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A meeting of **Corporate Governance & Audit Committee** will be held in Committee Room 2, East Pallant House on **Thursday 25 January 2018** at **9.30 am**

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

AGENDA

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

2 **Approval of Minutes** (Pages 1 - 9)
The committee is requested to approve the minutes of its ordinary meeting on 23 November 2017.

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 the Democratic Services Officer (whose contact details appear on the front page of this agenda).

6 **Certification of claims and returns annual report 2016-17** (Pages 10 - 20)
The committee is requested to consider the attached report from Ernst & Young LLP summarising the results of work on the Council's 2016-17 claims and returns.

7 **Treasury Management Strategy, Policy and Prudential Indicators 2018-2019** (Pages 21 - 59)
The committee is requested to consider the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Prudential Indicators for 2018-19 and to recommend these to Cabinet and Council for approval.

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

9 **General Data Protection Regulations (GDPR)** (Pages 60 - 68)
The committee is requested to consider the report and raise any issues of concern

or comment. The committee is also requested to note the work being undertaken to ensure that the authority is compliant with the provisions of the General Data Protection Regulations by 25 May 2018.

10 **Internal Audit - Audit Plan Progress** (Pages 69 - 87)
The committee is requested to consider the two audit reports and to note the 2017-18 audit plan progress report.

11 **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

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

NOTES

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

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

3. 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 23 November 2017 at 9.30 am

Members Present: Mrs P Tull (Chairman), Mr G Barrett (Vice-Chairman), Mr J Brown, Mrs N Graves, Mrs P Hardwick, Mr G Hicks, Mr F Hobbs, Mr S Morley and Mr P Wilding

Members not present: Mr T Dempster

In attendance by invitation: Mr P King (Ernst & Young LLP)

Officers present: Mrs H Belenger (Accountancy Services Manager), Mr M Catlow (Group Accountant (Technical and Exchequer)), Mr S James (Principal Auditor) and Mrs B Jones (Principal Scrutiny Officer)

154 **Chairman's Announcements**

The Chairman welcomed all to the meeting. There were no apologies. Mr Hobbs had been delayed and would be arriving shortly.

155 **Approval of Minutes**

The minutes of the last meeting held on 28 September 2017 were considered.

The number of days in the audit plan referred to at minute 153 (before the resolution on page 9) would be covered at agenda item 12, but should read 'The audit plan approved by the committee for 2017-18 is 420 days…'

RESOLVED

That the minutes of the meeting held on 28 September 2017 be agreed as a correct record.

156 **Urgent items**

There were no urgent items.

157 **Declarations of Interest**

There were no declarations of interest.

158 **Public Question Time**

No public questions had been received.

159 **Annual Audit Letter 2016-17 - Ernst & Young LLP**

Mr P King, Ernst & Young LLP, introduced the annual audit letter for the period ending 31 March 2017. The messages were similar to those contained in the audit results report considered at the last meeting and he had nothing particular to point out to the committee except the earlier statutory deadline for production and audit of the 2017-18 financial statements.

Mrs Belenger advised that planning was underway to enable this to be carried out between the beginning of June and the end July 2018. Mrs Belenger assured the committee that the trial carried out this year had been reasonably successful. Lessons had been learned and changes put in place in order that the deadlines would be achieved in 2018.

Mr King informed the committee that there would a change to the EY audit team from January 2018. He would be moving off the audit and would be replaced by Mr Kevin Suter, who would lead the audit from now on. Mr Young had reduced his hours and would be replaced by Mr Jason Jones, who was also the audit manager for Arun District Council. EY considered it sensible to have the same audit manager across both authorities.

He thanked the committee and particularly the Chairman for the support he had received over the last five years.

RESOLVED

That the annual audit letter ending 31 March 2017 be noted.

160 **Audit Progress Report 2017-18**

Mr King provided an oral report on the current progress of the 2017-18 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. Additional testing had been required however work on that claim was nearing completion.

The certification report would be presented to the next meeting.

161 **Financial Strategy and Plan 2018-19**

Mrs Belenger introduced the report which set out the financial strategy and the principles which underpinned the council's approach to managing its financial matters and medium term financial plan. Part of that process was trying to understand the risks and how we could control and mitigate some of those risks. The council was currently in year three of a four year government settlement. 2019-20 was the final year of the settlement and thereafter officers had made assumptions based on best information. Part of that was underpinning the key financial principles and how we approach those future years with an unknown quantity.

One of the key financial principles set out in Appendix 1 relating to investment income had been amended. Last year the investment income from the property fund was used to support the deficit reduction plan. It was intended that the extra £8m we were placing in mixed asset bonds would also be used to close that gap.

Mrs Belenger recommended that we maintain the £5m reserve and continued to maintain the provision of £1.3m of revenue support which would allow the council to smooth things in relation to business rates retention as localisation had some risks. The council has not used this reserve which was first earmarked in 2010 and she assured the committee that the reserves figure was there to help mitigate risks with the council's spending plans.

The committee made the following comments and received answers to questions as follows:

- Queried which elements of current fees and charges were susceptible to the economy. Certain areas such as green waste and car parks were subject to fluctuation. The council had a fees and charges policy setting out that the user pays for the service where it was not a statutory service. The increase in charges in 2017-18 had been 3%. An income of £16.4m had been achieved through our income streams. Officers did their best to forecast this figure based on a number of predictions. The council was working in a more commercial environment; officers were expected to look for new opportunities and services were expected to continually assess their charges.
- Queried the point of entering the business rates pilot for 2018-19 if there was no impact on the model. There was no impact on individual authorities but as part of a wider pool the growth money that would have gone to the government would be available to the pool to invest across the county. The bid required to be submitted from an economic area and all authorities in West Sussex were part of that bid.
- Queried whether certain areas would not get their full business rate return. Even with localisation there would still be a mechanism to redistribute business rate income to areas where need was greater. The mechanics had not yet been divulged.
- Queried the current council tax premium payable on empty properties following the Chancellor's announcement of the power to charge a 100% premium. The council currently has a zero council tax discount policy on empty homes.
- Queried the principles behind the five year financial model. The model reflected a mixture of the most likely and most prudent scenarios. Sensitivity was not modelled in it. Income was continually monitored. Complex projects were monitored to ensure that income streams came into being at the same level as predicted. This model was updated regularly behind the scenes in order that officers could get a position statement for members' decision. This strategy was officers' best estimates taking a prudent approach.
- Queried measures taken to ensure that parish councils consulted with their communities when developing bids for New Homes Bonus (NHB) grants. A certain amount of NHB funding was available to parishes each year. At present this funding was not in base budget but sat in the council's reserves. Parish

Councils were required to consult with their communities in order to bid for grants that would benefit their local areas.

- Queried the extent to which the council was prepared for an increase in the bank base rate and the increase in mortgage rates payable by staff. In relation to pay settlements the council was going through a pay review and £300,000 has been built into the model to allow for fluctuations. The pay scheme would be revised with every post being reviewed against Hay criteria. The minimum wage had changed and would affect our pay structure, particularly the first pay band. Some services were struggling to appoint professional staff and there were potentially vacant posts. Use of agency staff would be considered taking account of budget provision available. Market supplements, 'golden hellos', relocation costs etc. were considered as part of recruitment benefits to encourage suitable applicants.
- Queried whether the council invested in property in order to get a financial return instead of a social return. The council was investing in commercial and retail properties and not directly in housing. Property investments were carried out within the Chichester district in line with the criteria in the Investment Protocol and therefore the local economy was supported as a result.
- Queried the number of temporary staff in the authority at any one time – **Mrs Belenger undertook to respond on this point.** [Post meeting note: There were 74 temporary staff in September 2016; 71 in December 2016; 65 in March 2017 and 87 in September 2017]

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 due to a number of uncertainties and risks within the financial strategy model.

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.

162 **Treasury Management 2017-18 Mid-Year Update**

Mr Catlow presented this mid-year review of treasury management activity and performance, informing the committee of the relevant regulatory changes that would impact on the council's treasury management activities next year.

The committee made the following comments and received answers to questions as follows:

- Queried whether we were still struggling to find counterparties. A number of banks, due to regulatory change, were splitting their banking and retail arms, and until it was known where we would end up we were reluctant to invest with them therefore at present we had a more limited number of counterparties and a reduced maximum duration of investment with many.

