Communities Directorate

14 March 2016

Joint Governance Committee
6.30pm on Tuesday 22 March 2016
Gordon Room, Town Hall, Worthing

Adur District Council: Councillors Rod Hotton (Chairman), Fred Lewis, Carol Albury, Ann Bridges, Emily Hilditch, James Butcher, Paul Graysmark and Barry Mear

Worthing Borough Council: Councillors Elizabeth Sparkes (Chairman), Paul Yallop, Joan Bradley, Michael Cloake, Alex Harman, Lionel Harman, Louise Murphy and Bob Smytherman

Agenda

Part A | **Page No.**

1. Declarations of Interest | -

Members and officers must declare any disclosable pecuniary interests in relation to any business on the agenda. Declarations should also be made at any stage such an interest becomes apparent during the meeting.

If in doubt contact the Legal or Democratic Services representative for this meeting.

2. Minutes | -

To approve the minutes of the Joint Governance Committee meeting held on 19 January 2016, copies of which have been previously circulated.

3.	**Public Question Time** To receive any questions from members of the public. *(**Note:** Public Question Time will operate for a maximum of 30 minutes.)*	-
4.	**Items Raised Under Urgency Provisions** To consider any items the Chairman of the meeting considers to be urgent.	-
5.	**Adur District Council and Worthing Borough Council - Certification of claims and returns annual reports 2014-15 and Audit Progress Reports** To consider a report by the External Auditors, copy attached as item 5.	5
6.	**Joint Treasury Management Strategy Statement and Annual Investment Strategy 2016/17 to 2018/19 Adur District Council and Worthing Borough Council** To consider a report by the Director for Digital & Resources, copy attached as item 6.	47
7.	**Internal Audit Progress Report** To consider a report by the Interim Head of Internal Audit, copy attached as item 7.	91
8.	**Internal Audit 2016/17 Annual Audit Plan & 2016/19 3 Year Strategic Audit Plan** To consider a report by the Interim Head of Internal Audit, copy attached as item 8.	107
9.	**Risk and Opportunity Management Strategy 2016-2018** To consider a report by the Director for Digital & Resources, copy attached as item 9.	115
10.	**Risk and Opportunity Management updates** To consider a report by the Director for Digital & Resources, copy attached as item 10.	135

11. Local Government Ombudsman Complaints 139

To consider a report by the Director for Customer Service, copy attached as item 11.

Part B - Not for Publication – Exempt Information Reports

None.

Recording of this meeting

The Council will be voice recording the meeting, including public question time. The recording will be available on the Council's website as soon as practicable after the meeting. The Council will not record any discussions in Part B of the agenda where the press and public have been excluded.

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The agenda and reports are available on the Councils website, please visit www.adur-worthing.gov.uk

Certification of claims and returns annual report 2014-15

Worthing Borough Council

January 2016

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January 2016
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Dear Members

Certification of claims and returns annual report 2014-15 Worthing Borough Council

We are pleased to report on our certification work. This report summarises the results of our work on Worthing Borough Council's 2014-15 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.

Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014-15 financial year. 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.

Statement of responsibilities

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

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

Summary

Section 1 of this report outlines the results of our 2014-15 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £37,612,633. We met the submission deadline. We issued a qualification letter, details of which are also included in section 1. Our certification work found errors which had an impact on the subsidy paid.

Fees for certification work are summarised in section 2. The fees for 2014-15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website (www.psaa.co.uk)

We welcome the opportunity to discuss the contents of this report with you at the March Joint Governance Committee.

Yours faithfully

K L Hardy

Kate Handy
Executive Director
Ernst & Young LLP
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Contents

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£37,612,633
Amended/Not amended	Not Amended
Qualification letter	Yes
Fee – 2014-15	£8,954
Fee – 2013-14	£10,912

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.

For authorities without a Housing Revenue Account (HRA), the certification guidance requires auditors to complete 2 samples of 20 cases covering Non-HRA Rent Rebate and Rent Allowance cases, plus an undefined sample of Modified Scheme Cases. Where errors are identified in our initial testing, the certification guidance requires auditors to complete more extensive '40+' or extended testing.

We found errors in the calculation of claimant income within our initial sample of Rent Allowance cases. We therefore undertook 40+ extended testing in this area.

We calculated an extrapolated error across the total population of Rent Allowance cases of £6,629. This was reported to the DWP in our Qualification Letter.

The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

2. 2014-15 certification fees

The Audit Commission determined a scale fee each year for the audit of claims and returns. For 2014-15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2013-14	2014-15	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	10,912	7,730	8,954
Total	**10,912**	**7,730**	**8,954**

The indicative fee for 2014-15 is based upon the fee charged in 2012-13, where no errors were identified in the certification of the claim.

In 2014-15, the errors identified resulted in 1 workbook of "40+" testing to be completed. The additional fee charged therefore represents the cost of the additional work resulting from the error and 40+ testing, including:

- discussing and agreeing errors with officers;
- selection of the additional sample;
- aiding officers to complete the 40+ testing in DWP workbooks, including completing some 40+ testing ourselves; and,
- the preparation of a Qualification Letter to the DWP.

The extra fee is subject to approval by PSAA (Public Sector Audit Appointments)

3. Looking forward

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

The Council's indicative certification fee for 2015-16 is £8,184. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015-16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:
http://www.psaa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies

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

4. Summary of recommendations

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

Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer
Increase quality assurance checks and implement training in areas where errors have been identified including self-employed and earned income.	High	To be agreed.	Ongoing	Paul Tonking, Head of Revenues & Benefits

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Certification of claims and returns annual report 2014-15

Adur District Council

January 2016

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Dear Members

Certification of claims and returns annual report 2014-15 Adur District Council

We are pleased to report on our certification work. This report summarises the results of our work on Adur District Council's 2014-15 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.

Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014-15 financial year. 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.

Statement of responsibilities

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

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

Summary

Section 1 of this report outlines the results of our 2014-15 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £20,666,871. We met the submission deadline. We issued a qualification letter, details of which are also included in section 1. Our certification work found errors which had an impact on the subsidy paid.

Last year we made five recommendations. The Council has made progress in implementing these recommendations, but improvements were not expected to be realised in the 2014-15 period. Details are included in section 4.

Fees for certification work are summarised in section 2. The fees for 2014-15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website (www.psaa.co.uk)

We welcome the opportunity to discuss the contents of this report with you at the March Joint Governance Committee.

Yours faithfully

K L Handy

Kate Handy
Executive Director
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Contents

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£20,666,871
Amended/Not amended	Amended. Further details of reasons for amendment are set out below.
Qualification letter	Yes
Fee – 2014-15 Fee – 2013-14	£16,307 £41,625
Recommendations from 2013-14	We identified five recommendations in 2013-14 which remain relevant for 2014-15. Our assessment of progress against these recommendations is set out in Section 4.

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 3 samples of 20 cases for authorities with a Housing Revenue Account (HRA), covering HRA Rent Rebate, Non-HRA Rent Rebate and Rent Allowance cases, plus an undefined sample of Modified Scheme Cases. Where errors are identified in our initial testing, more extensive testing on an additional sample of 40 cases (or the total population if less than 40) is required, for each error found. This is known as "40+" testing.

For 2014-15, we found a number of errors requiring 9 sets of extended "40+" testing covering all case types.

The "40+" testing identified a number of cases where similar errors had occurred. Where we tested 100% of the population, the authority amended the claim form.

For those "40+" tests where we did not test the whole population, we extrapolated the financial impact of our findings to determine the total financial impact of the errors on the claim. This was then reported in our qualification letter, but no amendment was made to the claim form.

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.

A summary of the key issues found is shown below:

- Claimant Income
    - Non-HRA Rent Rebates: Our initial testing identified 6 cases where a claimant's income was incorrectly calculated due to an error in calculating Schedule D self-employed income, Schedule E earned income, child care costs or an incorrect figure had been used for Child Tax Credits. The total population of 26 Non-HRA Rent Rebate cases where the claimant was in receipt of income was therefore tested an amendment made to the claim form to move £838 from cells 11,14 and 28 to cells 12, 26 and 31, therefore reducing subsidy claimed.
    - HRA Rent Rebates: Our initial testing identified 4 cases where a claimant's income was incorrectly calculated due to an error in calculating State Retirement Pension, Schedule D self-employed income, Student Loan and Grant income or there was no evidence to support a claimant's Disability Living Allowance. An

additional 40 HRA Rent Rebate cases containing an income assessment were therefore selected and tested. The additional testing identified 13 further errors. We calculated an extrapolated error suggesting cell 61 (and therefore subsidy being claimed) was overstated by £17,075, which is reported in our Qualification Letter.

- Rent Allowances: Our initial testing identified 2 cases where a claimant's income was incorrectly calculated due to incorrect calculation of Schedule D self-employed income or incorrect calculation of Statutory Maternity Pay. An additional 40 Rent Allowance cases containing an income assessment were therefore selected and tested. The additional testing identified a further 30 errors. We calculated an extrapolated error suggesting subsidy claimed was overstated by £33,783, which is reported in our Qualification Letter.

