Medium and Long term Investments	5,000	1.48
Pooled funds – Local Authority Property fund	10,000	4.86
TOTAL INVESTMENTS	**60,087**	**1.27**

The Council monitors the return on its treasury investments against that achieved by other English non-met District Councils. This information is included within the Council's performance management suite of key performance indicators (KPI) maintained on Covalent.

The figure of £60.1m is expected to fall over the next six months due to:

- The Council's projected 2016-17 capital programme (£13.1m)
- Reduced local taxation receipts in February and March.

The Council's latest resource projection (December 2016), projects the following movements in resources, including funds available for investment, over the medium term.

Table 2: Resource projection to 31 March 2021

	31.3.16 Actual £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m	31.3.21 Estimate £m
Reserves:						
Earmarked and specific	14.3	10.7	8.7	8.2	8.0	8.0
New Homes Bonus	6.4	9.4	9.0	8.7	8.4	8.4
Asset Replacement	7.0	4.7	4.5	4.8	4.9	4.8
General Fund	11.9	9.5	5.9	9.8	9.6	9.4
Capital Receipts	0.2	0.1	0.1	0.1	0.1	0.1
Section 106 balances	3.5	3.3	3.1	2.9	2.8	2.8
Working capital	4.7	4.1	3.4	3.7	3.7	3.7
Total Resources	**48.0**	**41.8**	**34.7**	**38.2**	**37.5**	**37.2**

Represented by:

Internal investments	43.0	31.8	24.7	28.2	27.5	27.2
Local Authority Property Fund	5.0	10.0	10.0	10.0	10.0	10.0
Total Investments	**48.0**	**41.8**	**34.7**	**38.2**	**37.5**	**37.2**

	31.3.16	31.3.17	31.3.18	31.3.19	31.3.20	31.3.21
Capital financing requirement	(1.38)	(1.41)	(1.44)	(1.47)	(1.48)	(1.48)
Debt	(0.1)	(0.1)	(0.1)	(0.05)	0	0

Apart from a small lease liability for the Council's multi-function printer/copiers, 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 over the medium term as existing investments are used to finance capital 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. As the Council does not expect to incur any debt (other than for temporary cash management purposes) over the next three years, table 2 demonstrates that the Council expects to comply with this recommendation.

5. Borrowing Strategy

The Council is currently debt-free and has no borrowing other than that which might occur as part of routine working capital management. This section describes the Council's policy should the need arise for any borrowing to be undertaken.

The Council's Financial Strategy confirms that:

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.

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.

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."

5.1 Borrowing Objective

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.

5.2 Borrowing Sources

The Council may need to borrow money in the short term to cover unexpected cash flow shortages, (normally up to one month) within the limits shown in tables 3 and 4.

5.3 Operational Boundary for External Debt

The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Table 3: Operational boundary for external debt

Operational Boundary	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Borrowing	5	5	5	5	5	5
Other long-term liabilities	0	0	0	0	0	0
Total Debt	5	5	5	5	5	5

5.4 Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 4: Authorised limit for external debt

Authorised Limit	2016/17 Revised £m	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m	2021/22 Limit £m
Borrowing	10	10	10	10	10	10
Other long-term liabilities	0	0	0	0	0	0
Total Debt	10	10	10	10	10	10

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

6. Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the 12 months to 30 November 2016, the Council's financial investment balance has ranged between £47.3m and £66.3m, 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.

6.1 Investment Objective

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 comply with the principles stated in this strategy document, striking an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

6.2 2017-18 Strategy

Given the increasing risk and remaining low returns from short-term unsecured bank investments, the Council will continue to diversify using secure and/or higher yielding asset classes. To achieve this, the Council may invest its surplus funds with any of the counterparties in table 5 below, subject to the cash limits (per counterparty) and time limits shown.

Table 5: 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 years	n/a
AAA	£2.5m 5 years	£5m 10 years	£5m 10 years	£2.5m 10 years
AA+	£2.5m 5 years	£5m 7 years	£5m 7 years	£2.5m 7 years
AA	£2.5m 4 years	£5m 5 years	£5m 5 years	£2.5m 5 years
AA-	£2.5m 3 years	£5m 4 years	£5m 4 years	£2.5m 4 years
A+	£2.5m 2 years	£5m 3 years	£2.5m 3 years	£2.5m 3 years
A	£2.5m 13 months	£5m 2 years	£2.5m 2 years	£2.5m 2 years
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
None (excludes pooled funds)	£1m 6 months	n/a	£5m 10 years	£2m 5 or 10 years
Council's own bank	£2.5m/ 7 days	n/a	n/a	n/a
Pooled Funds	£5m per money market fund (MMF), subject to a maximum of 2% of MMF fund value and a total limit of £20m across all MMF £5m per pooled investment fund, to a maximum of £10m (excludes the Local Authority Property Fund). £10m in the Local Authority Property Fund			

This table must be read in conjunction with the details notes below and the limits stated in table 6

Credit Rating: Investment limits are set 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. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Current Account Bank: The Council's current accounts are held with National Westminster Bank plc which is currently rated above the minimum rating in table 4.