- Queried whether external funds had an equity component. These were funds invested with and managed by a fund manager, equivalent to investment in a multi-asset fund. They were not cash investments in the council's name. M&G could have a small equity component. By investing in multi asset funds risk considerations were reduced.
- Queried corporate bonds. These were bonds with individual companies, generally of high quality and the council preferred those with a supporting asset base.
- Queried the definition of balance and how that squared with the definition of value and whether the two should tie up. The committee was tasked to decide whether these had been good investments however there was insufficient information to provide comfort to the committee. Returns were calculated based on the original investment therefore the reference on page 59 should probably be amended. This would be considered as part of responding to new prudential codes. The change in capital value had not been an issue for local authorities as there had been no impact however it was likely that could be amended as part of the regulatory changes going forward. Mr Catlow agreed to revisit the presentation of this information in future reports to the committee.
- Queried external funds (showing as green) and the lack of clarity in the figures as there had been some disappointing quarters. At this time (and until updates in regulation) changes in capital value did not have a revenue impact on the council's budgets until the investment was disposed of.
- Queried our reliance on treasury management advisors Arlingclose for advice. The council had a four year contract with Arlingclose for professional treasury management advice. The advisor supported the accountancy team in undertaking additional treasury management research. Officers had access to a number of other websites and professional sites for information. There were not many similar advisory companies in the market. Mr Catlow, Mrs Belenger and Mr Ward had to declare to Arlingclose how we met their criteria as a client before they took us on. The contract, due for renewal in 2018, included training on site for members and access to training courses for officers.
- Queried whether modelling had taken place to allow members to understand the parameters should there be a volatile period with a dramatic change in interest rates. The council was risk averse in building income into base budgets or financial models as a result. New regulations and accountancy changes could have a significant effect on our revenue account. Arlingclose had been requested to explain the new regulations at the training session for members on 8 December.
- Queried whether incentives had been included in the Arlingclose contract. Arlingclose offered advice and opportunities but the ultimate decision on investments was made by officers. The principles that underpin investments included security first and then yield.
- Queried why the council did not have a three year forecast of expected borrowing through the Public Works Loan Board. The council does not need to borrow funds based on its spending plans.
- Queried the cost to the council if we were overdrawn. The only time we were overdrawn was generally when an investment repayment was made late and in this instance we could recover interest from the party. It did not affect our credit rating as the council had not applied to have a formal credit rating.
- Queried whether the council should be concerned with ethical investments e.g. arms and tobacco that could make us susceptible to reputational claims. We did

not invest directly in non-ethical instruments however we had external investments in pooled funds and it was their fund managers' decisions as to what funds were invested in.

- Queried whether the capital loss in external funds over the last three quarters had been as a result of bonds. The most significant capital losses that we had incurred related to the entry price to the pool fund therefore this was the difference between the bid and the offer at about 7% so we were carrying that on our balance sheet.
- Queried whether the non-met district average was last year or last quarter. It related to the last quarter.

The committee thanked Mr Catlow and his team for preparing this report. Mr Catlow took on board all the suggestions to restructure the report in order that it was more focussed to the committee's requirements in future iterations.

RESOLVED

That the 2017-18 treasury management mid-year progress report be noted.

163 **Strategic and Operational Risks 2017-18**

Mrs Belenger presented the report reminding the committee of the exempt element of the report at Appendix 1(b) on pages 78 to 79.

The committee was reminded that the Corporate Management Team considered the council's strategic risks quarterly and this committee considered them bi-annually following review by the Strategic Risk Group. The Risk Management Strategy and Policy would be reviewed following the management restructure in early 2018.

The committee made the following comments and received answers to questions as follows:

- Queried the high workload in the planning team and plans to alleviate it. Additional resources were being recruited to the team to mitigate against that risk.
- Queried the reduction in the recycling score and whether there was evidence that renewed activities had worked. There had been a major drive in the revised recycling strategy and action plan. The EU would fine the UK and not the individual council for not reaching the target of 50% and obviously the country's exit from the EU would change the likelihood of any fine. We are working as a county to review initiatives; waste going into landfill was a key priority for WSCC. This was a corporate priority and key performance indicators were constantly being reviewed.
- Queried whether councillors were the weak link in terms of data protection issues. An officer working group had been considering the new General Data Protection Regulations (GDPR) which would take effect from May 2018. An assessment of the information members held would be carried out and training provided to members as part of that process.

It was proposed and seconded and supported that the following resolution should be passed to exclude the press and the public from the meeting during the consideration of Appendix 1(b) - Cyber Attack across ICT estate.

RESOLVED

That the public and press be excluded from the consideration of the reports and their appendices for Appendix 1(b) – Cyber Attack across the ICT Estate on the grounds that it is likely that there would be in respect of that item a disclosure to the public of 'exempt information' of the description specified in Paragraph 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 that information.

Following discussion of this item, the committee voted to return to normal public business and took the following resolutions.

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.

164 **S106 Exceptions Report**

Mrs Dower presented the report. Mrs Peyman attended to answer questions on the S106 payments relating to leisure initiatives.

The reports outlined those contributions which required additional monitoring as they were due to reach their target date within the next two years or were now overdue.

Mrs Peyman gave an update on leisure contributions where progress had been made since publication of this agenda and these had been reported back to the portfolio holder and the ward members.

The committee made the following comments and received answers to questions as follows:

- Mr Oakley asked whether the actual figures incorporated interest earned on those monies or whether they were the original contribution figures. These funds were invested whilst they were waiting to be spent and the interest earned was put back into the pot so the communities benefited from the interest earned. **Mrs Dower undertook to update the committee on this.** [Post meeting note: The interest is allocated to the S106 specific purpose i.e. affordable housing, leisure etc. but not to the individual schemes. The interest earned will be allocated to the individual schemes to ensure that the responsible officer is aware of these funds available for their schemes.]

- Land at Windmill Park, Halnaker – This funding allocated to the Boxgrove Sports Pavilion project was past the notional expiry date and had been delayed as the community was looking to attract additional funding to progress the project. The return of these funds would be dependent upon the developer making a request however the position was strong as the funds had been allocated.
- Queried the difference between S106 funding and CIL. S106 funding was to do with mitigating the impacts of individual planning applications and would reduce over time. Community Infrastructure Levy (CIL) funding related to the effects of cumulative development. The annual S106/CIL report to the committee in June each year reported on both sets of funding.
- Queried the spend of funds on King Edward VII. It was understood that the South Downs National Park Authority (SDNPA) had a sum of money which they would release to us when the council had put forward appropriate projects on which the money could be spent. **An update would be provided to the committee.** [Post meeting note: There are two S106 agreements in respect of King Edward VII – one is in connection with a primary school therefore the money would go to WSCC as education authority; the other is in relation to affordable housing in the sum of £800,000 however the trigger for us to start receiving it is 2020.]

RESOLVED

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

165 **Internal Audit - 2017-18 Audit Plan Progress**

Mr James presented the report, advising that there were no audit reports to present to the committee. Various audits were currently in draft form and would be reported to the committee in due course. Audit time had been spent on the key financial controls as there was a deadline of February 2018 in order that EY could place reliance on it as part of the final accounts audit.

At the last meeting members had expressed concern about the delay in the museum audit and the reduction in the number of audit days. Mr James confirmed that the museum audit had been delayed due to the need to await the outcome of the review of management delivery options and then subsequently the appointment of a new Museum Manager. With regard to the number of audit days, benchmarking had taken place with our “nearest neighbours’ family” and the current 2017-18 year had been set at 420 audit days as a median compared to other authorities. The 2018-19 audit plan was being developed and the number of audit days would be set dependent upon the audits required and having assessed the level of risk.

Assurance was requested that the milestones required during the year did not lead to staff feeling pressured to meet the target. Mr James confirmed that the number of working days within the team had been taken into account when setting the 2017-18 audit plan and that there was an element of contingency within the plan in-case non-programmed work needed to be undertaken. The staffing issue discussed at the last meeting had been resolved.

Mrs Hardwick referred members to page 9 of the minutes, second bullet point, where the committee had requested a more comprehensive explanation of delayed audits be provided in the audit plan progress report to allow the committee to fully understand the reasons and to be able to debate the issues and raise concerns. The explanation needed to confirm that authority had been given by Mr Ward that he had deemed the audit not able to be audited at that time. If the scope of the audit was not relevant to the current situation then it should be stated. Mrs Belenger undertook to liaise with Mr James as to how to present that information in order to allay the concerns of the committee.

RESOLVED

That progress against the Audit Plan be noted.

166 **Budget Review 2017**

Mrs Belenger presented the Terms of Reference and the scoping of this proposed review.

RESOLVED

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

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

The meeting ended at 12.17 pm

CHAIRMAN

Date:

Certification of claims and returns annual report 2016-17

Chichester District Council

December 2017

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Dear Members

Certification of claims and returns annual report 2016-17 Chichester District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Chichester District Council's 2016-17 claims.

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.

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 the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

We checked and certified the housing benefits subsidy claim with a total value of £35,649,771. We met the submission deadline. Section 1 of this report outlines the results of our 2016-17 certification work and highlights the more significant issues reported in our qualification letter.

Fees for certification and other returns work are summarised in section 2. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the 25 January 2018 Corporate Governance and Audit Committee.

Yours faithfully

Paul King
Associate Partner
Ernst & Young LLP
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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£35,651,679
Amended	Amended – subsidy reduced by £1,908 with final value of certified claim of £35,649,771
Qualification letter	Yes

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 certification guidance 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 that could cause overpayments of benefit or impact on the subsidy claimed from the DWP. Our certification instructions do not permit us to apply the concept of materiality to this work. We found errors and carried out extended testing in several areas.

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

- From an initial sample of twenty Rent Allowance cases:

  - we identified three cases where expenditure was misclassified between eligible and local authority error overpayments by a value of £2,224. 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. Extended testing was undertaken to eligible overpayments and no further issues were identified. We reported these findings and the extrapolated value of these errors, £104,854, to the DWP in our qualification letter.