- Non-Dependant Income
  - HRA Rent Rebates: Our initial testing identified 1 case where a Non-Dependent's self-employed earnings had been miscalculated. An additional 40 HRA Rent Rebate cases containing a Non-Dependant's income assessment were therefore selected and tested. Our additional testing identified five further errors. We calculated an extrapolated misclassification error of £210, which is reported in our Qualification Letter. This had no impact on the subsidy being claimed.
- Rent Cost
  - Rent Allowances: We identified 3 cases where rent costs were incorrect. An additional 40 Rent Allowances cases were selected and tested to confirm the correct rent had been applied. No further errors were identified from the additional sample. We therefore calculated an extrapolated error suggesting subsidy being claimed was overstated by £132, which is reported in our Qualification Letter.
- Overpayments
  - Non-HRA Rent Rebates: Our initial testing identified 3 misclassification errors resulting in overpayments of subsidy. One of these errors arose from late notification of DWP data through the ATLAS system, which led to misclassification of the error on the claim form. 40 + testing was completed for the two remaining errors relating to both cells 24 and 28. Following the additional testing, the claim form was amended to move the total value (£74) of Cell 24 to Cell 28 (Eligible Overpayments). The remaining two errors resulted in the total population of cell 28 being tested (26 cases, £19,263) and appropriate adjustment made on the claim form to reduce subsidy being claimed by moving £1,601 from cell 28 to cells 26 and 27.
  - Rent Allowances: Our initial testing identified 1 misclassification error resulting in overpayment of subsidy. This resulted from the same DWP/ATLAS error noted above. The claim form was amended to move the total value (£1,143) of Cell 111 to Cell 114, therefore increasing subsidy claimed.
- Modified Schemes:
  - Testing of our initial sample identified 1 Rent Allowance case where incorrect statutory disregard and attendance allowance had been included in the benefit calculation. The remaining population of 5 cases was tested and 4 further errors identified. The claim form was amended to correct these errors, reducing subsidy claimed by £95.

2. 2014-15 certification fees

The Audit Commission determine a scale fee each year for the audit of claims and returns. For 2014-15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2013-14	2014-15	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	41,625	13,480	16,307
Total	**41,625**	**13,480**	**16,307**

The indicative fee for 2014-15 is based upon the fee charged in 2012-13, where a number of errors were found and 4 workbooks of "40+" testing were completed. In 2014-15, the errors identified resulted in 9 workbooks of "40+" testing being completed. Our additional fee outlined above therefore relates to the 5 sets of extended "40+" testing not included in the scale fee.

The additional fee charged represents the cost of the work resulting from the additional 5 workbooks. The extra fee is subject to approval by PSAA (Public Sector Audit Appointments).
The fee is significantly less than the 2013-14 fee because CenSus staff were able to undertake all the "40+" testing on our behalf (as required by the certification instructions). Our role was therefore limited to selecting samples, reviewing the additional testing and reporting the errors. In addition, the level of support we were required to provide to officers when completing the "40+" workbooks was significantly less and the quality of these workbooks had improved. The certification therefore involved significantly fewer audit resources than in 2013-14.

3. Looking forward

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

The Council's indicative certification fee for 2015-16 is £27,019. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015-16. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:
http://www.psaa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies

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

4. Summary of recommendations

Our findings from our 2014-15 work are similar to those from 2013-14, where a number of recommendations were raised. We therefore believe it appropriate for the authority to continue to implement those recommendations raised in 2013-14. These are outlined below, together with our assessment of progress to date.

	Recommendation	Priority	Agreed action and comment	Deadline	Responsible officer	Progress To Date
1	Review the CenSus Quality Plan to ensure that it is robust and addresses the weaknesses reported in the 2013-14 qualification letter.	High	A Quality plan was Implemented as a result of the 12-13 audit. This plan was internally audited and assurance given that the actions in the plan had been effectively undertaken. Some elements of the plan have been incorporated into 'everyday business' and are ongoing. A further plan based on the 13-14 audit outcome is being developed and will be finalised once the DWP Performance Development Team have visited to offer guidance and/or advice. In the meantime, significant, diverse action is being taken to address issues raised in the 13-14 audit.	31/03/15	Tim Delany, Head of Revenues and Benefits (CenSus)	We are aware that a Quality Plan has been prepared and is being implemented.
2	Monitor progress against the CenSus Quality Plan and report progress to the CenSus Programme Board and CenSus	High	Activity and outcomes related to the 13-14 action plan will be reported at each PMB and JC. The Benefits Manager will report and discuss progress with the Head of Service each month.	Ongoing	Tim Delany, Head of Revenues and Benefits (CenSus)	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus.

	Joint Committee.					
3	Increase quality assurance checks and implement training in areas where errors have been identified including self-employed and earned income.	High	Activity is already being taken in these areas; additional staff have been deployed to complete an exercise to review all earned income and self-employed cases and to conduct 100% quality checks on ‘current’ cases. Several strands of training have been (or are being) arranged.	Ongoing	Morag Freitas, CenSus Benefit Manager	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus.
4	Undertake work or review the 2014-15 subsidy claims in high risk areas, such as claims with self-employed earnings and earned income, to ensure that these claims have been correctly processed and to reduce the likelihood of future qualifications of the subsidy claim.	High	The running of subsidy each month has recommenced. The subsidy officer undertakes checks of high risk cases; there is a written procedure and a signed check-list which are in turn supported by details of specific cases checked. A quarterly exercise is undertaken to compare and contrast current subsidy with the subsidy claim in past years.	30/03/15	Shirley Eveleigh, CenSus Quality Control, Appeals & Training Manager	Evidence of review of the modified schemes and overpayment classification was reviewed as part of the audit. The initial training focus was on earned income and we identified fewer errors in this area in our initial testing for 2014-15. We expect to see fewer errors in self-employed earnings in 2015-16 as the training has now been implemented in this area.
5	Introduce robust, evidenced checks on the preparation of the subsidy claim to ensure that the Director of Corporate Resources can certify the claim to state that the authority's	High	See above.	Ongoing - at least monthly	Tim Delany, Head of Revenues and Benefits (CenSus)	We have seen evidence of the Quality Plan implementation, with fewer errors identified in the areas of focus.

administrative systems, procedures and key controls for awarding benefits operate effectively.

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Worthing Borough Council

Joint Governance Committee Progress Report

March 2016

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09 March 2016

Dear Committee Members

Audit Progress Report

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

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

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

Yours faithfully

K L Handy

Kate Handy
Executive Director
For and behalf of Ernst & Young LLP

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Joint Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

2015/16 audit

Fee letter

We issued our 2015/16 fee letter to the Council in 2015.

Financial Statements

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning we will continue to meet key officers regularly to ensure the 2015/16 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

Planning and interim visit

We are scheduled to complete our walkthrough of the key financial systems in March and April 2016.

There are no significant matters arising from our initial planning meetings that we need to bring to your attention at this stage. We are continuing to liaise with officers on their plans in relation to the new requirements for transport infrastructure assets.

We will update the Committee when the testing of controls and early substantive testing has been completed.

Internal Audit

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

Post statements visit

We have finalised dates for our audit visit in June and July, and we have had early discussions with officers regarding the working papers required in support of the audit.

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, will be presented to the next Joint Governance Committee in June 2016.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries and payroll data.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Value for money

The NAO consulted on a draft Auditor Guidance Note (AGN) in respect of auditors' work on value for money (VFM) arrangements. The guidance has now been issued and sets out the proposed overall approach to work on VFM arrangements which apply to audits from 2015/16 onwards.

A copy of the final AGN, and the supporting information for local government bodies, can be viewed on the NAO website: http://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/.

We are required to reach our statutory conclusion on arrangements to secure value for money based on the overall evaluation criterion, supported by sub-criteria as set out below.

The overall criterion for 2015/16 is:

- In all significant respects, you had proper arrangements to ensure you took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The overall criterion is supported by three sub-criteria, designed to help us structure our risk assessment. There is no requirement for us to conclude nor report against the following sub-criteria:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

We will carry out our initial risk assessment in early 2016 and report the risks we have identified, and associated work we will carry out, to the Joint Governance Committee in June 2016.

Local appointment of auditors

The Department of Communities and Local Government (DCLG) has announced that it has decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.

Although the new approach to local audit does not come into play until 2018/19, bodies will need to start putting in place the mechanism required to deliver this. As part of the process, bodies will need to set up auditor panels to advise on the selection, appointment and removal of external auditors, and on maintaining an independent relationship with them. These will need to be in place by early 2017, with the procurement process taking place in spring 2017 and external auditors being appointed by December 2017.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 years.

Other issues of interest

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

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	**Ongoing**	Audit Fee Letter	2015	Completed
Risk assessment and setting of scope of audit	**March 2016**	Audit Plan	June 2016	To start 14th March 2016
Testing of routine processes and controls	**March / April 2016**	Audit Plan	June 2016	
Year-end audit	**June / July 2016**	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2016	Work is planned to start during June 2016.

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Adur District Council

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09 March 2016

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Audit Progress Report

We are pleased to attach our Audit Progress Report.

It sets out the work we have completed since our last report to the Committee. Its purpose is to provide the Committee with an overview of the progress that we have made with the work that we need to complete during the 2015/16 audit. This report is a key mechanism in ensuring that our audit is aligned with the Committee's service expectations.

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

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

Yours faithfully

K L Handy

Kate Handy
Executive Director
For and behalf of Ernst & Young LLP

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and via the PSAA w ebsite (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement betw een appointed auditors and audited bodies. It summarises w here the different responsibilities of auditors and audited bodies begin and end, and w hat is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply w ith, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This progress update is prepared in the context of the Statement of responsibilities. It is addressed to the Joint Governance Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

2015/16 audit

Fee letter

We issued our 2015/16 fee letter to the Council in 2015.

Financial Statements

We adopt a risk based approach to the audit and, as part of our ongoing continuous planning we will continue to meet key officers regularly to ensure the 2015/16 audit runs as smoothly as possible and identify any risks at the earliest opportunity.

Planning and interim visit

We are scheduled to complete our walkthrough of the key financial systems in March and April 2016.

There are no significant matters arising from our initial planning meetings that we need to bring to your attention at this stage. We are continuing to liaise with officers on their plans in relation to the new requirements for transport infrastructure assets.

We will update the Committee when the testing of controls and early substantive testing has been completed.

Internal Audit

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

Post statements visit

We have finalised dates for our audit visit in August, and we have had early discussions with officers regarding the working papers required in support of the audit.

Our detailed audit plan, setting out the risks we have identified and the work we will undertake in response, will be presented to the next Joint Governance Committee in June 2016.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries and payroll data.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

Value for money

The NAO consulted on a draft Auditor Guidance Note (AGN) in respect of auditors' work on value for money (VFM) arrangements. The guidance has now been issued and sets out the proposed overall approach to work on VFM arrangements which apply to audits from 2015/16 onwards.