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

Banks Secured: Covered bonds and other collateralised arrangements with banks and building societies. These investments are secured on the bank's 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 higher 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.

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 bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

For corporate bonds, the limits referred to in table 5 will apply to the sum of bond principal (par value) and any premium or discount paid to acquire the bond in the secondary market. The limit will exclude the accrued interest element paid to secure a secondary bond as this is recoverable on maturity of the Bond.

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. Short-term Money Market Funds that offer same-day liquidity and very low or no 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.

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 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.

Where investments in pooled funds or other financial assets have prices or values that can vary according to fund performance and other factors, the investment limits in table 7 will operate to regulate the initial purchase cost (total initial investment) only.

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

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

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

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

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, 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.

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 and securities 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 clarity, under this Strategy, no sovereign rating criteria for investments made with institutions domiciled in the UK is required. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

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 6 below.

Table 6: Non-Specified Investment Limits

	Cash limit
Total medium and long-term investments	£35m
Total investments without credit ratings or rated below A-	£35m
Total non-specified investments	£50m

Investment Limits: The Council's uncommitted revenue reserves available to cover

investment losses are forecast to be £26.5m on 31st March 2017. These uncommitted reserves include the following items; General Fund Balance (£9.5m), working capital (£4.1m) and New Homes Bonus (£9.4m). as stated in the current estimated Resources Statement. In order that no more than 25% 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 and LAPF) 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 7. 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 7: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government and the Local Authority Property Fund	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds (excluding MMF and LAPF) under the same management	£5m per manager (other than the Local Authority Property Fund), to a maximum of £10m in total
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£5m per country
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£2m in total
Money Market Funds	£5m per money market fund (MMF), subject to a maximum of 2% of individual MMF fund value and £20m in total
Property Funds (1)	£10m in total

(1) The limit on Property Funds in table 7 does not apply to any element of a multi-asset pooled fund which is subject to the separate limit under 'any group of pooled funds'

Liquidity Management: The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The

forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

7. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators. All comparative data is taken from benchmarking exercises conducted by the Council's Treasury Management advisors.

7.1 Security

The Council will use the following voluntary measures of its exposure to credit risk to monitor and assess overall security

Table 8: Security management indicators

Measure	Target
Average Credit Score (time-weighted)	Less than the average of other District Councils (AAA=1, D=24)*
Average Credit Rating (time weighted)	Maintain below the time weighted average of other District Councils
Proportion Exposed to Bail-in (%)	Less than the average of other District Councils

7.2 Liquidity

The Council has in prior years adopted a voluntary measure of its exposure to liquidity risk by ensuring that £10m is available within a rolling three month period. Following the introduction of specialised treasury management software during 2015-16, this target is no longer considered necessary as the cashflow forecast identifies the Council's cash liquidity requirements.

The Council has, previously, also sought 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. Over the last 12 months, the Council has, in conjunction with its banker, implemented automated balance sweeping arrangements to ensure that, at the close of each business day, surplus funds are automatically moved into an interest bearing account or funding transferred into accounts that are overdrawn. As a result of these arrangements, the voluntary targets

referred to above are obsolete when taken together with the specific limits on funds with the Council's banker set out in table 5, above.

Officers will continue to manage the Council's treasury management investments ensuring that sufficient cash is available to accommodate known payments. In the unlikely circumstance that a large unexpected cash payment is required and the Council does not have sufficient liquidity immediately available, the Council will use its facility to borrow temporarily for cash management purposes as set out in paragraph 5.3.

The Council will use the following voluntary measures of its exposure to liquidity risk

Table 9: Liquidity management indicators

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

7.3 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 in £ and percentage of net principal invested. Any borrowing would count as negative investment. Strictly this is contrary to the TM Code definition.

Table 10: Interest rate exposure management indicators

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure	£28m or 40%	£24m or 40%	£22m or 40%
Upper limit on variable interest rate exposure	£70m or 100%	£60m or 100%	£55m or 100%

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

7.4 Maturity Structure of Borrowing

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

7.5 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments in response to adverse economic or market conditions or credit rating downgrades. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 11: Limits on investment periods

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£35m	£30m	£25m

8. Other Items

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

8.1 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.

8.2 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 January 2017.

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

8.3 Investment Advisers

The Council currently contracts with Arlingclose Limited as its treasury management adviser and receives specific advice on investment, debt and capital finance issues. However, responsibility for final decision making remains with the Council and its officers.

The 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.

8.4 Investment of Money Borrowed in Advance of Need

Although not envisaged at this stage, the Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £5 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

9. **Financial Implications**

The budget for investment income in 2017/18 is shown below.