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

    - a decrease in subsidy of £41,942 as a result of reclassifying the overpayments from eligible to local authority; and

    - a further decrease in subsidy of £149,297. The DWP award full subsidy for local authority and administrative delay overpayments if the total does not exceed a threshold. The impact of this adjustment would increase the total above the threshold resulting in the stated loss in subsidy.

    The Council has been in ongoing dialogue with the DWP on this matter and asked us to include the following in our qualification letter:

    "Whilst the Authority agree that the extrapolation of error for rent allowance eligible overpayments is correct we do not feel that it is representative of the error in the cell population. One of the overpayment values attributable to the extrapolation was significantly higher than the other two. On the grounds that

the sample size is small, one overpayment value was disproportionately high and the fact that a large proportion of the cell value relates to overpayments created by the use of RTI, which we are confident are allocated in terms of subsidy correctly, leads us to conclude that the extrapolation, if applied by the Department, is not reflective of the error within the cell."

- we identified one case where earned income had been incorrectly calculated causing an overpayment of benefit with total value of £5. Extended testing was performed to the sub population of cases which have earned income. The testing identified one further overpayment of benefit with total value of £228 and an underpayment of benefit with total value of £1. For these cases, amendments have been made to individual claims in 2017-18, ensuring that the benefit paid to claimants has been corrected. We reported these findings and the extrapolated value of these errors, £7,337, to the DWP in our qualification letter;

- we identified one case where eligible rent had been incorrectly calculated causing an underpayment of benefit with total value of £4. Extended testing was performed and no further issues were identified. For this case, amendments have been made to the individual claim in 2017-18, ensuring that the benefit paid to the claimant has been corrected. We reported these findings to the DWP as an observation in our qualification letter; and

- we identified one cases, with total value £4,800, where the claim form could not be traced and the Council was unable to produce evidence that claim form was received. This was due to the original claim form, which pre-dated 2006, being destroyed in a fire at the Council's storage archive. As in prior years we reported this matter to the DWP in our qualification letter.

- From an initial sample of twenty Non HRA (Housing Revenue Account) Rent Rebate cases:

    - we identified two cases where expenditure was misclassified between technical overpayments and either full subsidy or local authority error overpayments by a value of £19. 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. Extended testing was undertaken to technical overpayments. A further nine errors were detected with total value £1,298. We reported these findings and the extrapolated value of these errors, £3,229, to the DWP in our qualification letter;

    - we identified two cases where expenditure was misclassified between eligible and technical overpayments by a value of £176. 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 eligible overpayments that could be impacted by this type of error, testing was extended to cover all of them. A further twelve errors were detected. To correct this error, an amendment of £4,444 was agreed to the claim form which reduced the total subsidy payable to the Council by £1,778;

    - we identified one case where earned income had been incorrectly calculated causing an underpayment of benefit with total value of £1. Extended testing was performed to the sub population of cases which have earned income. The testing identified one further underpayments of benefit with total value of £1. For the underpayments, amendments have been made to individual claims in 2017-18, ensuring that the benefit paid to claimants has been corrected. We reported these findings to the DWP as an observation in our qualification letter;

- we identified nine cases where technical overpayment had been understated by a total value £3,519. The error arose through the system inappropriately netting down technical overpayment when a claimant moved from a Non HRA Rent Rebates property into a Rent Allowances property. This error will never have an impact on benefit paid to the claimant or subsidy recovered from the DWP. As such, we reported the errors detected to the DWP as an observation in our qualification letter only; and

- we identified three cases where expenditure was inappropriately classified as a backdate. The total value was £755. In these cases, there was no impact on benefit paid to the claimant or impact on subsidy claimed from the DWP. However, this type of error could have resulted in overpayment of benefit and incorrect subsidy being claimed. 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 fifteen errors were detected, none of which impacted the benefit paid to the claimant. To correct this error, an amendment of £4,620 was agreed to the claim form which had no impact on the total subsidy payable to the Council.

2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016-17	2016-17	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £	Actual fee £
Housing benefits subsidy claim	14,031*	£9,913	7.847	13,217

*The reason for the variance in actual fee from indicative fee in 2016-17 is additional work that we had to perform as a result of the errors reported in Section 1. This increase in fee has been agreed with management but under the terms of our contract is still subject to agreement with PSAA.

3. Looking forward

2017/18

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 2017/18 is £7.847. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address: https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/

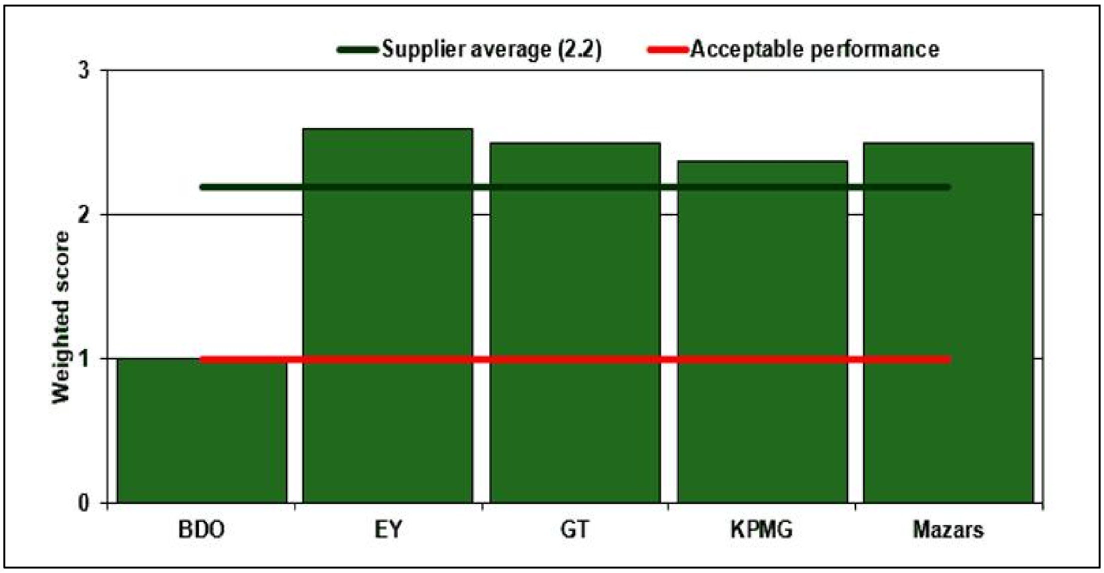
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Head of Finance & Governance Services before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we also expect to be appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, delivering efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

4. Summary of recommendations

We are satisfied that appropriate action has been taken on all recommendations raised in our 2015/16 certification report. No related findings have been made this year.

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

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
The level of error related to overpayment classification was high. We would recommend the Council conduct refresher training with assessors and conduct quality checks in this area.	Medium	The service is in the process of being redesigned, this includes the introduction of a business support team that will focus on performance and subsidy monitoring. One of the aims of this new team is to reduce error across the service. When the new team is in place overpayment classification will be an area of focus in terms of performance monitoring, feedback, mentoring and training.	The new structure will be in place by the 1st April 2018.	Marlene Rogers

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 25 January 2018

Draft Treasury Management Strategy 2018-19

1. Contacts

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2. Recommendation

2.1. **The committee is requested to consider the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Investment Strategy and relevant Prudential Indicators for 2018-19 and to recommend 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 (the Code) derives its legal status.

3.2. CIPFA and the Ministry of Housing, Communities & Local Government (MCLG) consulted on proposals to update the Code and investment guidance late in 2017 and CIPFA has subsequently issued an updated Code early in 2018.

3.3. As only the updated CIPFA Code has been issued to date, the draft Treasury Strategy presented as an Appendix to this report does not fully reflect any changes made to the Code, or any possible changes to MCLG Guidance.

3.4. If necessary, an updated Treasury and Capital Strategy that takes into account changes to Code and MCLG Guidance will be presented for approval alongside the first half-yearly update report in 2018-19.

3.5. The Strategy also addresses the changes to the accounting treatment of certain financial instruments arising from the implementation of IFRS9 for the 2018/19 financial year. This standard sees the removal of the "available-for-sale" classification in the Code of Practice on Local Authority Accounting. This currently allows movements in the value of certain pooled funds gains and losses to be held in reserves until the investments are sold. Instead they will now be categorised as "fair value through profit or loss" and gains and losses from changes in their value will be reflected in surpluses and deficits in the 'Provision of Services' line in the Council's accounts.

3.6. The relevant risks associated with treasury investments, updated for IFRS9, are included in Treasury Management Practice (TMP) 1 which is included with this report as Appendix 3.

3.7. Although every attempt has been made to reduce the technical content of this report, by its very nature the report is technical in parts and the glossary of terms in Appendix 4 to this report should aid members understanding of some terms used throughout.

4. Outcomes to be achieved

4.1. The Treasury Management and Investment Strategies for 2018-19 are approved in accordance with CIPFA's Treasury Management in the Public Services: Code of Practice, subject to a further update as necessary

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 Arlingclose, the Council's treasury adviser. These changes are explained Appendix 1 to this report.

5.2. The Committee are requested to comment on whether the strategy represents an appropriate balance between risk management and cost effectiveness.