A copy of the final AGN, and the supporting information for local government bodies, can be viewed on the NAO website: http://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/.

We are required to reach our statutory conclusion on arrangements to secure value for money based on the overall evaluation criterion, supported by sub-criteria as set out below.

The overall criterion for 2015/16 is:

- In all significant respects, you had proper arrangements to ensure you took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The overall criterion is supported by three sub-criteria, designed to help us structure our risk assessment. There is no requirement for us to conclude nor report against the following sub-criteria:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

We will carry out our initial risk assessment in early 2016 and report the risks we have identified, and associated work we will carry out, to the Joint Governance Committee in June 2016.

Local appointment of auditors

The Department of Communities and Local Government (DCLG) has announced that it has decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.

Although the new approach to local audit does not come into play until 2018/19, bodies will need to start putting in place the mechanism required to deliver this. As part of the process, bodies will need to set up auditor panels to advise on the selection, appointment and removal of external auditors, and on maintaining an independent relationship with them. These will need to be in place by early 2017, with the procurement process taking place in spring 2017 and external auditors being appointed by December 2017.

Existing external audit arrangements will remain unchanged for the 2015/16, 2016/17 and 2017/18 years.

Other issues of interest

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

Timetable

We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2015/16 committee cycle.

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	**Ongoing**	Audit Fee Letter	2015	Completed
Risk assessment and setting of scope of audit	**March 2016**	Audit Plan	June 2016	To start 14th March 2016
Testing of routine processes and controls	**March / April 2016**	Audit Plan	June 2016	
Year-end audit	**August 2016**	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	September 2016	Work is planned to start during August 2016.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

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Joint Strategic Committee
2nd February, 2016
Agenda Item No: 6

Joint Governance
22nd March, 2016
Agenda Item No: xx
Ward: All

JOINT TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2016/17 TO 2018/19 ADUR DISTRICT COUNCIL AND WORTHING BOROUGH COUNCIL

REPORT BY DIRECT OF DIGITAL AND RESOURCES

1.0 INTRODUCTION

1.1 Background

The Councils are required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in high quality counterparties or instruments commensurate with the Councils' low risk appetite, providing adequate liquidity initially, before considering investment return. This is consistent with national guidance which promotes security and liquidity above yield.

The second main function of the treasury management service is the funding of the Councils' capital plans. These capital plans provide a guide to the borrowing need of the Councils, essentially the longer term cash flow planning, to ensure that the Councils can meet their capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Councils' risk or cost objectives.

CIPFA defines treasury management as:

> *"The management of the local authority's 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."*

1.2 Reporting requirements

The Councils are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report), to be approved by the Joint Strategic Committee (JSC)- the first, and most important report covers:

1.0 INTRODUCTION

1.2 Reporting requirements

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports are required to be scrutinised by the Joint Governance Committee (JGC) which may make recommendations to the JSC regarding any aspects of Treasury Management policy and practices it considers appropriate in fulfilment of its scrutiny role. Such recommendations as may be made shall be incorporated within the above named reports and submitted to meetings of the JSC for consideration as soon after the meetings of the JGC as practically possible.

1.3 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Councils;
- prospects for interest rates;
- the borrowing strategy;

1.0 INTRODUCTION

1.3 Treasury Management Strategy for 2016/17

Treasury management issues

- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training is arranged as required.

The training needs of treasury management officers are periodically reviewed and officers attend courses provided by appropriate trainers.

1.5 Treasury management consultants

The Councils last undertook a joint re-tender for treasury management consultancy services in the autumn of 2013. This culminated in the re-appointment of the Councils' incumbent consultants, Capita Treasury Solutions Limited (formerly known as Capita Asset Services Limited) on similar terms and for a three year period ending 31 October 2016. The contract will be re-procured in the current year.

The Councils recognise that responsibility for treasury management decisions remains with the organisations at all times and will ensure that undue reliance is not placed upon our external service providers.

They also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Councils will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

The Councils' capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Councils' capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

The table below summarises the capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

ADUR DISTRICT COUNCIL

Capital expenditure	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	£m	£m	£m	£m
Non-HRA	3.456	6.377	*9.830	*5.818	*5.298
HRA	3.749	4.136	5.686	4.154	4.214
TOTAL	**7.205**	**10.513**	**15.516**	**10.972**	**10.512**
Financed by:					
Capital receipts	-	0.772	0.546	0.406	0.406
Capital grants and contributions	0.698	2.171	4.325	0.772	0.252
Reserves and contributions	4.237	3.882	5.377	3.800	3.860
Net financing need for the year	**2.270**	**3.688**	**5.268**	**5.994**	**5.994**

***The capital expenditure includes the amounts allocated to the Strategic Property Fund - £2m in 2016/17, £5m in 2017/18 and £5m in 2018/19**

WORTHING BOROUGH COUNCIL

Capital expenditure	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	£m	£m	£m	£m
Non-HRA	**3.303**	4.963	*20.073	*7.242	*6.939
Financed by:					
Capital receipts	1.343	0.225	0.369	0.500	0.500
Capital grants and contributions	0.715	0.937	1.037	0.530	0.493
Reserves and contributions	0.341	0.296	0.273	0.160	0.160
Net financing needed for the year	**0.904**	**3.505**	**18.394**	**6.052**	**5.786**

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

***The capital expenditure includes a £10m loan to a local Registered Social Landlord in 2016/17 and the amounts allocated to the Strategic Property Fund - £2m in 2016/17, £5m in 2017/18 and £5m in 2018/19.**

2.2 **The Councils' borrowing need (the Capital Financing Requirement)**

The second prudential indicator is the Councils' 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 Councils' underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life. The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Councils' borrowing requirement, these types of scheme include a borrowing facility and so the Councils are not required to separately borrow for these schemes.

The Councils are asked to approve the CFR projections below:

ADUR DISTRICT COUNCIL

	2014/15 Actual	**2015/16 Estimate**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**
	£m	**£m**	**£m**	**£m**	**£m**
Capital Financing Requirement					
CFR – non-HRA	12.449	15.195	19.282	23.982	28.593
CFR – HRA	63.536	61.820	60.102	58.386	56.669
Total CFR	**75.985**	**77.015**	**79.384**	**82.368**	**85.262**
Movement in CFR	**(0.298)**	**1.030**	**2.369**	**2.984**	**2.894**
Movement in CFR represented by					
Net financing need for the year (above)	2.270	3.688	5.268	5.994	5.994
Less: MRP/VRP and other financing movements	(2.568)	(2.658)	(2.899)	(3.010)	(3.100)
Movement in CFR	**(0.298)**	**1.030**	**2.369**	**2.984**	**2.894**

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

2.2 The Councils' borrowing need (the Capital Financing Requirement)

WORTHING BOROUGH COUNCIL

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	£m	£m	£m	£m
Capital Financing Requirement					
CFR – non housing	**23.585**	**25.940**	**42.944**	**47.527**	**51.769**
Movement in CFR	**(0.174)**	**2.355**	**17.004**	**4.583**	**4.242**
Movement in CFR represented by					
Net financing need for the year (above)	0.904	3.505	18.394	6.052	5.786
Less MRP/VRP and other financing movements	(1.078)	(1.150)	(1.390)	(1.469)	(1.544)
Movement in CFR	**(0.174)**	**2.355**	**17.004**	**4.583**	**4.242**

2.3 Minimum revenue provision (MRP) policy statement

The Councils are required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). CLG regulations have been issued which require the full Councils to approve an MRP Statement in advance of each year. The 2015/16 MRP Statements were approved by Adur Council on 19th February 2015 and by Worthing Council on 17th February.

A variety of options are provided to councils, so long as there is a prudent provision. The Councils are recommended to approve the following MRP Statements:

Adur District Council
For Adur Council it was first approved by the Policy and Strategy Committee on 18th March 2008 that for capital expenditure incurred before 1st April 2008, the MRP will be calculated on 4% of the Non-Housing CFR at the closing balance of the previous financial year (ie no "Adjustment A" to negate the impact on Council Tax – the CFR Method). No such policy was required by Worthing Borough Council who had no debt at this time.

For non-HRA capital expenditure after 1st April 2008 the MRP will be calculated as the annual amount required to repay borrowing in equal instalments over the life of the assets acquired, although the option remains to use additional revenue contributions or capital receipts to repay debt earlier (the Asset Life Method).

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

2.3 Minimum revenue provision (MRP) policy statement

An exception was agreed in the 2015/16 Treasury Management Strategy Statement: the Chief Financial Officer has discretion to defer MRP relating to debt arising from loans to Registered Social Landlords (RSLs) to match the profile of debt repayments from the RSL. RSLs normally prefer a maturity type loan as it matches the onset of income streams emanating from capital investment with the timing of the principal debt repayment. The deferral of MRP to the maturity date would therefore mean that MRP is matched at the same point as the debt is repaid, and is therefore cash (and revenue cost) neutral to the Council.

If concerns arise about the ability of the RSL to repay the loan, the Chief Financial Officer will use the approved discretion to make MRP as a "prudent provision" from the earliest point to ensure that sufficient funds are set aside from revenue to repay the debt at maturity if the RSL defaults.

It is proposed to use the same policy for 2016/17.

The Adur HRA debt at the beginning of 2012/13 was close to the Government's imposed debt limit of £68.912m. The Council is not permitted to borrow in excess of this amount for HRA purposes. The Council's MRP policy therefore applies the financially prudent option of voluntary MRP for the repayment of HRA debt, to facilitate new borrowing in future for capital investment. It is proposed to continue with this approach for 2016/17 and to make annual MRP for a period of 40 years on all HRA debt, being the estimated life of the Council Housing Stock. Usually, MRP is applied in the financial year following the drawdown of debt. For HRA purposes, as the MRP is voluntary, it is proposed that where debt is obtained to fund new house building, MRP be applied from the year in which the housing provided is brought into service. This will align the period in which the income streams arising from the new homes are generated with the period when MRP commences. MRP will be provided by a transfer from the HRA.