Table 12: Investment income budget

	2017/18 average	Return %	Budget (£k)
Internally managed investments	£27.8m	0.55	153
Local Authority Property Fund	£10.0m	4.20	420
Total	£37.8m	1.38	573

The above are based on cash flow projections from the Council's resource statement and on the assumption that the base interest rate is maintained at 0.25% during the period. This assumption is the central case scenario projected by the Council's treasury management advisors. Further information about these projections can be found in Appendix 1. If actual levels of investments and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

10. **Reporting**

The Council/Cabinet will receive as a minimum:

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

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

The Cabinet member for Finance and Governance, and the members of the Corporate Governance & Audit Committee receive weekly monitoring reports of the investments held. Corporate Governance & Audit Committee will receive half yearly monitoring reports.

Appendix 1 – Arlingclose Economic & Interest Rate Forecast September 2016

External Context

Economic background: The major external influence on the Council's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of the next few years when setting interest rates so as to avoid derailing the economy.

Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsets.

Credit outlook: Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has

therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however continue to fall.

Interest rate forecast: The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. A negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the Government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a distinct possibility, to keep long-term interest rates low.

Underlying assumptions:

- The economic trajectory for the UK has been immeasurably altered following the vote to leave the European Union. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The short to medium-term outlook is somewhat more downbeat due to the uncertainty generated by the result and the forthcoming negotiations (notwithstanding the Olympic and summer feel-good effects). The rapid installation of a new Prime Minister and cabinet lessened the political uncertainty, and the government/Bank of England have been proactive in tackling the economic uncertainty.

- Purchasing Managers Index data, and consumer and business confidence surveys presented a more positive picture for August following the shock-influenced data for July, in line with expectations for an initial overreaction. However, many indicators remain at lower levels than pre-Referendum.

- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

- UK Consumer Price Index inflation (currently 0.6% year/year) will rise close to target over the coming year as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

- The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

- There is a debatable benefit to further interest rate cuts (particularly with regard to financial stability). Negative Bank Rate is currently perceived by policymakers to be counterproductive, but there is a possibility of close-to-zero Bank Rate. QE will be used to limit the upward movement in bond yields.

- Following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than a few months ago. However, financial market volatility is likely at various points because the stimulus has only delayed the fallout from the build-up of public and private sector debt (particularly in developing economies, e.g. China).

Forecast:

- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero

- Gilt yields will be broadly flat from current levels, although there will likely be much volatility as reports of negotiations between the UK and the remaining EU affect market perceptions of both parties' economic growth potential.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Aver-age
Official Bank Rate														
Upside risk	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.12
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.40

Appendix 2 – Benchmarking Definitions

The benchmarking compares various measures of risk and return, which are calculated as follows:

Investment Value
For internal investments, the value is the sum initially invested. For external funds, the value is the fund's bid price on the quarter end date multiplied by the number of units held.

Rate of Return
For internal investments, the return is the effective interest rate, which is also the yield to maturity for bonds. For external funds (LAPF) this is measured on an offer-bid basis less transaction fees. For external funds the income only return excludes capital gains and losses.

Average returns are calculated by weighting the return of each investment by its value. All interest rates are quoted per annum.

Duration
This measure applies to internal investments only. This is the number of days to final maturity. For instant access money market funds, the number of days to final maturity is one.
.
Average duration is calculated by weighting the duration of each investment by its value. Higher numbers indicate higher risk.

Credit Risk
Each investment is assigned a credit score, based where possible on its average long-term credit rating from Fitch, Moody's and Standard & Poor's. This is converted to a number, so that AAA=1, AA+=2, etc. Higher numbers therefore indicate higher risk. Unrated local authorities are assigned a score equal to the average score of all rated local authorities.

Average credit risk is measured in two ways. The value-weighted average is calculated by weighting the credit score of each investment by its value. The time-weighted average is calculated by weighting the credit score of each investment by both its value and its time to final maturity. Higher numbers indicate higher risk.

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, available via the following link:

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

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

[1] Credit and Counter party risk management

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

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

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

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

The Council adopted the revised 2011 TM Code in February 2012 and ensures that its counter party lists and limits;

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

The Council also maintains a formal counter party policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative

arrangements. This is contained within the Council's Treasury management policy statement and approved each year by the Council.

Monitoring Investment Counterparties

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

The Council obtains credit rating information from its treasury advisers who monitor all 3 credit ratings (FITCH, Moody's and Standard and Poor's), and notify the Council of any changes in ratings as they occur. This includes and takes account of changes, ratings watches and rating outlooks as necessary.

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

In considering credit rating, the lowest rating issued by three main agencies (above) is used, unless an investment-specific rating is available when this will be used.

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

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

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

[2] Liquidity Risk Management

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

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

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

To maintain flexibility and liquidity the Council determines a maximum amount of principal that can be invested for periods longer than 364 days and closely monitors known future cash demands. The Council has also set an operational boundary for external debt that can be used on a short term basis for daily cash management purposes.