5.3. In considering the draft Treasury Strategy Members' attention is drawn to the Council's risk appetite statement and the accompanying TMP1.

6. Estimated Interest rates

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

Assumptions for 2018-19 Strategy

Assumed returns (%)	2017/18 Revised	2018/19	2019/20	2020/21	2021/22
Internal investments	0.52	0.65	0.75	0.75	0.75
Local Authority property fund	4.38	4.38	3.50	4.00	4.00
External Pooled funds	3.00	3.00	2.50	3.00	3.00

The view of the Council's treasury advisor is that the Bank Rate is likely to remain at 0.5%, with some risk that rates will fall early in 2019 linked to the date of exit from the European Union. This risk is also reason the possible return from the LAPF investment is reduced in 2019/20 in the table above.

7. Alternatives that have been considered

7.1. 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

Alternative	Impact on income and expenditure	Impact on risk management
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
Do not invest in financial instruments that are classified as 'Fair value through Profit and Loss'	Interest or dividend income will be lower	Lower chance of General Fund losses from changes in fair value.

8. Resource and legal implications

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

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

9. Consultation

9.1. In adhering to the CIPFA Code, the forthcoming financial year's Treasury Management Strategy, Investment Strategy and TMP's will be also be considered by Cabinet before any recommendation to Full Council is made 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.

11. Other Implications

	Yes	No
Crime & Disorder:		✓
Climate Change:		✓
Human Rights and Equality Impact:		✓
Safeguarding and Early Help:		✓
Other (Please specify): 1. Compliance with the Local Government Act 2003 2. Non- compliance or loss of an investment due to default by a counterparty could affect the financial wellbeing of the council dependent on the size of the loss and the ability to fund losses from its unallocated reserves.	✓	

12. Appendices

12.1. Appendix 1 – Summary of amendments between 2017-18 and 2018-19

12.2. Appendix 2- Treasury Management Policy Statement, Treasury Management Strategy Statement, Treasury Prudential Indicators and Annual Investment Strategy for 2018-19.

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

12.4. Appendix 4 - Glossary

13. Background Papers

13.1. None.

Appendix 1: Key amendments made to 2018-19 strategy and Treasury Management Practices

Ref	Item	Amendment	Reason
	TMP1 - appendix 3	Inserted a section "Fair value risk management" describing the potential risks associated with IFRS9 and how these will be mitigated	This addition brings to members' attention new risks created by changes in accounting standards for 2018-19.
2	Treasury Management Strategy Statement	The last paragraph now recognises the probable need to update the Council's 2018-19 strategy mid-way through 2018 once CIPFA and DCLG guidance is issued.	The revised Code of Practice and DCLG guidance will not be issued until early 2018, too late to reflect in the strategy due for consideration in the January/ February Committee cycle.
5	Borrowing Sources	Added new text "The Council will, where possible, take advantage of the 20 basis points (0.20%) reduction in borrowing costs available from the PWLB to those authorities who provide information on their plans for long-term borrowing and associated capital spending. The earliest this opportunity can be taken is now Autumn 2018."	This has been included to ensure that, if we do undertake borrowing in the future, officers are authorised to apply for the HMT 'certainty' rate – which has a discount over the normal PWLB rate.
	Investment objective	Text amended, Replaced "minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income." With "in line with the Council's risk appetite statement" at the end of the final paragraph	To ensure consistency
	2018-19 Strategy	Removed 'Council's own bank' from Table 5 and added a	Operational bank accounts have been excluded from the definition of investments. There is now a simplified

Ref	Item	Amendment	Reason
		separate paragraph 'Operational bank accounts' under the table	requirement to maintain no more than £2.5m across all operational bank accounts.
	Specified Investments	Foreign country sovereign rating reduced from AAA to AA+	On advice from Arlingclose. Table 6 updated to match this restriction (Government column)
	Corporates	Added the requirement for a credit assessment to be undertaken prior to any loans being made to unrated companies	Codifies existing practices
	Table 6. Non-specified investment limits	**Removed BBB+ as an available credit rating category.** Clarified that the investment limits excludes investments with the UK Government and other Local Authorities Increased each limit by £5m to account for the proposed increased in medium term pooled funds described in table 5 Clarified treatment of UK Local Government investments. Imposed 10 year maximum duration on this sector – Government generally is 25 years.	**Arlingclose used to have an A- rating limit, but reduced this to BBB- in 2013 following the removal of government support from UK and EU bank ratings as a pragmatic step. As banks have strengthened their balance sheets and credit ratings have improved, the recommendation is to increase this back to A-.** **The A category is broadly defined as "strong" credit quality, whereas BBB is "adequate".** To ensure the definition is clear Consistency To ensure limits on Local Government investments are clear

Ref	Item	Amendment	Reason
		UK Government maximum investment duration increased to 25 years Pooled Funds. Increased the limit that the Council can invest in pooled funds to £15m (excluding the Local Authority Property Fund)	On advice from Arlingclose The is to allow for potential investment of excess cash funds in shorter duration (12-18 month) 'Cash Plus' pooled funds during 2018-19.
	Table 7: Investment limits	Increased maximum pooled funds total to £15m	Consistency
	Liquidity Management	Added "To ensure adequate liquidity is maintained, 'worst case' estimates of cash flows are used when considering the Council's medium term investment position"	Codifying existing practice
	New section; Non-Treasury investments	Added new section	On advice from Arlingclose
	Liquidity	Tidied text, removing explanation for changes implemented in 2017-18	Drafting
	Table 10: Interest rate exposure management indicators	Simplified indicators by removing percentages. No changes to absolute limits	Simplification
	Table 11: Limits on investment periods	Increased amounts by £5m to accommodate earlier proposals	Consistency

Ref	Item	Amendment	Reason
	Financial Implications	Deleted section	Not part of the policy and covered elsewhere.

Appendix 2 - Treasury Management Strategy

Treasury Management Policy Statement, Treasury Management Strategy Statement and Annual Investment Strategy for 2018-19

Treasury Management Policy Statement

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

The Council defines treasury management 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. 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 Ministry of Housing, Communities and Local Government (MHCLG) 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 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 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.

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 issued *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 MHCLG 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 current MHCLG 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. For 2018-19 a revised strategy may be necessary as a result of updated MHCLG guidance or the CIPFA Code which are both due to be issued early in 2018.

Risk Appetite Statement

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

Local Context

As at December 2017, the Council held £61.6m of investments, which comprised a diversified range of investments as set out in table 1, below

Table 1: Investment Portfolio Position – 31 December 2017.

Investments	£000	Annualised Return %
Short term Investments (cash, call accounts, deposits)	29,500	0.41
Money Market Funds	6,100	0.36
Corporate Bonds	3,057	0.73
Total Liquid Investments	**38,657**	**0.43**
Medium and Long term Investments	5,000	1.63
Pooled funds – Local Authority Property Fund (LAPF)	10,000	4.88
Pooled Funds – Other	7,950	2.95
TOTAL TREASURY INVESTMENTS	**61,607**	**1.67**

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 £60.6m is expected to fall over the next few months due to the Council's ongoing capital programme and reduced local taxation receipts in February and March 2018.

The Council's latest resource projection, indicates the following movements in resources, including funds available for investment, over the medium term.

Table 2: Resource projection to 31 March 2022

	31.3.17 Actual £m	31.3.18 Estimate £m	31.3.19 Estimate £m	31.3.20 Estimate £m	31.3.21 Estimate £m	31.3.22 Estimate £m
Reserves:						
Earmarked and specific	15.1	9.8	10.0	10.2	10.4	10.7
New Homes Bonus	9.4	11.2	10.9	10.6	10.3	9.9
Asset Replacement	6.6	4.8	5.3	5.6	5.7	5.8
General Fund	12.3	9.4	12.1	11.3	11.6	11.1
Section 106 balances	5.3	4.2	4.0	3.9	3.9	3.9
Working capital	6.5	5.2	5.6	5.5	5.6	5.5
Total Resources	**55.2**	**44.6**	**47.9**	**47.1**	**47.5**	**46.9**
Represented by:						
Internal investments	37.2	26.6	27.9	27.1	27.5	26.9
External Investments	18.0	18.0	20.0	20.0	20.0	20.0
Total Investments	**55.2**	**44.6**	**47.9**	**47.1**	**47.5**	**46.9**

	31.3.17	31.3.18	31.3.19	31.3.20	31.3.21	31.3.22
Capital financing requirement	(1.38)	(1.40)	(1.43)	(1.43)	(1.43)	(1.43)
Debt	(0.1)	(0.1)	(0.05)	0	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.

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.

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. Under the Council's current resource projections, there are no plans to borrow to finance new capital expenditure over the medium term but this remains an option if deemed to be prudent.

This section describes the Council's policy should the need arise for any borrowing to be undertaken.

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.

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.

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.

The Council will, where possible, take advantage of the 20 basis points (0.20%) reduction in borrowing costs available from the Public Works Loan Board (PWLB) to those authorities who provide information on their plans for long-term borrowing and associated capital spending. The earliest this opportunity can be taken is Autumn 2018.