<u>Worthing Borough Council</u>

Worthing's 2015/16 MRP policy also approved the use of the Asset Life Method in respect of all new supported and unsupported borrowing, but with the same discretion as for Adur Council in the application of MRP in respect of loans to RSLs. It is proposed to retain this policy for 2016/17.

If any finance leases are entered into the repayments are applied as MRP.

2.4 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Councils' overall finances. The Councils are asked to approve the following indicators:

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

2.5 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

ADUR DISTRICT COUNCIL

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	%	%	%	%	%
Non-HRA	15.46	16.34	17.25	19.42	20.40
HRA	42.93	42.12	41.00	44.23	45.11

WORTHING BOROUGH COUNCIL

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	%	%	%	%	%
Non-HRA	8.16	9.01	11.56	12.43	13.17

The estimates of financing costs include current commitments and the proposals in this budget report.

2.6 Incremental impact of capital investment decisions on Council Tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Councils' existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D Council Tax

ADUR DISTRICT COUNCIL

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£	£	£	£	£
Council Tax - Band D	5.34	4.96	12.75	3.72	4.09

2.0 THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

WORTHING BOROUGH COUNCIL

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£	£	£	£	£
Council Tax - Band D	5.47	4.32	10.56	3.19	3.62

2.7 **Estimates of the incremental impact of capital investment decisions on housing rent levels**

Similar to the Council Tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Adur District Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

Incremental impact of capital investment decisions on housing rent levels

ADUR DISTRICT COUNCIL

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£	£	£	£	£
Weekly housing rent levels	(0.44)	(0.46)	(0.25)	(0.44)	(0.32)

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

3.0 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Councils. The treasury management function ensures that the Councils' cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.0 BORROWING

3.1 Current portfolio position

The Councils' treasury portfolio positions at 31 March 2015, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing. The increase in debt includes £10m in 2016/17 for Worthing Homes and £5m in 2017/18 for each Council for investment in the property fund.

ADUR DISTRICT COUNCIL

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
External Debt					
Debt at 1 April	78.209	75.986	74.268	72.549	75.843
Expected change in Debt	(2.223)	(1.718)	(1.719)	3.294	(1.706)
Other long-term liabilities (OLTL)	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-
Actual gross debt at 31 March	**75.986**	**74.268**	**72.549**	**75.843**	**74.137**
The Capital Financing Requirement	**75.985**	**77.015**	**79.384**	**82.368**	**85.262**
Under / (over) borrowing	**(0.001)**	**2.747**	**6.835**	**6.525**	**11.125**

WORTHING BOROUGH COUNCIL

	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
External Debt					
Debt at 1 April	14.722	18.088	19.136	28.350	32.600
Expected change in Debt	3.366	1.048	9.214	4.250	(0.750)
Other long-term liabilities (OLTL)	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-
Actual gross debt at 31 March	**18.088**	**19.136**	**28.350**	**32.600**	**31.850**
The Capital Financing Requirement	**23.585**	**25.940**	**42.944**	**47.527**	**51.769**
Under / (over) borrowing	**5.497**	**6.804**	**14.594**	**14.927**	**19.919**

3.0 BORROWING

3.1 Current portfolio position

Within the prudential indicators there are a number of key indicators to ensure that the Councils operate their activities within well-defined limits. One of these is that the Councils need to ensure that their gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Financial Officer reports that the Councils complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary - This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

ADUR DISTRICT COUNCIL

Operational boundary	2015/16 Approved	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	£m	£m	£m
Debt	93.0	93.0	93.0	93.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**94.0**	**94.0**	**94.0**	**94.0**

WORTHING BOROUGH COUNCIL

Operational boundary	2015/16 Approved	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	£m	£m	£m
Debt re Worthing Homes	0.0	10.0	10.0	10.0
Other Debt	29.0	29.0	29.0	29.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	30.0	40.0	40.0	40.0

The authorised limit for external debt - A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Councils. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

3.0 BORROWING

3.2 Treasury Indicators: limits to borrowing activity

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

2. The Councils are asked to approve the following authorised limits:

ADUR DISTRICT COUNCIL

Authorised limit	2015/16 Approved	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	**£m**	**£m**	**£m**
Debt	99.0	99.0	99.0	99.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

WORTHING BOROUGH COUNCIL

Authorised limit	2015/16 Approved	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	**£m**	**£m**	**£m**
Debt re Worthing Homes	0.0	10.0	10.0	10.0
Other Debt	34.0	34.0	34.0	34.0
Other long term liabilities	1.0	1.0	1.0	1.0
Total	**35.0**	**45.0**	**45.0**	**45.0**

Separately, Adur District Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit	2015/16 Approved	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£m	**£m**	**£m**	**£m**
HRA debt cap	68.912	68.912	68.912	68.912
HRA CFR	61.820	60.102	58.386	56.669
HRA headroom	7.092	8.810	10.526	12.243

3.3 Prospects for interest rates

The Councils have appointed Capita Asset Services as their treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view.

3.0 BORROWING

3.3 Prospects for interest rates

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015 this year. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have distinctly weakened and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be a sharp tick up from the current zero rate to around 1 percent in the second half of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then weakened again to 1.5% in quarter 3. The run of strong monthly increases in nonfarm payroll figures for growth in employment in 2015 has prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

3.0 BORROWING

3.3 Prospects for interest rates

EZ. In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;

- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

3.4 Borrowing Strategy

The Councils are both currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Councils' reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are currently lower than the cost of borrowing and reflects current views on counterparty risks.

3.0 BORROWING

3.4 Borrowing strategy

Against this background and the risks within the economic forecast, caution will be adopted with the 2016/17 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Both Councils will refer in the first instance to the Public Works Loan Board (PWLB) for sourcing their borrowing needs, given that they are eligible to access the PWLB "Certainty" rate of interest, being 20 basis points below the normal prevailing PWLB rates. However, borrowing from other sources, including other Councils and the Local Government Association Municipal Bonds Agency (see para 3.10), may from time to time offer options to borrow more cheaply than from the PWLB, and therefore will be considered.

Given the expected under borrowing position of the Councils, the borrowing strategy will give consideration to new borrowing in the following order of priority:-

i) Internal borrowing, by running down cash balances and foregoing interest earned at historically low rates, as this is the cheapest form of borrowing;

ii) Weighing the short term advantage of internal borrowing against potential long term borrowing costs, in view of the overall forecast for long term borrowing rates to increase over the next few years;

iii) PWLB variable rate loans for up to 10 years;

iv) Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintaining an appropriate balance between PWLB, market debt and loans from other councils in the debt portfolio;

v) PWLB borrowing for periods under 5 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt**.**

3.0 BORROWING

3.6 Preference will be given to PWLB borrowing by annuity and EIP loans instead of maturity loans, as this may result in lower interest payments over the life of the loans.

3.7 **Treasury management limits on activity**

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Councils' exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Councils are asked to approve the following treasury indicators and limits:

ADUR DISTRICT COUNCIL

Interest rate exposures	2016/17	2017/18	2018/19
	Upper %	**Upper %**	**Upper %**
Limits on fixed interest rates – debt only	100	100	100
Limits on fixed interest rates – Investments only	100	100	100
Estimate of fixed interest on net debt	84	84	83
Limits on variable interest rates – debt only	50	50	50
Limits on variable interest rates - Investments only	100	100	100
Estimate of variable interest on net debt	16	16	17

3.0 BORROWING

3.7 **Treasury management limits on activity**

ADUR DISTRICT COUNCIL

Maturity structure of fixed interest rate borrowing 2016/17		
	Lower	**Upper**
Under 12 months	2%	17%
12 months to 2 years	2%	17%
2 years to 5 years	7%	21%
5 years to 10 years	14%	28%
10 years to 20 years	23%	37%
20 years to 30 years	14%	28%
30 years to 40 years	7%	22%
40 years to 51 years	31%	31%

WORTHING BOROUGH COUNCIL

Interest rate exposures	2016/17	2017/18	2018/19
	Upper %	**Upper %**	**Upper %**
Limits on fixed interest rates – debt only	100	100	100
Limits on fixed interest rates – Investments only	100	100	100
Estimate of fixed interest on net debt	100	100	100
Limits on variable interest rates – debt only	25	25	25
Limits on variable interest rates - Investments only	100	100	100
Estimate of variable interest on net debt	0	0	0

3.0 BORROWING

3.7 Treasury management limits on activity

Maturity structure of fixed interest rate borrowing 2016/17		
	Lower	**Upper**
Under 12 months	62%	62%
12 months to 2 years	4%	4%
2 years to 5 years	21%	21%
5 years to 10 years	13%	13%

3.8 Policy on borrowing in advance of need

The Councils will not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Councils can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.9 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and/or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancement of the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identifying any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

75% of Adur's debt portfolio consists of long term loans with an average maturity of 40 years left to run, and at rates above prevailing market rates for equivalent loans. The cost to redeem these loans early would incur a debt premium (at current estimates) of some £10m, and is unaffordable.

3.0 BORROWING

3.9 Debt rescheduling

By contrast, only 13% of Worthing's existing fixed rate debt portfolio is for over 5 years, so options for early settlement do not really apply.

All rescheduling will be reported to the Councils at the earliest meeting following its action

3.10 Municipal Bond Agency

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate.

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2016/17

Background - Investment Policy

4.1 The Councils' investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Councils' investment priorities will be security first, liquidity second, then return.

4.2 The CLG's revised Guidance on investments reiterates security and liquidity as the primary objectives of a prudent investment policy. The speculative procedure of borrowing purely in order to invest is unlawful.

4.3 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Potential instruments for the Councils' use within its investment strategy are contained in Appendix A.