[3] Interest rate risk management

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

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

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

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

To achieve this objective the following specific policies are followed:

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

[4] Exchange rate Risk Management

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

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

[5] Refinancing risk management

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

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

Appendix 4

Capital Prudential Indicators and MRP Statement 2017-18

1. Capital Prudential Indicators 2017-18

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow, if necessary. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

The prudential indicators in this report are supplemented by the Council's operational boundary and authorised limit for external debt (table 3 and 4 of the Council's Treasury Strategy).

(a) Estimates of Capital Expenditure: The Council's planned capital expenditure and financing may be summarised as follows. Further detail will be provided in the Council's Budget Spending Plans to be reported to Cabinet on the 7 February 2017 and to be considered by Council on 7 March 2017.

Capital Expenditure and Financing	2016/17 Original £m	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Capital Expenditure	**9.239**	**7.885**	**12.587**	**5.628**	**4.314**	**5.637**	**3.250**
Financed By:							
Capital Receipts	6.434	1.452	0.053	2.463	0.935	0.817	0.500
Government Grants	0.528	1.198	0.878	0.878	0.878	0.878	0.665
Other contributions	0.080	0.371	1.118	1.160	1.181	2.425	0.930
Reserves	1.772	4.516	10.168	0.778	0.971	1.162	1.155
Revenue	0.425	0.348	0.370	0.349	0.349	0.355	-
Total Financing	**9.239**	**7.885**	**12.587**	**5.628**	**4.314**	**5.637**	**3.250**

(b) Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purposes.

Capital Financing Requirement	31.03.16 Actual	31.03.17 Revised	31.03.18 Estimate	31.03.19 Estimate	31.03.20 Estimate	31.03.21 Estimate	31.03.22 Estimate

	£m	£m	£m	£m	£m	£m	£m
CFR	**-1.38**	**-1.41**	**-1.44**	**-1.47**	**-1.48**	**-1.48**	**-1.48**

The CFR is not expected to change significantly over the next five years as capital expenditure is anticipated to be financed by the Council's available capital and revenue resources. The movement in CFR above reflects the impact of MRP set aside in respect of a finance lease for Multi-function devices acquired in 2014/15.

In principle the CFR should equal zero, as the Council has fully funded its capital investment programme since becoming debt free following its Large Scale Voluntary Transfer (LSVT) of its housing stock in 2001, however a negative balance post LSVT is relatively common. To bring the CFR back to a more meaningful figure i.e. zero, there is the option to leave part of capital expenditure unfinanced or effectively financed from internal borrowing which will increase the CFR to zero.

(c) Gross Debt and the Capital Financing Requirement: Now included within TMPS

(d) Operational Boundary for External Debt: Now included within TMPS

(e) Authorised Limit for External Debt: Now included within TMPS

(f) Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2016/17 Revised %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**	**2021/22 Estimate %**
General Fund	-2.18	-1.65	-1.00	-1.60	-1.65	-1.59

The estimates of financing costs reflect the Budget Spending Plans for 2017-18 to be reported to Cabinet on 7 February 2017 and considered by Council on 7 March 2017. These indicators have been updated to reflect the current phasing of the capital programme and the effect on the cash flow forecasts for investments.

The fact that the percentages remain negative shows that the investment interest remains an income source to the Council. To date investment interest has been used to fund one off projects/capital spending rather than balance the revenue budget. With effect from 2017-18 the investment return earned on the council's property investments (projected at circa £400,000 per annum) will be applied as part of the deficit reduction plan considered by Cabinet in December 2016 and recommended for approval by full Council.

(g) Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels.

The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed to Cabinet and Council as part of the Council's spending plans.

Incremental Impact of Capital Investment Decisions	**2016/17 Estimate £**	**2017/18 Estimate £**	**2018/19 Estimate £**	**2019/20 Estimate £**	**2020/21 Estimate £**	**2021/22 Estimate £**
General Fund - increase in annual band D Council Tax	-2.60	-3.5	-3.56	-4.94	-4.49	4.84

(h) Adoption of the CIPFA Treasury Management Code: Now included within TMPS

Annual Minimum Revenue Provision Statement 2017-18

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance:

> Whilst the Council's General Fund Capital Financing Requirement is expected to remain negative as at 31st March 2017, if the CLG Guidance is adhered to there should be no MRP charge in 2017-18. However, as identified whilst preparing the 2014-15 statutory accounts a finance lease for the Multi-functional devices was identified which adjusted the negative CFR position, and as such an MRP charge of £29k will be required in 2017-18 in accordance with the Council's MRP policy.

The Council's MRP policy for all borrowing after 31st March 2008 is based on the asset life method.