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	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 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

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	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m	2021/22 Limit £m	2022/23 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:

- PWLB and any successor body
- Any institution approved for investments (see below, Table 5)
- 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

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 2017, the Council's financial investment balance has ranged between £49.6m and £68.2m, 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.

Investment Objective

The Council has a duty to safeguard the public funds and assets it holds on behalf of its community. The CIPFA Code and MHCLG 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 in line with the Council's risk appetite statement

2018-19 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.

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 25 years	n/a
AAA	£2.5m 5 years	£5m 10 years	n/a	£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
UK Local Authorities			£5m 10 Years	
None (excludes pooled funds)	£1m 6 months	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 £15m (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 tables 6 and 7

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.

Investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

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. See below for arrangements relating to operational bank accounts.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2.5m in total across all operational accounts. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

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.

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 following a credit assessment 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 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 MHCLG 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 AA+.

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. Limits on non-specified investments are shown in table 6 below.

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.

Table 6: Non-Specified Investment Limits

	Cash limit
Total medium and long-term investments	£40m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£40m
Total non-specified investments	£55m

Investment Limits

Investment limits are set out in Table 7

The Council's uncommitted revenue reserves available to cover investment losses are forecast to be £30.8m on 31st March 2018. These uncommitted reserves include the following items; General Fund Balance (£9.4m), earmarked revenue reserves (£9.8m) and New Homes Bonus (£11.1m); 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 LAPF	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Pooled funds (excluding MMF and LAPF) under the same management	£5m per manager , other than the LAPF, to a maximum of £15m 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

	Cash limit
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 '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. To ensure adequate liquidity is maintained, 'worst case' estimates of cash flows are used when considering the Council's medium term investment position.

Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the MHCLG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes.

Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

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.

Security

The Council will use the voluntary measures set out in Table 8 to control its exposure to credit risk and 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

Liquidity

The Council will use the voluntary measures set out in Table 9 to control its exposure to liquidity risk.

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

Table 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

Interest Rate Exposures

The Council will use the indicators set out in Table 10 to control its exposure to liquidity risk.

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 £ 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

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	£28m	£24m	£22m
Upper limit on variable interest rate exposure	£70m	£60m	£55m

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.

Maturity Structure of Borrowing

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

Principal Sums Invested for Periods Longer than 364 days

Limits on the long-term principal sum invested to final maturities beyond the period end are established in Table 11

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

Table 11: Limits on investment periods

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£40m	£35m	£30m

Other Items

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

Policy on Use of Financial Derivatives

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

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

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

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Investment Training

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

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

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

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.

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.

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 £10 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.

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

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

Appendix 1 to Treasury Management Strategy – Arlingclose Economic & Interest Rate Forecast November 2017

Economic background

The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

Credit outlook

High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic 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. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.
The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

Interest rate forecast

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.19
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15

The Authority’s treasury adviser Arlingclose’s central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose’s forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government’s seemingly deteriorating fiscal stance is an upside risk.

Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.
- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK’s fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Appendix 2 to Treasury Management Strategy – 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
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.

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
- restrict investment activities to the instruments, methods and techniques referred to 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. Voluntary indicators. As set out in the annual Treasury Managemen Strategy, are employed as a further means to control Counterparty risk.

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.

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 uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

To ensure adequate liquidity is maintained, ‘worst case’ estimates of cash flows are used when considering the Council’s medium term investment position

Voluntary indicators. As set out in the annual Treasury Management Strategy, are employed as a further means to control Counterparty risk.

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.

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 Council determines annually the upper limits on fixed and variable rate interest rate exposures that it can incur.

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

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.

Refinancing risk management

The Council will ensure that any borrowing 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.

Fair value risk management *[New Section for 2018-19]*

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

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

Investment	Risk	Mitigating actions and risk management
Money Market Funds	These funds are likely to be Low Volatility Net Asset value funds	Exposure is limited to 10% of total investments for any single Money Market fund and 50% across all funds.
External Pooled funds, including the Local Authority Property Fund	We may incur a loss to the Council's General fund balances if the Fair Value of these investments falls	The Council's investment in external pooled funds (including the Local Authority Property Fund) is limited to £25m. The Council carefully selects mixed asset and diversified funds to reduce the potential for volatility of capital values. The potential exposure to movements in fair values is considered in determining the adequacy of the Council's revenue reserves.

Appendix 4 – Treasury Management Glossary

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

Capital Financing Requirement (CFR)	The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.
Certainty Rate	The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.
CD's	Certificates of Deposits with banks and building societies
Capital Receipts	Money obtained on the sale of a capital asset.
Constant Net Asset Value (CNAV)	These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Counterparty List	List of approved financial institutions with which the Council can place investments with.
Covered Bond	Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."
CPI	Consumer Price Index – the UK's main measure of inflation
Credit Rating:	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees
Department for Communities and Local Government (DCLG)	The DCLG is the UK Government department for Communities and Local Government in England. It was established in May 2006 and is the successor to the Office of the Deputy Prime Minister, established in 2001
Debt Management Office (DMO)	The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the **DMADF**. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.

Diversification /diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
European Investment Bank (EIB)	The European Investment Bank is the European Union's non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a "policy driven bank" whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion
Fair Value	Fair value is defined as a sale price agreed to by a willing buyer and seller, assuming both parties enter the transaction freely. Many investments have a fair value determined by a market where the security is traded.
Federal Reserve	The US central bank. (Often referred to as "the Fed").
Floating rate notes (FRNs)	Floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three-month Treasury bill or the three-month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.
FTSE 100 Index:	The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK company law.
General Fund	This includes most of the day-to-day spending and income of the Council
Gilts	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Gross Domestic Product (GDP)	Gross Domestic Product measures the value of goods and services produced with in a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy
IFRS	International Financial Reporting Standards.
LIBID	The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.
LIBOR	The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British

	Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.
Maturity	The date when an investment or borrowing is repaid.
Maturity Structure / Profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by quarter or month-by-month basis.
Minimum Revenue Provision (MRP)	An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.
Money Market Funds (MMF)	An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. • **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/$1 and calculate their price to two decimal places known as "penny rounding". • **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received. A new class of Money Market Fund will be introduce by the EU MMF reform process. Most CNAV funds will become Low Volatility NAV (LVNAV) funds. LVNAV MMFs are permitted to maintain a constant dealing NAV provided that certain criteria are met, including that the market NAV of the fund does not deviate from the dealing NAV by more than 20 basis points.
Multilateral Development Banks	See Supranational Bonds below.
Municipal Bonds Agency	An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.
Non Specified Investment	Investments which fall outside the CLG Guidance for **Specified investments** (below).
Operational Boundary	This linked directly to the Council’s estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the

	additional headroom included within the Authorised Limit.
Par Value	Par value is the face value of a bond. Par value is important for a bond or fixed-income instrument because it determines its maturity value as well as the value of coupon payments.
Pooled Funds	A pooled investment is an investment in a large, professionally managed portfolio of assets with many other investors. As a result of this, the risk is reduced due to the wider spread of investments in the portfolio. They are also sometimes called 'collective investments'.
Property	Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.
Prudential Code	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators
Public Works Loans Board (PWLB)	This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Quantitative Easing (QE)	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *"does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller's bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy"*. Source: Bank of England.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
RPI	Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.
(Short) Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (Interest) with maturity durations of less than 365 days

Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called **multilateral development banks**). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
Treasury (T) -Bills	Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services, initially published in 2003, subsequently updated in 2009 and 2011. CIPFA intend to update the Code again in 2018.
Treasury Management Practices (TMP)	Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Variable Net Asset Value (VNAV)	Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.
Yield	The measure of the return on an investment instrument.

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 25 January 2018

General Data Protection Regulations (GDPR)

1. Contacts

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2. Executive Summary

The purpose of this report is to give an outline of the imminent General Data Protection Regulations and impact upon governance oversight of operational activities at the Council involving data processing.

This report sets out the key principles of the new regulations and actions that are being taken to ensure effective ongoing implementation.

All activity of the Council will need to be undertaken with manager and member awareness of the further rights of the public generated by this legislation.

3. Recommendation

1) **The committee is requested to consider the report and to raise any issues of concern or comment.**

2) **The committee is requested to note the work being undertaken to ensure that the authority is compliant with the provisions of the General Data Protection Regulations by 25 May 2018.**

4. Background

4.1 The current EU data protection regime is based on the Data Protection Directive (95/46/EC) that was introduced in 1995. Since then, there have been significant advances in information technology, and fundamental changes to the ways in which individuals and organisations communicate and share information.

4.2 With the intention of creating legislation which is “fit for the 21st Century” new legislation has been drafted commonly known as the General Data Protection Regulation (GDPR). All British and European organisations including the Council will have to comply with its provisions by 25 May 2018.

4.3 The GDPR is the core piece of legislation in this area from May, though members should note that several other complementary data protection laws are coming which will impact the Council for specific areas of operation in particular the new Crime directive 2016/680 which gives detailed rules for applying data protection for crime investigation and community justice work by the authority. However none of the further directives contradict the GDPR and the principles set out below are broadly the same for those areas.