4.4 The credit crisis has refocused attention on the treasury management priority of security of capital monies invested. The Councils will continue to maintain a counterparty list based on the approved criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength as outlined in paragraphs 4.5 - 4.16.

Creditworthiness Policy

4.5 The Councils use the creditworthiness service provided by Capita Treasury Solutions Limited. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2016/17

Creditworthiness Policy

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

4.6 The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is combined with an overlay of CDS spreads. The result is a series of colour code bands for counterparties indicating the relative creditworthiness of each as they are categorised by durational bands. These bands are used by the Councils to form a view of the duration for investments by each counterparty. The Councils are satisfied that this service gives a robust level of analysis for determining the security of its investments. It is also a service which the Councils would not be able to replicate using its own in-house resources.

4.7 The selection of counterparties with a high level of creditworthiness will be achieved by reference to the minimum durational band proposed by Capita's weekly credit list of worldwide potential counterparties. The Councils will consider, but not necessarily adhere rigidly to (see paras.4.10-4.11), the categorised counterparties within the following durational bands*: -*

- Yellow (Y) 5 years *
- Dark pink (Pi1) 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink (Pi2) 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple (P) 2 years
- Blue (B) 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange (O) 1 year
- Red (R) 6 months
- Green (G) 100 days **
- No colour (N/C) not to be used

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	8	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

* The yellow colour category is for UK Government debt, or its equivalent, Constant Net Asset Value money market funds and collateralised deposits where the collateral is UK Government debt.

** The green limit was formerly for 3 months but in July 2013 the Financial Conduct Authority set a requirement for qualifying deposits for bank liquidity buffers of a minimum of 95 days so the green band has been slightly extended to accommodate this regulatory change.

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2016/17

Creditworthiness Policy

4.8 Although the Capita creditworthiness service does use ratings from all three agencies, the practice of using a risk weighted scoring system eliminates any tendency to give undue preponderance to just one agency's ratings.

4.9 Using Capita's ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications. The effect of a change in ratings may prompt the following responses:

- If a downgrade results in the counterparty/investment scheme no longer meeting the Councils' minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of Credit Ratings the Councils will be advised by Capita of movements in Credit Default Swaps against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Councils' lending list.

4.10 The Councils' officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets, the government support for banks, and the credit ratings of that government support.

4.11 Accordingly, the Councils may exercise discretion to deviate from Capita's suggested durational bands for counterparties where sudden changes in financial markets, the banking sector, or other circumstances warrant a more flexible approach being taken.

The Councils' Minimum Investment Creditworthiness Criteria

4.12 The minimum credit ratings criteria the Councils use will be a short term rating (Fitch or equivalents) of F1, and long term rating A-. The Councils will no longer rely, as in previous years, on viability and support ratings of counterparties. The reason for this reflects the withdrawal of these ratings by the rating agencies as explained by Capita Treasury Solutions Limited. :

"Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes."

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2016/17

The Councils' Minimum Investment Creditworthiness Criteria

4.13 There may be occasions when the counterparty ratings from one or more of the three Ratings Agencies are marginally lower than the minimum requirements of F1 Short term, A- Long term (or equivalent). Where this arises, the counterparties to which the ratings apply may still be used with discretion, but in these instances consideration will be given to the whole range of topical market information available, not just ratings.

Country Limits and Proposed Monitoring Arrangements

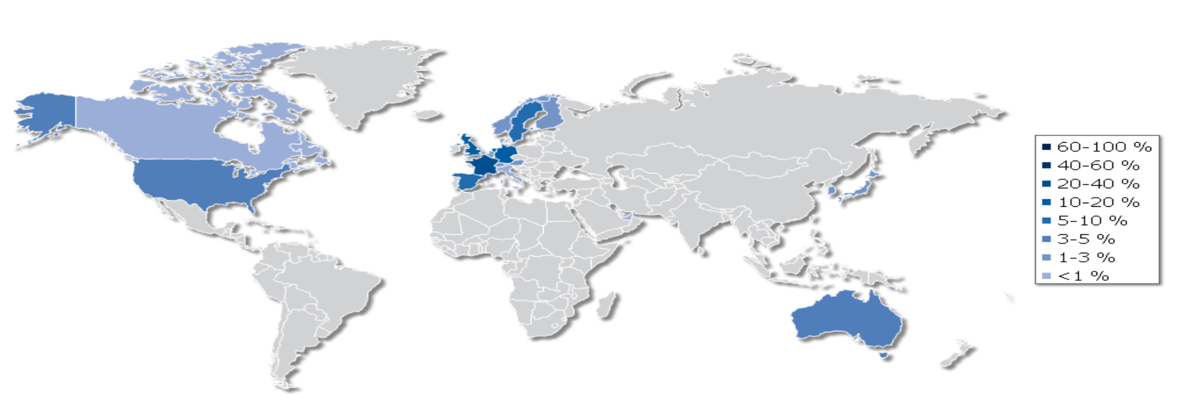
4.14 The Councils have determined that they will only use approved counterparties from countries with a minimum sovereign credit rating of *AA-* from Fitch Ratings (or equivalent from other agencies if Fitch does not provide one). The list of countries that qualify using these credit criteria is reflected in the Counterparty Approved Lending List shown at Appendix A. No more than 25% of investments shall be placed in Non-UK financial institutions at any given time.

4.15 The monitoring of the Councils' exposure to non-UK institutions is especially important in the present climate, particularly in respect of sovereign debt issues within Eurozone countries.

4.16 Although the Councils can control the foreign exposure for fixed term deposits via the choice of counterparties, the ability to do this for instant access Money Market Funds (MMFs) is more difficult, as the assets which comprise the funds generally consist of loans to other financial institutions (UK and worldwide).

4.17 Recognising the present financial climate, and that any investment is only as good as the underlying assets, the Councils shall use a Money Market Fund Portal for placing and redeeming transactions. This will allow access to information on the underlying composition of the MMFs, including the geographic spread of the underlying assets. A sample report showing underlying assets by Country is shown below:

Country Distribution



FR	France	25.41%	US	United States	3.64%	BE	Belgium	1.33%
GB	United Kingdom	14.70%	SG	Singapore	2.43%	NO	Norway	1.07%
DE	Germany	13.00%	CH	Switzerland	2.09%	JP	Japan	1.06%
NL	Netherlands	10.60%	KR	Korea, Republic Of (South)	2.00%	CA	Canada	0.51%
SE	Sweden	7.05%	FI	Finland	1.59%	IT	Italy	0.31%
ES	Spain	5.48%	LU	Luxembourg	1.55%	DK	Denmark	0.27%

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2016/17

Country Limits and Proposed Monitoring Arrangements

4.18 The Interest Rate Outlook is summarised in 3.3 above. The Councils will avoid locking into longer term investments beyond 1 year duration while investment rates are down at historically low levels, unless attractive rates are available with counterparties of particularly high creditworthiness (i.e. other Councils or approved counterparties with a minimum credit rating of *AA-* from Fitch Ratings, or equivalent from other agencies if Fitch does not provide one) which make longer term deals worthwhile and within the risk parameters set by the Councils.

4.19 In-house funds - Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

4.20 Investment returns expectations - Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 3 of 2016. Bank Rate forecasts for financial year ends (March) are:

2016/17	0.75%
2017/18	1.25%
2018/19	1.75%

Investment Outlook

4.21 There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

4.22 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next three years are as follows:

2016/17	0.60%
2017/18	1.25%
2018/19	1.75%

4.23 Within the approach described in 4.18 above, total principal funds invested for greater than 364 days will be determined with regard to the Councils' liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds. The amounts invested greater than 364 days shall remain within the limit set for this purpose within the Treasury Management Prudential Indicator below.

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2016/17

Investment Outlook

ADUR DISTRICT COUNCIL

MAXIMUM PROPORTION OF PRINCIPAL SUMS INVESTED > 364 DAYS			
	2016/17	**2017/18**	**2018/19**
Principal sums invested > 364 days	50%	50%	50%

WORTHING BOROUGH COUNCIL

MAXIMUM PROPORTION OF PRINCIPAL SUMS INVESTED > 364 DAYS			
	2016/17	**2017/18**	**2018/19**
Principal sums invested > 364 days	50%	50%	50%

Investments managed in-house

4.24 For its cash flow generated balances, the Councils will seek to utilise business reserve accounts and notice accounts, money market funds, and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

4.25 The Chief Financial Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the meetings of the JGC and JSC in accordance with the reporting arrangements contained in the Treasury Management Practices Statement.

4.26 In any sustained period of significant stress in the financial markets, the default position is for investments to be placed with The Debt Management Account Deposit Facility of the Debt Management Office (DMO) of the UK central government. The rates of interest are below equivalent money market rates, however, the returns are an acceptable trade-off for the guarantee that the Councils' capital is secure.

4.27 The Councils' proposed investment activity for placing cash deposits in 2016/17 is unchanged from the previous year and will be to use:

- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV).
- other local authorities.
- business reserve accounts and term deposits. These are primarily restricted to UK institutions that are rated at least A- long term.

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2016/17

Investment Outlook

- institutions with a very high likelihood of support, including Royal Bank of Scotland, Lloyds, HSBC and Barclays.
- institutions with a moderate or high likelihood of support, including Santander UK.
- the top five building societies by asset size

Use of Building Societies

4.28 In recognition of the inclusion of the building society names and that they carry a lower credit rating than the Councils' other counterparties, the lending limits for the building societies shall be £2m each, excepting that for Nationwide (the top building Society) the lending limit shall be £4m – as it is also an institution with a moderate likelihood of support.

Impact of European Commission Proposals for Money Market Funds

4.29 The Councils use of Money Market Funds (MMFs) for short term investments of surplus cash provides instant liquidity with high quality counterparties at a return comparable to (if not better than) other fixed deposits of short term duration.