> *For new borrowing whether supported by the Government or not, MRP provision will be made over the estimated life of the asset for which the borrowing is undertaken. This will be done on a straight line basis in-line with the asset life determined for depreciation purposes and the MRP provision will commence in the financial year following the one in which the asset becomes operational.*

MRP is payable in the financial year following that in which the capital expenditure was incurred. The guidance allows for an important exception to this rule. In the case of expenditure on a new asset, MRP would not have to be charged until the financial year following the year in which the asset became operational. In respect of major schemes, this would enable an "MRP Holiday" delaying the on-set of the revenue charge for possibly up to 2 or 3 years.

Based on the Council's estimate of its Capital Financing Requirement on 31st March 2017, the budget for MRP has been set is set at £29k for 2017-18 due to the MRP required for the MFD finance lease.

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 26 JANUARY 2017

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 and make comment on the audit reports and to note progress against the audit plan.

3. Main Report

3.1. Chichester Careline

Chichester Careline received accreditation on the 4th July 2016 by the Telecare Services Association (TSA). To avoid duplication Internal Audit has placed reliance on the areas reviewed by the TSA.

Consequently Internal reviewed the following areas during this Audit.

- Document the process for identifying, recording and reviewing monitoring and cancelling clients on Tunstall (IT system)
- Identify and test controls within the process
- Follow up any previous audit reports/recommendations – income reconciliations

The management and the control arrangements for the functions audited were found to be working satisfactorily. However, there are areas where controls need to be strengthened. Internal Audit has not made a recommendation for debt recovery as corporate arrangements are being reviewed.

Two recommendations have been made both of which are important issues to be addressed. Both recommendations have been agreed by management.

3.2. Industrial Estates & Investment Properties

Internal Audit completed and operational risk assessment on the area under review and decided to test controls in place and to undertake the following for the audit:

- Document the processes for; maintaining an up to date property list, the rent subsidy scheme and collection of rental income due on commercial properties and service charges levied.
- Identify and test controls in place within the processes, including appropriate procedures.
- Follow up on any recent audit reports

Overall, the controls appear to be working satisfactorily. However, some processes, in particular for rent reviews and service charge account approval could be improved in order to strengthen controls. Clarification is also required with regard to the policy of delegating to officers the task of reducing the level of concessions.

Seven recommendations have been made 4 of which have important issues and 3 minor issues. All recommendations have been agreed by management.

4. Background

4.1. Not Applicable

5. Outcomes to be achieved

5.1. Not Applicable

6. Alternatives that have been considered

6.1. Not Applicable

7. Resource and legal implications

7.1. Not Applicable

8. Consultation

8.1. Not Applicable

9. Community impact and corporate risks

9.1. Not Applicable

10. Other Implications

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

11. Appendices

Appendix 1 - Progress Report – Audit Plan

12. Background Papers

Appendix 2 - Chichester Careline Audit Report
Appendix 3 - Industrial Estates & Investment Properties Audit Report

Progress Report – Audit Plan

As at 31 December 2016

Appendix 1

Audits Brought Forward from 2015-16	Auditor	No of Days	Days Remaining	Position with Audit
S106/CIL	Philippa Watts	18	5	Ongoing
Business Continuity	Ann Kirk	10	9	Deferred until Qtr 4
Fixed Asset Register (transfer to Civica)	Stephen James	5	3	Deferred until Qtr 4
Emergency Planning	Sue Shipway	15	11.5	Producing a position Statement
2016/2017 - Audit Plan				
Elections	Sue Shipway	15	10	Producing a position Statement
Contract Management	To be determined	15	15	_
CCS - Income (Trade & Green Waste)	Sue Shipway	15	11	Ongoing
Budget Monitoring - Deficit Reduction (Procurement review target on goods and services)	Philippa Watts/Julie Ball	20	12	Includes Facilities Management/Caretaking/Building Services

Other Audit Activities	Auditor	No of Days	Days Remaining	Position with Audit
Key Financial Systems - See below for details	Sue Shipway / Julie Ball /Ann Kirk / Philippa Watts	100	32	Ongoing
Audit Reviews	Stephen James / Sue Shipway	15	0.75	Ongoing
Corporate Fraud Officer	Stephen James / Sue Shipway	20	18.5	Monitoring Role and progress report
Meetings / Discussions with EY	Stephen James / Sue Shipway	2	0	Ongoing
Shared Service Project Plan	Stephen James / Sue Shipway	15	0	Ongoing
Committee Reports & Representation	Stephen James	15	0	Ongoing
Corporate Advice	Stephen James / Sue Shipway/ Julie Ball / Ann Kirk	10	7	Ongoing
Contingency	Stephen James/Sue Shipway/ Philippa Watts/Julie Ball/Ann Kirk	65	15	Analysed separately
PSIAS	Stephen James/Sue Shipway	20	19.75	Deferred due the Shared Service project
Follow Ups -	Sue Shipway / Ann Kirk / Julie Ball	14	5	Ongoing