4.4 Compliance with the GDPR is going to require organisation-wide changes, to ensure that personal data are processed in compliance with the GDPR's requirements. Such changes may include redesigning systems that process personal data, renegotiating contracts with third party data processors and restructuring data transfer arrangements. Members should therefore consider that these changes may require a significant amount of time to implement, and plan ahead for all departments. It is intended to develop these changes in conjunction with the other organisational improvement work, as set out within the forward plan. All project governance will need to include consideration of how to ensure appropriate resources necessary to achieve GDPR compliance as a part of its planning.

4.5 Some press reporting has raised questions about whether Brexit may impact the introduction of the GDPR – however the Government has been extremely clear that the GDPR will be introduced and that it has no intention of amending the legislation post Brexit.

5. Outcomes to be achieved

5.1 The purpose of this report is to set out the key demands of the GDPR and explain the impact upon the delivery of services by the Council.

5.2 This will help the Council to deliver its Corporate Plan objectives by building on its legal compliance and ensuring that the above requirements are built into governance of projects.

6. Key concepts

6.1 Steve Wood, Head of Policy Delivery at the Information Commissioner's Office (ICO), in his blog post "A data dozen to prepare for reform" of 14 March 2016, explained that:

"Many of the principles in the new legislation are much the same as those in the current Data Protection Act. If you are complying properly with the current law, then you have a strong starting point to build from. But there are important new elements, and some things will need to be done differently."

6.2 This Council has always worked hard to ensure that information is well managed and treated in a secure and respectful manner, so the "strong starting point" is believed to apply to the authority. However a significant amount of work is underway to ensure this starting point is the foundation for effective information management as required by GDPR builds into a strong structure framed by the necessary principles. This implementation across the authority is referred to in guidance as "Data Protection by design".

6.3 The Information Commissioner has published guidance on preparing for the GDPR and the specific guidance organisations can expect to see in 2018 and it is suggested that members interested in more detail on this subject visit the information commissioner website (https://ico.org.uk/). This provides a range of documents and guidance on the GDPR.

6.4 The GDPR will introduce several new concepts and approaches, the most significant of which are outlined below. The GDPR is also designed to be more “future-proof” and “forward-looking” than the Data Protection Directive, and to be capable of applying to all technology.

6.5 Some concepts will stay the same. Many of the existing core concepts under the Data Protection Directive will remain unchanged. For example, the concepts of personal data, data controllers, and data processors are broadly similar in both the Data Protection Directive and the GDPR. These issues are not addressed further below.

Greater harmonisation

6.6 The GDPR introduces a single legal framework that applies across all EU member states. This means that businesses will face a more consistent set of data protection compliance obligations from one EU member state to the next. This will mean that some of the confusion caused by different approaches to the law across different legal systems in Europe will be removed.

Increased enforcement powers

6.7 Currently, fines under national law vary, and are comparatively low (for example, the UK maximum fine is £500,000). The GDPR will significantly increase the maximum fines and the Information Commissioner will be able to impose fines on data controllers and data processors on a two-tier basis, as follows:

- Up to 2% of annual worldwide turnover of the preceding financial year or 10 million euros (whichever is the greater) for violations relating to internal record keeping, data processor contracts, data security and breach notification, data protection officers, and data protection by design and default.
- Up to 4% of annual worldwide turnover of the preceding financial year or 20 million euros (whichever is the greater) for violations relating to breaches of the data protection principles, conditions for consent, data subjects rights and international data transfers.

6.8 The investigative powers of the Information Commissioner include a power to carry out audits, as well as to require information to be provided, and to obtain access to premises (in accordance with other legal requirements for warrants etc.).

Consent

6.9 Consent, as a legal basis for processing, will be harder to obtain. The Data Protection Directive distinguished between ordinary consent (for non-sensitive personal data) and explicit consent (for sensitive personal data). The GDPR requires a very high standard of consent, which must be given by a clear affirmative action establishing a freely given, specific, informed and unambiguous indication of the individual’s agreement to their personal data being processed, such as by a written (including electronic or oral) statement.

- An individual's explicit consent is still required to process special categories of personal data.
- Businesses must be able to demonstrate that the data subject gave their consent to the processing and they will bear the burden of proof that consent was validly obtained.
- When the processing has multiple purposes, the data subject should give their consent to each of the processing purposes.
- The data subject shall have the right to withdraw their consent at any time.
- The execution of a contract or the provision of a service cannot be conditional on consent to processing or use of data that is not necessary for the execution of the contract or the provision of the service.
- Data controllers cannot rely on consent as a legal basis for processing if there is a "clear imbalance" between the parties (for example, the employer and employee relationship) as consent is presumed not to be freely given.

6.10 Each of these changes impact upon the steps which will be required by the Council in carrying out its activities with the express consent of individuals. It is important to note however that the majority of tasks carried out by the Council are ones which do not rely upon consent. Instead the Council will often be entitled (or required) to carry out activity by reason of it having a public duty to carry out that task. Guidance on this topic has been issued to all managers.

The risk-based approach to compliance

6.11 The GDPR adopts a risk-based approach to compliance, under which businesses bear responsibility for assessing the degree of risk that their processing activities pose to data subjects. This can be seen in several of the provisions, for example, the new accountability principle and requirement for data controllers to maintain documentation, privacy by design and default, privacy impact assessments, data security requirements and the appointment of a data protection officer in certain circumstances. Low-risk processing activities may face a reduced compliance burden. Broadly the requirements of this element are to:

- Create awareness among the senior decision makers in the organisation (hence this report and other training and reporting across the organisation to members and strategic officers).
- Audit and document the personal data they hold, recording where it came from and who it is shared with. A significant exercise to complete an audit of all processing has been completed and a final document will be in place by May 2018.
- Review the legal basis for the various types of processing that they carry out and document this. Again this has been considered as part of the audit above.
- Review privacy notices and put in place a plan for making any changes to comply with the GDPR (This is underway with staff in Legal and Procurement reviewing contractual notices with partner bodies).

6.12 The Information Commissioner has published guidelines on data protection officers and draft guidelines on privacy impact assessments and is aiming to publish guidelines on transparency. These will be considered and implemented when available.

Mandatory privacy by design and default

6.13 Having regard to the state of the art and the cost of implementation and taking into account the nature, scope, context and purposes of the processing as well as the risk to individuals, the Council will be required to implement data protection by design (for example, when creating new products, services or other data processing activities) and by default (for example, data minimisation), at the time of the determination of the means for processing and at the time of the processing itself. By training key officers in detail on the GDPR and all officers on the principles of GDPR, the Council is working to ensure that this is part of the ongoing improvement and corporate development of the authority.

Mandatory privacy impact assessments

6.14 The Council will be required to perform data protection impact assessments (PIAs) before carrying any processing that uses new technologies (and taking into account the nature, scope, context and purposes of the processing) that is likely to result in a high risk to data subjects, takes place. In particular, PIAs will be required for:

- A systematic and extensive evaluation of personal aspects by automated processing, including profiling, and on which decisions are based that produce legal effects concerning the data subject or significantly affect the data subject.
- Processing of special categories of personal data or data relating to criminal convictions and offences on a large scale.
- A systematic monitoring of a publicly accessible area on a large scale.

6.15 The Council, as a Data controller, can carry out a single assessment to address a similar set of similar processing operations that present similar high risks. The Committee will note that the Council has policies in place relating to CCTV and body worn camera monitoring by parking officers. Guidance has been issued very recently and this will be taken into account by officers revisiting those policies before May. All information policies are being considered.

Registrations and ongoing monitoring

6.16 Instead of registering with the Information Commissioner, the GDPR will require the Council to maintain detailed documentation recording their processing activities and the GDPR specifies the information this record must contain. As set out above, a detailed record is being prepared over the past several months known as the "Register of Processing".

6.17 Data processors must keep a record of the categories of processing activities they carry out on behalf of a controller. The GDPR specifies what this record must contain. Where the Council will act on behalf of other bodies this will be taken into account and again legal officers have received specific training on these requirements and implementing them into relevant contracts or other agreements.

6.18 In addition as a public body covered by the Freedom of Information Act, the Council is expressly required to appoint a data protection officer. This has been done and the Legal and Democratic Services Manager (The Monitoring Officer) has been appointed to this role.

6.19 The current guidance on this area sets out several required steps to prepare for the new inspection regime and the Council must:

- Review our existing compliance programmes, and ensure that those programmes are updated and expanded as necessary to comply with the GDPR.
- Ensure that the Council has clear records of all of their data processing activities, and that such records are available to be provided to the Information Commissioner on request.
- Appoint a data protection officer (particularly, where it is mandatory to do so) with expert knowledge of data protection. That employee has protected employment status in some EU member states. Again the Monitoring Officer has undertaken a relevant qualification on GDPR.

6.20 Section 111 of the UK's Digital Economy Act 2017 provides for the repeal of the notification regime. The government is working on an alternative funding model for the ICO based on fees from data controllers. Section 108 of the Act provides that "the Secretary of State may by regulations require data controllers to pay charges of an amount specified in the regulations to the Information Commissioner". This provision will be brought into force by statutory instrument but no draft legislation is yet available.

New obligations of data processors

6.21 The GDPR introduces direct compliance obligations for processors. Whereas under the Data Protection Directive processors generally are not subject to fines or other penalties, under the GDPR processors may be liable to pay fines of up to 4% of annual worldwide turnover of the preceding financial year or 20 million euros, whichever is greater.