4.30 The funds used are "triple A" rated because of their sheer size, liquidity, and constant net asset value (CNAV), the latter of which means that typically for every pound of principal invested the Councils are assured of receiving one pound back. This is not guaranteed, but offers indications of better protection than using alternative MMFs which are based on a Variable Net Asset Value (VNAV). On this basis the underlying assets are priced on a daily market rate that is subject to change, and could result in a loss of principal (where say one pound invested one day is priced at less than one pound on another day).

4.31 While the Councils avoid the use of VNAV MMFs to mitigate the risk of exposure to incurring a capital loss, legislative changes proposed by the European Commission could result in the closure or withdrawal of CNAV MMFs in future. Among the proposals are the withdrawal of formal credit ratings (but not an opinion of credit worthiness) from the ratings agencies, and changing the valuation basis of the underlying funds such that existing CNAV MMFs indicate it would be impractical to continue.

4.32 Given that the Councils' overriding investment priority is "security of principal", in the event that the proposed changes are implemented, the Councils will desist from using MMFs if it is the case that they do not retain the CNAV basis of valuation, or that the triple A rating is withdrawn or replaced with a measure below the Councils' minimum criteria for short term investment.

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2016/17

Use of Notice Accounts

4.33 Alongside the use of MMFs, the Councils will utilise Call or Notice Accounts offered by counterparties included within the Approved Counterparty Investment List. These accounts differ from MMFs in that deposits must reside in the accounts for a minimum duration, typically 60 or 95 days, although other durations or conditions may apply. Consideration will be given to the use of such accounts where they provide extra return over MMFs or fixed term deposits with banks and building societies meeting the Councils' short term investment criteria.

Other Options for Longer Term Investments

4.34 To provide the Councils with options to enhance returns above those available for short term durations, it is proposed to retain the option to use the following forms for longer term investments, as an alternative to cash deposits:

a) **Supranational bonds greater than 1 year to maturity**

(i) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.).

(ii) A financial institution that is guaranteed by the United Kingdom Government (e.g. National Rail, The Guaranteed Export Finance Company {GEFCO})

The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

b) **Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

c) **Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use the top five building societies by asset size up to £2m, (£4m Nationwide).

d) Any **bank or building society** that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

4.0 ANNUAL INVESTMENT POLICY AND STRATEGY 2016/17

Other Options for Longer term Investments

e) Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to a guarantee from the parent company, and exposure up to the limit applicable to the parent.

f) **Registered Social Landlords** (Housing Associations) - subject to confirming the Councils have appropriate powers, consideration will be given to lending to Registered Social Landlords. Such lending may either be as an investment for treasury management purposes, or for the provision of "social policy or service investment", that would not normally feature within the Treasury Management Strategy.

Accounting treatment of investments

g) **Share capital** *in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.*

h) **Loan capital** in a body corporate.

(Note: For (g) and (h) above the Councils will seek further advice on the appropriateness and associated risks with investments in these categories as and when an opportunity presents itself).

4.35 The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Councils. To ensure that the Councils are protected from any adverse revenue impact, which may arise from these differences, the accounting implications of new transactions will be reviewed before they are undertaken.

4.36 The Councils will not transact in any investment that may be deemed to constitute capital expenditure (e.g. Share Capital, or pooled investment funds other than Money Market Funds), without the resource implications being approved as part of the consideration of the Capital Programme or other appropriate Committee report.

5.0 BALANCED BUDGET REQUIREMENT

5.1 The Councils comply with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

6.0 OTHER MATTERS

Shared Services Arrangement with Mid Sussex District Council

6.1 The Councils' in-house treasury management team provide services to Mid Sussex DC under a Shared Services Arrangement (SSA). The initial three year term for this arrangement expired on 17th October 2013, and has been renewed on similar terms for a further three years to 17th October 2016.

Worthing Leisure Trust

6.2 The arrangements for establishing The Worthing Leisure Trust include provision for Worthing Council to provide the Trust with temporary cash flow advances (if required) up to a maximum of £500k to assist it in the early start-up years. Such advances as may be made shall be repayable as soon as practical and attract a rate of interest for the loan term of Bank Base Rate plus 5%.

Close Brothers Limited

6.3 To offer more options for diversification, the UK bank Close Brothers Limited has been added to the list of specified investments, to be approved with this report.

7.0 LEGAL

7.1 Part 1 of the Local Government Act 2003 provides a legal framework of powers for and duties upon Local Authorities in relation to the borrowing of money and capital finance.

7.2 The Local Authorities (Capital Finance and Accounting) (England) Regulation 2003 provide additional legislative guidance, including, the duty to have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" published by CIPFA, as amended or reissued from time to time.

8.0 RECOMMENDATIONS

8.1 The Joint Strategic Committee is recommended to:

i) approve and adopt the TMSS and AIS for 2016/17-2018/19, incorporating the Prudential Indicators and Limits, and MRP Statements

ii) forward the Prudential Indicators and Limits, and MRP Statements of the report for approval by Worthing Council at its meeting on 23 February 2016, and by Adur Council at its meeting on 25 February 2016.

iii) Forward the report for noting to the meeting of the Joint Governance Committee to be held on 22 March 2016.

8.0 RECOMMENDATIONS

8.2 The Joint Governance Committee is recommended to:

i) note the TMSS and AIS report (including the Prudential Indicators and Limits, and MRP Statements) for 2016/17 - 2018/19,

ii) refer any comments on or amendment to the TMSS and AIS to the next meeting of the Joint Strategic Committee.

Principal Author and Contact Officer:
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Background Papers:

(1) Joint Treasury Management Strategy and Annual Investment Strategy 2015/16 to 2017/18, JSC 5 Feb 2015.

(2) Overall Budget Estimates 2016/17 and Setting of 2016/17 Council Tax Report

(3) TMSS and AIS Template Report – Capita Treasury Solutions Limited.

(4) Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA 2011).

(5) CLG Investment Guidance (Revised April 2010).

(6) The Prudential Code for Capital Finance in Local Authorities (CIPFA 2013)

SCHEDULE OF OTHER MATTERS

1.0 COUNCIL PRIORITY

1.1 Matters considered and no issues identified.

2.0 SPECIFIC ACTION PLANS

2.1 Those matters considered and contained within the TMSS and AIS reported here-in.

3.0 SUSTAINABILITY ISSUES

3.1 Matter considered and no issues identified

4.0 EQUALITY ISSUES

4.1 Matter considered and no issues identified

5.0 COMMUNITY SAFETY ISSUES (SECTION 17)

5.1 Matter considered and no issues identified

6.0 HUMAN RIGHTS ISSUES

6.1 Matter considered and no issues identified

7.0 REPUTATION

7.1 Matter considered and no issues identified

8.0 CONSULTATIONS

8.1 Matters considered in conjunction with the Councils' Treasury Management consultants.

9.0 RISK ASSESSMENT

9.1 Matter considered within Para 1.3 of the report.

10.0 HEALTH AND SAFETY ISSUES

10.1 Matter considered and no issues identified

11.0 PROCUREMENT STRATEGY

11.1 Matter considered and no issues identified

12.0 PARTNERSHIP WORKING

12.1 Matter considered and no issues identified

SPECIFIED AND NON SPECIFIED INVESTMENTS

SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Councils
Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high” credit criteria as determined by the Councils or is made with the UK government or is made with a local authority in England, Wales and Scotland.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Councils’ use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

** Investments in these instruments will be on advice from the Councils’ treasury advisor.*

For credit rated counterparties, the minimum criteria, excepting for the Councils’ own banker and the specified building societies, (see below) will be the short-term / long-term ratings assigned by various agencies which may include Moody’s Investors Services, Standard and Poor’s, Fitch Ratings, being:

Long-term investments (365 days or more) : minimum: Aa3 (Moody’s) or A- (SandP) or A- (Fitch)
Or
Short-term investments (364 days or less) : minimum P-1 (Moody’s) or A-1 (SandP) or F1 (Fitch).

For all investments the Councils will also take into account information on corporate developments of, and market sentiment towards, investment counterparties.

ADUR DISTRICT COUNCIL
SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Council
New specified investments will be made within the following limits:

Instrument	Country and Sovereign Rating	Counterparty	Maximum Exposure Limit £m
Term Deposits	UK – AA+	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK – AA+	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK – AA+	Santander (UK)	£4m
Term Deposits/Call Accounts	UK – AA+	Bank of Scotland/Lloyds	£4m
Term Deposits/Call Accounts	UK – AA+	Barclays	£4m
Term Deposits/Call Accounts	UK – AA+	Clydesdale	£4m
Term Deposits/Call Accounts	Sweden – AAA	Svenska Handelsbanken AB	£3m
Term Deposits/Call Accounts	UK – AA+	HSBC	£4m
Term Deposits/Call Accounts	UK – AA+	Royal Bank of Scotland	£4m
Term Deposits /Call / Overnight Accounts	UK – AA+	Close Brothers Limited	£4m
Term Deposits/Call Accounts	Germany – AAA	Deutsche Bank AG	£3m
Term Deposits/Call Accounts	Australia – AAA	National Australia Bank	£3m
Term Deposits/Call Accounts	US – AA+	JP Morgan	£3m
Term Deposits/Call Accounts	UK – AA+	Goldman Sachs International Bank	£3m
Gilts	UK – AA+	Debt Management office (DMO)	£3m or 25% of funds
Bonds	EU	European Investment Bank/Council of Europe	£3m or 25% of funds
AAA Rated Money Market Funds	UK/Ireland incorporated	Constant Net Asset Value MMFs	£5m or 30% of funds
Other MMFs and CIS	UK – AAA	Collective Investment Schemes	25%

ADUR DISTRICT COUNCIL
SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Council
New specified investments will be made within the following limits:

Instrument	Country and Sovereign Rating	Counterparty	Maximum Exposure Limit £m
Term Deposits	UK – AA+	Nationwide BS	£4m
Term Deposits	UK – AA+	Yorkshire BS	£2m
Term Deposits	UK – AA+	Coventry BS	£2m
Term Deposits	UK – AA+	Skipton BS	£2m
Term Deposits	UK – AA+	Leeds BS	£2m
Share Capital	n/a	Local Capital Finance Company.	£0.05m
Share Capital/Loans	n/a	West Sussex Credit Union	£0.025k Share Capital

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

NB No more than 25% of funds shall be invested in Non-UK financial institutions whether by term deposits, call accounts or Money Market Funds, or any combination thereof.