Completed Audits				
Fraud Review	Sue Shipway	0	0	Report Completed
Personnel & Recriutment	Sue Shipway	0	0	Completed and Reported
Industrial Estates/Investment Properties	Philippa Watts	0	0	Increased days to include service charges Draft Report available
Data Security PSN	Julie Ball	0	0	Completed and Report available
Treasury Management	Philipa Watts	0	0	Completed and Report available
Rent Deposit Scheme Review	Ann Kirk	0	0	Completed and Report available
Pest Control	Philippa Watts	0	0	Now outsourced-cover under future contract audits
Communiy Careline	Julie Ball/Ann Kirk	0	0	Complete and report available
Key Financial Systems 2015/2016	Sue Shipway	0	0	YE report only
AGS & Supporting Evidence	Stephen James	0	0	Report available
Estate Rent Arrears	Julie Ball	0	0	Report Completed
Deferred Audits to 2017-18				
Museum/TIC	Ann Kirk	20	18	Currently under review - defer until 2017-18
Information Technology (New IT Manager)	To be determined	15	15	Deferred due the Shared Service project
Grants & Contributions (Received)	Stephen James	15	15	Deferred until April / May
Westgate/Southbourne/Midhursrt Leisure Centres	Sue Shipway	15	15	Contract commenced 1 May2016
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			
NNDR	Sue Shipway / Philippa Watts / Julie Ball / Sarah Hornsby	100 See Above		Reported at Year End
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
2016-17
Chichester Careline

Ann Kirk & Julie Ball
Auditors
November 2016

Contents

Audit: Chichester Careline
Auditor: Ann Kirk & Julie Ball

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

1 Introduction

1.1 Chichester Careline operates a 24/7, 365 days a year monitoring service to members of the public and corporate clients that enable individuals to live safely and independently inside and outside their home.

1.2 The service has been operating for over 30 years and is the only local authority that runs a call monitoring centre in West Sussex supporting almost 21,000 clients.

1.3 The service delivers a range of telecare services to clients in the Chichester District, Horsham, Adur, Arun, Crawley, Gosport, Fareham, Waverly, Guildford, as well as housing associations and sheltered accommodation in West and East Sussex, Hampshire, London , Kent, Dorset and Scarborough which include:-

- Installation and monitoring of community alarms;
- Monitoring of sheltered accommodation and environmental alarms;
- Mobile response (within 20 miles of Chichester)
- Provide and monitor Mindme GPS locating devices;
- Out of hours calls monitoring;
- Carers emergency alert cards

2 Scope

2.1 Chichester Careline was accredited by the Telecare Services Association (TSA) on 4 July 2016. The TSA is an industry body for Technology Enabled Care and a global leader in defining quality for service users, carers and providers. As a consequence Internal Audit will place reliance on the areas reviewed by the TSA and look at the following areas within this audit.

- Document the process for identifying, recording and reviewing monitoring and cancelling clients on Tunstall (IT system)
- Identify and test controls within the process
- Follow up any previous audit reports/recommendations – income reconciliations

3 Findings

3.1 A sample of 14 new clients were found to have been entered onto the services information system Tunstall and the council's financial system Civica for collection of payment. From the sample, 13 had signed a rental agreement for the equipment that they had leased from the service and were set up on Civica as debtors for collection of payment. The individual case where this had not occurred was explained to be due to exceptional circumstances.

3.2 While reviewing the agreements it was observed on three occasions a member of the Careline Team had not signed the agreement, Internal Audit recommends that these should be checked to ensure that no further action needs to be taken and that all future agreements are signed and checked for completeness.

3.3 A sample of 16 clients who had cancelled their service had all received a receipt on return of their equipment, and had been cancelled from Civica. From the sample tested there were no outstanding payments to be collected or to be written off from these clients.

3.4 Equipment returned is checked for suitability and reissued where appropriate. This area is tested as part of the services TSA Accreditation for which Internal Audit placed reliance.

3.5 New equipment is purchased through the council's financial system, Civica, which is tested as part of Internal Audit's annual Financial Management System work. Stock is accounted for at year end and a signed stock take is provided to finance as part of the end of year accounts.

3.6 Careline have two types of clients, corporate and members of the public. Debt recovery for corporate clients is currently being reviewed. Clients who are members of the public receive automated reminder letters but are contacted by the Careline Service themselves to try to recover payment as apposed to being transferred to the council's corporate debt recovery process due to the vulnerability of their clients.

3.7 Testing on the latest debt monitoring report found a number of clients had outstanding balances. The Careline Manager is aware and is currently reviewing the process in place. As a result internal audit will review this area again once the new process is in place to ensure the controls are mitigating the risks to the service and Council.

3.8 Internal Audit had previously reviewed reconciliations within Chichester Careline and it had been identified that the service could not use their software system Tunstall to aid in this process as the two systems, Tunstall and Civica did not have a common denominator. Since this review the service have recorded the clients Civica Account number on Tunstall and are revisiting the reconciliation process to see whether Tunstall can now be used.