6.22 The Council usually acts as Data Controller but GDPR is likely to substantially impact both processors and controllers that engage processors, in the following ways:

- The increased compliance obligations and penalties for processors are likely to result in an increase in the cost of data processing services.
- Negotiating data processing agreements may become more difficult, as processors will have a greater interest in ensuring that the scope of the controller's instructions is clear.
- Some processors may wish to review their existing data processing agreements, to ensure that they have met their own compliance obligations under the GDPR.
- The Council acting as Data controllers needs to identify our processor agreements early on so that we can review and amend them as necessary. These changes are likely to require time to implement but the work has started by Legal and Procurement officers.

Strict data breach notification rules

6.23 The GDPR requires businesses to notify the Information Commissioner of all data breaches without undue delay and where feasible within 72 hours unless the data breach is unlikely to result in a risk to the individuals. If this is not possible it will have to justify the delay to the Information Commissioner by way of a "reasoned justification".

6.24 If the breach is likely to result in high risk to the individuals, the GDPR, requires businesses to inform data subjects “without undue delay”, unless an exception applies.

6.25 The Council will need to develop and implement its data breach response plan (including designating specific roles and responsibilities, training employees, and preparing template notifications) enabling the authority to react more promptly in the event of a data breach. Complying with the data breach reporting obligations in the GDPR will also entail a significant administrative burden, which may increase costs. However the DPO is working with IT officers, in particular the Compliance Officer Mary Barlow. This work will include a review of relevant practices and ensure that the required improvements are in place and demonstrable to the Information Commissioner. Again further guidance on this area is anticipated.

Pseudonymisation

6.26 The GDPR introduces a new concept of “pseudonymisation” (that is, the processing of personal data in such a manner that the personal data can no longer be attributed to a specific individual, without additional information). Pseudonymous data will still be treated as personal data, but possibly subject to fewer restrictions on processing, if the risk of harm is low. It requires that the “key” necessary to identify data subjects from the coded data is kept separately, and is subject to technical and organisational security measures to prevent inadvertent re-identification of the coded data.

The right to erasure (”right be forgotten”)

6.27 Individuals will have the right to request that the Council deletes their personal data in certain circumstances (for example, the data are no longer necessary for the purpose for which they were collected or the data subject withdraws their consent). It remains unclear precisely how this will work in practice however it is important to note that the Council will consider that the need for holding data will match the period set out in its own retention policy. That policy considered the period for which information would be required from operational and legal purposes such as the defence of claims for every type of data held by the Council and the new Register of Processing will be integrated with the data retention scheme.

6.28 In general, the rights of data subjects are expanded under the GDPR. As a result, the Council IT team will need to devote additional time and resources to ensuring that these issues are appropriately addressed by all departments. In particular, departments will need to consider how they will give effect to the right to erasure (right to be forgotten), as deletion of personal data is not always straightforward from databases in particular.

The right to object to profiling

6.29 In certain circumstances, individuals will have the right to object to their personal data being processed at all (which includes profiling). Again, normally this will not apply where the Council is relying on a public duty to carry out that type of processing.

6.30 “Profiling” is defined broadly and includes most forms of online tracking and behavioural advertising, making it harder for organisations to use data for these activities. The fact of profiling must be disclosed to the data subject, and a PIA is required if it is done. The Council does not believe that it carries out profiling in any of its activities but this will be monitored and again managers will be trained to identify potential profiling to ensure that it can be properly managed if it is undertaken.

The right to data portability

6.31 Individuals have a new right to obtain a copy of their personal data from the data controller in a commonly used and machine-readable format and have the right to transmit those data to another controller (for example, an online service provider). In exercising their right, the data subject can request the information be transmitted directly from one controller to another, where technically feasible. This issue will need to be considered where the Council operates in a competitive market scenario but it is considered unlikely that this will apply to most Council activity.

Data subject access requests

6.32 Whilst the Council is already required to respond to requests of this kind, the requirements are now significantly more demanding and the consequences of failure are significantly more serious as set out above. The Council must reply within one month from the date of receipt of a request and provide more information than was required under the Data Protection Directive. The council customer services and legal teams are considering how they will respond to data subject access requests within the new time scale and how they will provide the additional information required. At present it is considered that the existing processes, with some minor amendments, will enable the required delivery of responses in sufficient detail and within time. This will receive ongoing monitoring by the Data Protection Officer.

7 Alternatives that have been considered

7.1 The regulations are directly applicable – this means that the Council is required to ensure that its role is compliant with the requirements set out above.

8 Resource and legal implications

8.1 The process and principles set out in the report will help to guide the management of the Council's information resources into the future.

9 Consultation

9.1 The Corporate Governance and Audit Committee is asked to consider this report and to raise any issues of concern or comment.

10 Community impact and corporate risks

10.1 The Council has taken action to ensure that data is processed legitimately and fairly and that previous Data Protection legislation was properly applied. The GDPR compliance efforts set out above will enable the Council to reduce the risk of enforcement in all areas of activity and maintain the strong public perception of being an authority which uses information thoughtfully and with care.

11 **Other Implications**

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

12 Appendices

12.1 None

13 Background Papers

13.1 None

Chichester District Council

CORPORATE GOVERNANCE & AUDIT COMMITTEE 25 January 2018

Internal Audit Reports, Progress Report and Audit Plan

1. Contacts

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2. Recommendation

The committee is requested to consider the two Audit Reports and to note progress against the audit plan.

3. Main Report

3.1. **Contract Monitoring – Westgate, Bourne and Grange Leisure Centres**

This review was split into three main elements; Health & Safety and Finance (Contract Payments) and Key performance Indicators.

The agreed scope was to review the following elements.

- To document the monitoring processes as per the contract and identify controls.
- To walkthrough and test that the controls as documented, to ensure they are being adhered to.
- To report on any areas of non-compliance and make recommendations to improve the monitoring process.

Overall the contract monitoring arrangements for the Chichester Leisure Management Contract are considered to be satisfactorily and operating as expected.

Two recommendations have been made which have been agreed by Management.

3.2. **Income Management**

This review has been carried out using the 2016-17 budgets so that all services and departments with an income budget based on actual outturn from the previous year of £20k or more would be part of the audit sample. However, this review excluded Council Tax and Non Domestic Rates which although they generate high levels of income, are audited annually as part of the key financial systems. Also the Car Parks and Trade and Green Waste income streams are subject to a separate review.

The main purpose of this audit was to ensure that reconciliations are not only being completed, but are formally reviewed and signed and dated.

The audit found that generally there has been an improvement in the management of income, and controls have been improved for the signing off of income reconciliations by budget managers to demonstrate that they have been checked and verified.

Three recommendations have been made, which have been agreed by management.

4. Deferred Audit – Museum & TIC

4.1. Members will recall the discussion that took place at the last meeting relating to the Museum and TIC Audit which had been deferred.

Following the appointment of the Museum Manager it is proposed to undertake the audit in quarter 4 (January to March). To clarify the audit activity since the Museum opened in 2012 I give below details which you might find helpful.

November 2012 - An income management audit was undertaken with recommendations being made.

July 2013 - A stock-take and ordering review was undertaken as a variance had been identified.

November 2013 - A reconciliation review was undertaken to establish that the recommendation made in November 2012 had been implemented.

February 2015 - A further income management audit was undertaken to establish that progress that had been made had been maintained.

October 2017 - An income management audit was undertaken which found that the outstanding issue had been completed.

5. Progress Report Audit Plan

5.1. The Audit Progress Report at appendix 3 details the position with individual audits.

6. Background

6.1. Not Applicable

7. Outcomes to be achieved

7.1. Not Applicable

8. Other Implications

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

Safeguarding and Early Help:		√

9. Appendices

9.1. Audit Report - Contract Monitoring – Leisure Centres
9.2. Audit Report - Income Management
9.3. Progress Report - Audit Plan

10. Background Papers

13.1 None

Internal Audit Report 2017/18

Income Management

Julie Ball
Auditor

October 2017

Contents

Audit: Income Management Audit
Auditor: Julie Ball

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1 Introduction

1.1 The council's constitution requires that revenue and capital income and expenditure is monitored and controlled. This responsibility lies with the Budget Managers. The reconciliation process is a key control to ensure that all income is received and properly accounted for.

1.2 During a previous audit in 2014 very few departments had completed income reconciliations using Civica, the new financial system. This review was undertaken to ensure that all recommendations made in that audit have been completed and regular reconciliations are being undertaken.

2 Scope

2.1 This review has been carried out using the 2016-17 budgets so that all services and departments with an income budget based on actual outturn from the previous year of £20k or more would be part of the audit sample. However, this review excluded Council Tax and Non Domestic Rates which although they generate high levels of income, are audited annually as part of the key financial system reviews and where the controls are reported as operating satisfactorily.