NB Investments in AAA rated Money Market Funds are limited to £5m or 30% of funds except that this limit may be breached for liquidity purposes for up to 1 week at any time.

ADUR DISTRICT COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use.

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
• Deposits with banks and building societies • Certificates of deposit with banks and building societies	√ √	 √	5 years	The higher of £8m or 50% of funds	No
Gilts and Bonds: • Gilts • Bonds issued by multilateral development banks • Bonds issued by financial institutions guaranteed by the UK government • Sterling denominated bonds by non-UK sovereign governments	√ √ √ √ (on advice from treasury advisor)	√ √ √ √	5 years	The higher of £3m or 25% of funds	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No. 534 and SI 2007, No. 573), but which are not credit rated.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date.	The higher of £5m or 30% of funds	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Yes

SPECIFIED AND NON SPECIFIED INVESTMENTS

ADUR DISTRICT COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £2m or 10% of funds	Yes
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Yes

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

WORTHING BOROUGH COUNCIL
SPECIFIED AND NON SPECIFIED INVESTMENTS

Specified Investments identified for use by the Council
New specified investments will be made within the following limits:

Instrument	Country and Sovereign Rating	Counterparty	Maximum Exposure Limit £m
Term Deposits	UK – AA+	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK – AA+	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK – AA+	Santander UK	£4m
Term Deposits/Call Accounts	UK – AA+	Bank of Scotland/Lloyds	£4m
Term Deposits/Call Accounts	UK – AA+	Barclays	£4m
Term Deposits/Call Accounts	UK – AA+	Clydesdale	£4m
Term Deposits/Call Accounts	UK – AA+	HSBC	£4m
Term Deposits /Call / Overnight Accounts	UK – AA+	Close Brothers Limited	£4m
Term Deposits/Call Accounts	UK – AA+	Royal Bank of Scotland	£4m
Term Deposits/Call Accounts	Australia – AAA	National Australia Bank Limited	£3m
Term Deposits/Call Accounts	Germany - AAA	Deutsche Bank AG	£3m
Term Deposits/Call Accounts	Sweden – AAA	Svenska Handelsbanken AB	£3m
Term Deposits/Call Accounts	US – AA+	JP Morgan	£3m
Term Deposits/Call Accounts	UK – AA+	Goldman Sachs International Bank	£3m
Gilts	UK – AA+	Debt Management Office (DMO)	£3m or 25% of funds
Bonds	EU	European Investment Bank/Council of Europe	£3m or 25% of funds
AAA Rated Money Market Funds	UK/Ireland incorporated	Constant Net Asset Value MMFs	£5m or 30% of funds
Other MMFs and CIS	UK – AA+	Collective Investment Schemes	25%
Term Deposits	UK – AA+	Nationwide BS	£4m

WORTHING BOROUGH COUNCIL
SPECIFIED AND NON SPECIFIED INVESTMENTS

Instrument	Country and Sovereign Rating	Counterparty	Maximum Exposure Limit £m
Term Deposits	UK – AA+	Yorkshire BS	£2m
Term Deposits	UK – AA+	Coventry BS	£2m
Term Deposits	UK – AA+	Skipton BS	£2m
Term Deposits	UK – AA+	Leeds BS	£2m
Share Capital	n/a	Local Capital Finance Company.	£0.05m
Share Capital	n/a	West Sussex Credit Union	£0.025m Share Capital
Term Deposits	n/a	Worthing Homes Limited	£10m
Temporary Loans	n/a	Worthing Leisure Trust	£0.5m

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

NB No more than 25% of funds shall be invested in Non-UK financial institutions whether by term deposits, call accounts or Money Market Funds, or any combination thereof.

NB Investments in AAA rated Money Market Funds are limited to £5m or 30% of funds except that this limit may be breached for liquidity purposes for up to 1 week at any time.

SPECIFIED AND NON SPECIFIED INVESTMENTS

WORTHING BOROUGH COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the Council's use.

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
• Deposits with banks and building societies • Certificates of deposit with banks and building societies*	√ √	 √	5 years	The higher of £10m or 50% of funds	No
Gilts and Bonds*: • Gilts • Bonds issued by multilateral development banks • Bonds issued by financial institutions guaranteed by the UK government • Sterling denominated bonds by non-UK sovereign governments	√ √ √ √ (on advice from treasury advisor)	√ √ √ √	5 years	The higher of £3m or 25% of funds	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No. 534 and SI 2007, No. 573), but which are not credit rated.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date.	The higher of £5m or 30% of funds	No
Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies	√ (on advice from treasury advisor)	√	5 years	The higher of £5m or 20% of funds	Yes

SPECIFIED AND NON SPECIFIED INVESTMENTS

WORTHING BOROUGH COUNCIL
NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL:

	In-house use	Use by Fund Managers	Maximum Maturity	Maximum % of portfolio or £m	Capital Expenditure?
Non-guaranteed bonds and debt instruments (e.g. floating rate notes issued by Corporate Bodies)	√ (on advice from treasury advisor	√	5 years	The higher of £2m or 10% of funds	Yes
Collective Investment Schemes (pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No. 534 or SI 2007, No. 573.	√ (on advice from treasury advisor)	√	These funds do not have a defined maturity date	The higher of £2m or 20% of funds	Yes

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

2. The use of the above instruments by the Council's fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

APPENDIX B

TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) **Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual Treasury Management Strategy Statement and Annual Investment Strategy
- approval of MRP Statement

(ii) **Joint Strategic Committee**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations
- approving the selection of external service providers and agreeing terms of appointment.

(iii) **Joint Governance Committee**

Receiving and reviewing the following, and making recommendations to the Cabinet

- regular monitoring reports on compliance with the Treasury Management Strategy, practices and procedures.

(iv) **The S151 (responsible) officer**

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

Economic Background

UK. UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4%, although there was a short lived rebound in quarter 2 to +0.7% before it subsided again to +0.5% (+2.3% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.%.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon.

There is, therefore, considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, , arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q2 2016 ncreases after that be at a much slower pace, and to much lower levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

APPENDIX C

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

USA. GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded strongly in Q2 to 3.9% (annualised) before in Q3.
Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. start to increase rates in September. he Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.% after a short burst of strong growth of 1.% during Q1the fourth in five years. has been hit hard by the downturn in China during 2015 the Abe government has already firedfirst two arrowsbut has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market during the summer. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of the bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, concerns about whether the Chinese economy could be heading for a hard landing, and the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September, remain a concern.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries) there is now a strong flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields.

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

This change in investors' strategy, and the massive reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US, has helped to cause the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows

UK economic growth turns significantly weaker than we currently anticipate

A resurgence of the Eurozone sovereign debt crisis

Recapitalisation of European banks requiring more government financial support

Emerging country economies, currencies and corporates destabilised by falling commodity prices and/ or the start of Fed rate increases, causing a flight to safe havens

APPENDIX C

CAPITA ASSET SERVICES COMMENTARY ON THE GLOBAL ECONOMY

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

Uncertainty around the risk of a UK exit from the EU

The commencement by the US Federal Reserve of increases in the Fed. Funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities

UK inflation returning to significantly higher levels than in the wider EU and US causing an increase in the inflation premium inherent to gilt yields

Ward: N/A

Internal Audit Progress Report

Report of the Acting Head of Internal Audit

1.0 Summary

1.1 This report notes the performance of the Internal Audit Section for the period 1st April to 29th February 2016 against the agreed 2015/16 Annual Internal Audit Plan.

1.2 This report provides a summary of the key issues raised in final audit reports issued since our last report to this Committee and provides the current status on the follow-up on the agreed audit recommendations made in final audit reports.

2.0 Background

2.1 Each quarter a report is produced for this Committee which details the Internal Audit Section's performance against the current Annual Internal Audit Plan and summarises the results of audit work carried out.

Internal Audit Performance - 2015/16

2.2 The 2015/16 Annual Internal Audit Plan agreed by the Joint Governance Committee on 24 March 2015 contained 770 days and 64 items of audit work to be undertaken by the Internal Audit Service during the year.

2.3 Since approval, the audit plan has been revised to accommodate requests to move audits to different parts of the year and to take account of changes in requirements.

The current plan is summarised as:

Period	No of audits planned	No of days planned	% of days planned
Quarter 1 (April – June)	11	135.75	21.03%
Quarter 2 (July – September)	9	152.25	23.59%
Quarter 3 (October – December)	7	134.75	20.88%
Quarter 4 (January – March)	18	222.75	34.51%
	45	**645.5**	**100**

2.4 At 29th February, 478.2 days (74.1%) of the planned days had been delivered against the revised plan of 645.5 days. Attached, as **Appendix 1**, is the detailed information on progress against this plan.

2.5 Recommendations made in audit reports are categorised according to their level of priority as follows:

Priority 1	Major issues for the attention of senior management.
Priority 2	Other recommendations for local management action.
Priority 3	Minor matters.

Final Audit Reports

2.6 Internal Audit's assurance opinions accord with an assessment of the controls in place and the level of compliance with these controls. During the course of an audit, a large number of controls will be examined for adequacy and compliance. The assurance level given is the best indicator of the system's control adequacy. The assurance levels and their associated explanations are:-

Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Satisfactory Assurance	While there is a basically sound system, there are weaknesses that put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

2.7 The report attached as **Appendix 2** provides a summary of key issues raised in all final reports issued since our last report to this Committee, including those with a Limited Assurance opinion. Since the previous Committee, five reports have been finalised; of these one was Satisfactory assurance, three were Limited assurance and one was No assurance. A total of 37 P1 recommendations were raised within these reports.