3.9 To ensure that all clients' payments were correct and being collected the service undertook a full manual reconciliation on all their clients. All new

clients from this time added to the system had to have a Tunstall Account number and Civica Account number recorded on their account, before the paper copy could be filed. Finally 10% of all new clients entered for the month were to be checked for accuracy.

3.10 Testing found that all new clients entered onto Tunstall had been set up on Civica, but the 10% checks had not been carried out at the time of testing. Internal Audit recommend that while the service investigate using Tunstall to undertake their reconciliations they reinstate the 10% accuracy checks to provide assurance that all new clients have been set up correctly with the correct fee.

4 Conclusion

4.1 The management and control arrangements for functions audited were found to be working satisfactory. However, there are areas where controls need to be strengthened.

4.2 Internal Audit have not made a recommendation for debt recovery as corporate arrangements are being reviewed. These will be followed up when procedures have been put in place to ensure that they are being followed.

4.3 Internal Audit has made two recommendations of which are both important issues to be addressed.

5 Recommendations

5.1 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
3.2	Rental agreements are fully completed and checked for completeness and where they hadn't it is ensured that no further action is required	Careline Manager	Important	Yes		With immediate effect
3.8	10% checks are re-instated on all new clients entered in the month to ensure accuracy as part of the reconciliation process	Careline Manager	Important	Yes		With immediate effect

Traffic Light Key

Significant Issues to be addressed Important Issues to be addressed Minor/No issues to be addressed

Internal Audit Report

Industrial Estates & Investment Properties Audit

Philippa Watts
Auditor
October 2016

Contents

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

1 Introduction

1.1 This audit of Industrial Estates and Investment Properties has been undertaken in accordance with the 3 year audit plan. The audit plan is approved by the Corporate Governance and Audit Committee at Chichester District Council (CDC). The Council owns over 500 properties which range from recreation grounds, bus shelters and car parks to retail and industrial estates including those at Terminus Road and Quarry Lane.

2 Scope

Internal Audit completed an Operational Risk Assessment on the area under review and decided to test controls in place and to undertake the following for the audit:

- Document the processes for; maintaining an up to date property list, the rent subsidy scheme and collection of rental income due on commercial properties and service charges levied
- Identify and test the controls in place within the processes, including appropriate procedures, and
- Follow up on any recent audit reports.

3 Testing and Findings

3.1 The processes for maintaining an up to date property list, the rent subsidy scheme, the collection of rental income due on commercial properties and the collection of monies from service charges were documented and testing was undertaken on a sample basis.

3.2 For the rent subsidy scheme in operation for start up businesses at the St James Industrial Estate testing was undertaken to check that;

a) the criteria for the rent subsidy had been met;

b) that a signed application had been received;

c) that 2 satisfactory references had been received for each application;

d) that there is a completed authorisation form signed by Estates, Economic Development, Executive Director Support Services & Economy and the Chairman of Grants & Concessions panel;

e) that there is a signed lease which states the full rental value; and

f) that the correct rent is being invoiced.

3.3 There was one new start up business during the current year, 2016 and so this was selected for testing. It was found that the relevant documentation had been retained which gave assurance that the above requirements had been met with the exception of a signed application form. There is a pro-forma application form that should be completed by prospective tenants to the St James Industrial Estate which requires a signed declaration to confirm that the information provided is a true statement of the facts. This form had not been received and should have included a business plan and forecast accounts, only an email correspondence could be evidenced.

3.4 The collection of rental income from the commencement of a commercial lease or following a lease renewal was tested to ensure that;

a) the Estates Surveyor had completed a report for the Valuation & Estates Manager; outlining the proposal for a new lease, proposed terms for a new lease, a valuation based on explicit comparable evidence and that the Surveyor's recommendation had been given approval by the Valuation and Estates Managers or Cabinet if required;

b) that 2 satisfactory references had been received, including a bank reference and accounts for 3 years where available;

c) that there is a signed lease which states the full rental value; and

d) that the correct rent is being invoiced.

3.5 Testing was undertaken of one new commercial lease. The relevant documentation had been retained which gave assurance that the above requirements had been met with the exception that no accounts or signed application form was evidenced as being received. The Estates New Letting procedure states that an application form should be sent to prospective tenants. However the Valuation and Estates Manager stated that the procedure is out of date. An application form is no longer required for new tenants other than for applicants to the St James Rent Subsidy Scheme and the procedure is to be amended to reflect the current practice.

3.6 Additional testing was carried out on the collection of rental income from 10 on going commercial leases to ensure that;

a) a signed lease is held for every tenancy. Arrangements to pay are agreed, formally recorded and signed by the tenant;

b) the terms of the lease require payment of rent in advance and that rent is being paid in advance;

c) rents are being reviewed as per the review dates stated in the individual lease. Details of rent reviews and new tenancies are notified to all relevant parties. There is a formal record of all rent review negotiations & terms agreed; and

d) that the correct rent and service charge is being invoiced.