2.2 Also, Car Parks, Trade and Green Waste income streams are subject to a separate review. This left the following Service areas to be reviewed :

- Licensing including Gambling and Taxi
- Farmers Market
- Land Charges
- Homeless Hostel & Short Term Lease
- The Novium Museum including the Guildhall
- Careline
- Estates
- MOT's
- Building Control
- Development Management
- Cemeteries
- Parks & Open Spaces

2.3 The main purpose of this audit was to ensure that reconciliations are not only being completed, but are formally reviewed signed and dated. This area has been identified as a strategic risk area.

2.4 Recommendations previously reported will be revisited to ensure they had been actioned.

2.5 Copies of January 2016 reconciliations were requested and reviewed by Internal Audit to identify if :-

- Procedure and/or guidance notes were in place thus ensuring continuity.
- Reconciliations were complete and supporting documentation could be provided.
- Evidence that all reconciliations had been formally reviewed, dated and signed by the person completing the reconciliation and the reviewer.

2.6 Further testing has been carried out for reconciliations carried out in this financial year, April 2017.

3 Findings

3.1 It was found that the majority of services had procedures in place but not all were all up to date. Comprehensive and up to date written procedures for income reconciliation are important and should be in place. The Action Plan shows those services that need to put procedures in place or their procedures require updating.

3.2 All services reviewed by Internal Audit, were found to have completed reconciliations on a monthly or quarterly basis and with the required supporting documentation. However, one service, the Farmers Market, was found to be using incorrect data and therefore was not completing a true reconciliation. This has now been rectified.

3.3 The process of carrying out a reconciliation varies from service to service due to the varying nature of the income collected. The majority of services provided a reconciliation summary sheet which the reviewer checks, signs and dates, together with supporting documentation. These were all found to have been signed and dated therefore demonstrating evidence of checking and verification that the reconciliation is correct, with the exceptions of:

- The Homeless Hostel & Short term Lease reconciliation had been reviewed as part of a previous Rent & Deposit Bonds Audit. A recommendation was made that their income reconciliations should be checked and signed off. Testing found that the Housing Operations Manager had not actioned this recommendation because a review of the reconciliation process was being carried out. This will be followed up at a later date to ensure the recommendation has been implemented.

- The Farmers Market reconciliation had not been using the correct data to reconcile their income. Invoices are raised retrospectively for all stall holders that have hired a pitch. Internal Audit has advised that they use the data from the manual attendance sheets to reconcile against Civica; instead of a list of invoices that had already been raised and come from the same source, Civica.

- The Cemeteries Service does not carry out a formal reconciliation. They have satisfactory checking controls in place to monitor their income. Payments are required from the undertaker prior to a funeral taking place.

- Careline - Internal Audit had previously reported that the service could not undertake an income reconciliation at Chichester Careline. This is because there is no common denominator between the Careline software system Tunstall and Civica (general ledger). In order to eliminate the risk of income not being collected, the service has further controls in place since the last audit. Civica customer account numbers are entered onto client records on the Tunstall system. Further checks are made and recorded on clients files. As a result, Internal Audit considers that the service has sufficient controls in place to ensure that clients have been set up on both systems correctly and invoices produced to generate the correct income. However, the Service are currently revisiting their reconciliation process to see whether Tunstall can now be used going forward. This will be followed up at a later date.

3.4 It was found that services were not always able to carry out reconciliations on a timely basis due to the services workload depending on customer demand. However, reconciliations had been completed during the audit.

4 Conclusion

4.1 Generally there has been an improvement in the management of income and controls have been improved for the signing off of income reconciliations by budget managers; to demonstrate that they have been checked and verified as correct. However, there are still a few areas which need addressing the main one being that:

- All services need to review and keep their internal income reconciliation procedures/guidance notes current. This will ensure that up to date processes are available and can be easily followed so that another member of staff could complete the reconciliation should a key member of staff, responsible for reconciliations, be absent or leave.

- Services need to carry out their reconciliations out on a timely basis.

4.2 Where applicable Internal Audit will include financial reconciliations in future audits and report any findings as necessary.

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
3.1	The Services identified, need to update their procedures to ensure the process is clearly defined for reconciling their income	The Novium (At the time Cathy Hakes) Building Control (Russell Pugh) Development Management (Sam Carter) MOT's (Bob Riley)	Green Minor	Yes		The Novium - Completed On going Development Management - Completed. MOT's - Completed
3.1	Procedures are put in place by the Services identified to clearly define the process for reconciling income.	Land Charges – (Lee Howard Farmers) Market – (Alison Stevens)	Amber Important	Yes		Complete
3.2	The Reconciliation for Farmers Market income is formally reviewed to ensure that the correct data is being reconciled.	Alison Stevens	Amber Important	Yes		Complete

Internal Audit Report
2017/18

Income Management

Julie Ball
Auditor

October 2017

Contents

Audit: **Income Management Audit**
Auditor: **Julie Ball**

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1 Introduction

1.1 The council's constitution requires that revenue and capital income and expenditure is monitored and controlled. This responsibility lies with the Budget Managers. The reconciliation process is a key control to ensure that all income is received and properly accounted for.

1.2 During a previous audit in 2014 very few departments had completed income reconciliations using Civica, the new financial system. This review was undertaken to ensure that all recommendations made in that audit have been completed and regular reconciliations are being undertaken.

2 Scope

2.1 This review has been carried out using the 2016-17 budgets so that all services and departments with an income budget based on actual outturn from the previous year of £20k or more would be part of the audit sample. However, this review excluded Council Tax and Non Domestic Rates which although they generate high levels of income, are audited annually as part of the key financial system reviews and where the controls are reported as operating satisfactorily.

2.2 Also, Car Parks, Trade and Green Waste income streams are subject to a separate review. This left the following Service areas to be reviewed :

- Licensing including Gambling and Taxi
- Farmers Market
- Land Charges
- Homeless Hostel & Short Term Lease
- The Novium Museum including the Guildhall
- Careline
- Estates
- MOT's
- Building Control
- Development Management
- Cemeteries
- Parks & Open Spaces

2.3 The main purpose of this audit was to ensure that reconciliations are not only being completed, but are formally reviewed signed and dated. This area has been identified as a strategic risk area.

2.4 Recommendations previously reported will be revisited to ensure they had been actioned.

2.5 Copies of January 2016 reconciliations were requested and reviewed by Internal Audit to identify if :-

- Procedure and/or guidance notes were in place thus ensuring continuity.

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Progress Report – Audit Plan

As at 31st December 2017

Appendix 3

Audits Brought Forward from 2016-17	Auditor	No of Days	Days Remaining	Position with Audit
Museum/TIC	Stephen James	20	17	To be undertaken in Quarter 4 (January to March)
Information Technology (GDPR/Data Security)	Stephen James	15	15	Planning
2017/2018 - Audit Plan				
Section 106/CIL - Follow Up	Stephen James	15	15	
Customer Services Centre	Stephen James	15	15	
Building Control & Facitities Management	Julie Ball	20	0	Draft Report
Debt Recovery	Julie Ball	20	19	Planning complete
Other Audit Activities	Auditor	No of Days	Days Remaining	Position with Audit
Key Financial Systems - See below for details	Sue Shipway / Julie Ball / Stephen James	110	9	Ongoing
Planning and Control (Planning and Reviews)	Stephen James / Sue Shipway	15	2	Ongoing
Meetings / Discussions with EY	Stephen James / Sue Shipway	2	1	Monitoring Role and progress report
Committee Reports & Representation	Stephen James / Sue Shipway	15	5	Ongoing
Corporate Advice	Sue Shipway / Julie Ball / Stephen James	9	8	Ongoing
Contingency	Sue Shipway / Julie Ball / Stephen James	64	57	Analysed separately
Follow UPS	Sue Shipway / Julie Ball / Stephen James	10	1	Ongoing
Public Sector Internal Audit Standard (PSIAS)	Sue Shipway	20	8	Ongoing

Completed Audits				
AGS and Evidence	Stephen James	20	0	Report Completed
Contract Management	Ann Kirk/Julie Ball	2	0	Report Completed
Key Financial Systems - 2016-17	Sue Shipway	15	0	Report Completed
Fixed Asset Register (Transfer to Civica)	Sue Shipway	5	0	Completed-No issues arising
Leisure Centres - Contract Management	Sue Shipway	15	0	Report Completed
Income Management	Julie Ball	15	0	Report Completed
Business Continuity	Julie Ball	5	0	Position Statement Completed
Deferred/ Removed to reduce				
Budgetary Control	N/A	15		Delegated responsibility and monitored by Finance
Contracts/Procurement	Ann Kirk	10		Completed in 2016-17 (see above)
Westward House	N/A	10		Income already covered by Income Management
Inclusion in Key Financial Systems 2017-18				
Creditors	Sue Shipway / Julie Ball / Stephen James			
Debtors	Sue Shipway / Julie Ball / Stephen James			
Payroll	Sue Shipway / Julie Ball / Stephen James			
NNDR	Sue Shipway / Julie Ball / Stephen James			
Treasury Management	Sue Shipway / Julie Ball / Stephen James	110	9	Ongoing
Fixed Assets	Sue Shipway / Julie Ball / Stephen James			
Council Tax	Sue Shipway / Julie Ball / Stephen James			
Bank Reconciliation	Sue Shipway / Julie Ball / Stephen James			
Budgetary Control	Sue Shipway / Julie Ball / Stephen James			