3.7 The relevant documentation had been retained which gave assurance that the above requirements had been met with the following exceptions and instances that should be noted;

a. In 2 of the 10 cases, the rent reviews were found to be not completed until one and a half and two and a half years following the due dates;

b. In another case the rent review is not due until 2149;

c. For another no rent is demanded as there is no rent clause contained in the original head lease dated 1956. There is a sub lease on this property on which CDC receives a 10% share as agreed in the change of use licence 2014.

d. A report was provided by the Estates Technician of completion dates against due dates for rent reviews undertaken for the period 1 January 2001 to date. An analysis was then undertaken by audit of the most recent rent reviews due and undertaken for properties on the industrial estates and, of these, the percentage of rent reviews undertaken on time during this period. This analysis found that 24% of rent reviews were completed on time whilst 76% of rent reviews were overdue and that 33% of rent reviews were overdue by over a year. However the Valuation and Estates Manager stated that rent reviews can take lengthy periods to agree to ensure the best financial outcome for the Council. In addition, once agreed, revised rents are backdated to the review date so there is no financial loss.

3.8 The Grants and Concessions policy, section 11, refers to concessionary rents on historic arrangements and states ‘Officers are tasked to manage the tenancies of occupied properties including the reduction in the size of the concession provided, and therefore the renewal of leases that meet those criteria are delegated to officers.’ During the audit, no procedure could be evidenced to support this policy (i.e. reducing concessionary rents on historic lease agreements). There is a need for more detail to specify how this policy is to be achieved and procedures that support this policy to ensure consistency in its application, as well as ensuring greater transparency.

3.9 The procedure for service charges includes a control for the service charge accounts to be referred to the Valuation and Estates Manager for approval and certification. However during the audit, testing revealed that the 2015/16 service charge accounts for the St James Industrial Estate had not been signed off so there was no evidence to show that the service charge accounts

had been certified and approved in accordance with the Estates Service Charge procedures.

3.10 It was noted during the audit that a number of the procedures for the Estates Service were out of date. For instance they require updating for current job titles. The New lettings procedure requires amending for current practice, 2 rather than 3 references are now requested.

3.11 It was observed during the audit that there are numerous cardboard boxes holding paper files in various offices. There is a risk of the loss of files not held in fire proof boxes. There may also be a data protection issue where the files contain copies of leases with the names and addresses of the property owners. It should be noted that all original leases are held securely.

4 Conclusion

4.1 Overall, the controls appear to be working satisfactorily. However, some processes, in particular for rent reviews and service charge account approval, could be improved in order to strengthen controls. Clarification is also required with regard to the policy of delegating to officers the task of reducing the level of concessions. Therefore recommendations have been made. (See Action Table at Appendix 1).

4.2 In order to prioritise the issues raised, the following traffic light indicator has been used:

Red – Significant issues to be addressed

Amber – Important issues to be addressed

Green – Minor or no issues to be addressed

5 Action Plan – Appendix 1

Paragraph Ref	Recommendation	Officer	Priority	Agreed?	Comments	Implementation Date
3.3	Prospective tenants to St James Industrial Estate are required to complete the proforma application form and sign the attached declaration. (This applies only to prospective tenants applying for rent subsidy)	Valuation & Estates Manager	Important	See comments.	There is no application form for St James tenants – those applying for the rent subsidy scheme complete a separate application form. Estates Procedure Note to be updated to reflect this.	31/03/17 (Audit at follow up to also check that application forms are being completed for the rent subsidy scheme.)
3.3 & 3.5	That checks made on the financial position of prospective tenants are evidenced by Estates Surveyors to ensure that there is a complete audit trail of this process.	Valuation & Estates Manager	Important	Yes	References/account details to be requested and securely filed.	31/03/17

3.7	That any delays in instigating rent reviews are authorised by the Valuation & Estates Manager and progress and completion monitored.	Valuation & Estates Manager	Important	Yes	Already in place as cases allocated by VEM and monitored though case reviews.	
3.8	Clarification is sought with regard to the policy which delegates to officers the task of reducing the size of concessions on historic lease arrangements in the Chichester District and that procedures are written and updated regularly to support this policy.	Valuation & Estates Manager	Important	See comments	Clarification to be sought on the wording of the Policy as Estates delegated powers are to achieve market value for lettings/renewals – contracted concessionary rents cannot be changed during the lease term.	31/05/17
3.9	That the approval and certification of the service charge accounts is evidenced when it has been carried out.	Valuation & Estates Manager	Minor	Yes		31/03/17
3.10	Estates procedures for new lettings, rent reviews and lease renewals etc. are updated for example for current job titles.	Valuation & Estates Manager	Minor	Yes		31/03/17

3.11	Old estate files are kept in a secure location.	Valuation & Estates Manager	Minor	See comments.	There is currently no option for secure storage and files are kept as securely as possible in the areas available.	