Follow up of Audit Recommendations

2.8 In accordance with the Council's Follow-Up Protocol, Internal Audit has continued following-up the status of implementation of recommendations contained in final audit reports.

2.9 Follow-up audits are undertaken to ensure that all recommendations raised have been successfully implemented according to the action plans agreed with the service managers. The Follow-up Protocol requires implementation of 80% of all priority 2 and 3 recommendations and 100% of priority 1 recommendations. The performance in relation to these targets as at 29 February is shown in the tables below.

2.10 Since our last report to the Committee we have continued to report to DMTs on the implementation of audit recommendations and continue to receive more prompt responses to our requests for updates.

2.11 A follow-up monitoring application is being designed by the Digital Team which should transform the way in which recommendations are monitored and followed up in the future. It is hoped that this can be in place for the new audit year and demonstrated to the Committee at its' June meeting.

Analysis of status of recommendations 2013/14

	Total Due	Imp	%	Carried Over (Not Impl'd)	%	FU & Overdue	%	FU & No Response	%	Total % NOT Impl'd	FU Not Due	Total
P1	16	12	75%	1	6.3%	3	18.7%	0	0%	25%	0	16
P2	113	71	62.8%	24	21.2%	12	10.6%	6	5.3%	37.2%	0	113
P3	23	17	73.9%	5	21.7%	0	0%	1	4.4%	26.1%	0	23
Other	6	6	100%	0	0%	0	0%	0	0%	0%	0	6
Total	**158**	**106**	**67.1%**	**30**	**19%**	**15**	**9.5%**	**7**	**4.4%**	**32.9%**	**0**	**158**

Analysis of status of recommendations 2014/15

	Total Due	Imp	%	Carried Over (Not Impl'd)	%	FU & Overdue	%	FU & No Response	%	Total % NOT Impl'd	FU Not Due	Total
P1	27	13	48.2%	0	0%	12	44.47%	2	7.4%	51.8%	4	31
P2	125	63	51.2%	6	4.8%	35	28%	20	16%	48.8%	9	134
P3	29	12	41.4%	2	6.9%	7	24.1%	8	27.6%	58.6%	2	31
Other	1	1	100%	0	0%	0	0%	0	0%	0%	6	7
Total	**182**	**90**	**49.5%**	**8**	**4.4%**	**54**	**29.7%**	**30**	**16.5%**	**50.5%**	**21**	**203**

2.11 Attached as **Appendices 3 & 4** are tables which summarise the current follow-up status of recommendations made in final audit reports from audits contained in the 2013/14 and 2014/15 Audit Plans (the follow-up of finalised 2015/16 audits has only recently commenced and will be reported in more detail at the next meeting). The shaded boxes indicate where changes have occurred since our last report. As reported in our last progress report to this Committee, we continue to monitor the recommendations outstanding 2012/13 audit reports for which the percentage of outstanding recommendations is now 6%.

3.0 Proposals

3.1 That the Committee note the performance of the Internal Audit Section against the 2015/16 Audit Plan.

3.2 That the Committee note the summary of the key issues raised in final audit reports issued since our last report to this committee and the current status on the follow-up on Internal Audit recommendations.

4.0 Legal

4.1 There are no legal matters arising as a result of this report.

5.0 Financial Implications

5.1 There are no financial implications arising from this report.

6.0 Recommendations

6.1 That the Committee note the performance of the Internal Audit Section against the 2015/16 audit plan.

6.2 That the Committee note the summary of the key issues raised in final audit reports issued since our last report to this Committee and the current status on the follow-up on Internal Audit recommendations.

Local Government Act 1972
Background Papers: None

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Schedule of Other Matters

1.0 Council Priority

1.1 The report does not seek to meet any particular Council priorities.

2.0 Specific Action Plans

2.1 **(A)** Matter considered and no issues identified.
(B) Matter considered and no issues identified.

3.0 Sustainability Issues

3.1 Matter considered and no issues identified.

4.0 Equality Issues

4.1 Matter considered and no issues identified.

5.0 Community Safety Issues (SECTION 17)

5.1 Matter considered and no issues identified.

6.0 Human Rights Issues

6.1 Matter considered and no issues identified.

7.0 Reputation

7.1 Matter considered and no issues identified.

8.0 Consultations

8.1 (A) Matter considered and no issues identified.

8.2 (B) Matter considered and no issues identified.

9.0 Risk Assessment

9.1 Matter considered and no issues identified.

10.0 Health & Safety Issues

10.1 Matter considered and no issues identified.

11.0 Procurement Strategy

11.1 Matter considered and no issues identified.

12.0 Partnership Working

12.1 Matter considered and no issues identified.

Quarter		Risk Level	Authority to which audit relates			Work Complete	Draft Issued	Final Issued	Assurance level	Assurance at previous audit
	Audit Title		Joint	ADC only	WBC only					
1	ADC - Annual Governance Statement	H		*		Y	N/A	N/A	N/A	N/A
1	WBC - Annual Governance Statement	H			*	Y	N/A	N/A	N/A	N/A
1	Probity - Essential Users	L	*			Y	Y			
1	Fixed Penalty Notices	L	*			Y	Y			
1	New Ways of Working Implementation	H	*			Y	UR			
1	Dog Control	L	*			Y	Y			
1	AWCS	M	*			Y	Y	Y	Satisfactory	Satisfactory
1	Venues		*			Y	UR			
1	Financial Management system - input on controls for replacement system	H	*			WIP	N/A	N/A		
1	Building Control	L	*			Y	Y	Y	Satisfactory	No previous comparible audit
2	Performance Management	M	*			Y	Y	Y	Satisfactory	
2	Public Services Network	H	*			Y	Y	Y	Satisfactory	No previous comparible audit
2	Adur Building Services DSO	H	*			Y	Y	Y	Limited	No previous comparible audit
2	Planning Services	M	*			Y	Y	Y	Satisfactory	Satisfactory
2	Use of Consultants	H	*			Y	Y			
2	On Street Parking Enforcement	L	*			Y	UR			
2	Communications	M	*			Y	Y			
2	Electoral Services	M	*			Y	Y			
2	Freedom of Information	H	*			Y	Y	Y	Limited	Limited
2	Decent Homes (report 14-15 from fact finding)	H		*		Y	Y	Y	No	
3	Corporate Governance	H	*			Y	Y			
3	Housing Rents	H		*		Y	Y			
3	WBC Benefits	H			*	WIP				
3	WBC Revenues (Council Tax & NDR)	H			*	Y	Y			
3	CenSus - Council Tax	H		*		Y	Y	Y	Satisfactory	Satisfactory
3	General Ledger	H	*			Y	Y			
3	Creditors	H	*			Y	Y			
3	Debtors	H	*			Y	Y			
4	Cashiering	H	*			Y	UR			
4	Payroll	H	*			Y	Y			
4	Fixed Assets	M	*			WIP				
4	Treasury Management	M	*			WIP				
4	Cloud Computing	H	*			WIP				
4	Risk Management	H	*			WIP				
4	Project Management	H	*			WIP				
4	Delivery of Corporate Priorities	H	*			WIP				
4	Public Health	M	*			WIP				
4	Local Development Framework	M	*			P				
4	Community Infrastructure Levy	H	*			WIP				
4	Empty Property Management	L	*			P				
4	Corporate Fraud Management	H	*			P				
4	Customer Services	M	*			P				
4	Delivery of Digital Strategy	H	*		*	P				
4	IT Resilience	H	*			P				
4	Google Mail	H	*			P				

KEY

P	In Planning stage
WIP	Work In Progress
UR	Under review

Key issues from finalised audits Appendix 2

Audit Title	Risk Level	Assurance Level & Number of Issues	Summary of key issues raised
Term Maintenance Contract – Keith Long Electrical (2014/15)	H	**Limited** (Six Priority 1 and Two Priority 2 recommendations	The Priority 1 recommendations relate to:- • Checking and certifying tender evaluation spreadsheets for correctness as evidence of management review. • Authorising 'Award of Contract' in accordance with Contract Standing Orders. • Executing contracts prior to commencement of services • Ensuring the completeness of Works Orders raised in the Recorder System. • Retaining evidence of complaints, deficiencies, rectification and default. • Monitoring, reporting and managing contract performance.
Shoreham Centre (2014/15)	H	**Satisfactory** (One Priority 1 and Four Priority 2 recommendations)	The Priority 1 recommendation relates to approval of the Construction Phase Plan prior to allowing possession of the site.
CenSus Council Tax (2015/16)	H	**Satisfactory** (One Priority 1, One Priority 2 and Four Priority 3 recommendations)	The Priority 1 recommendation relates to obtaining the approvals required to write-off irrecoverable debts.
Adur Building Services DSO (2015/16)	H	**Limited** (Eight Priority 1 and Seven Priority 2 recommendations	The Priority 1 recommendations relate to:- • The lack of Service Level Agreement (SLA) between the DSO and Housing for the service being provide. • Standardising procedures. • Updating the Schedule of Rates (SOR) each year in line with contract expectations. • The lack of a monitoring process to ensure that all work requests are received, actioned and invoiced. • Allocating works to operatives in a timely manner in order to ensure their completion in line with their priority ratings. • Introducing a process for post incepting a sample of works to ensure quality is being delivered. • Regularly reviewing the Outstanding Orders Reports and actioning queries immediately. • Ensuring works are completed in order to meet the target date assigned and that adequate records are maintained to support completion of works.

Audit Title	Risk Level	Assurance Level & Number of Issues	Summary of key issues raised
Decent Homes – Kitchens & Bathrooms Measured Term Contact (2015/16)	H	**No** (Twenty Priority 1 and Eight Priority 2 recommendations)	The Priority 1 recommendations relate to: • The lack of management stability on the client side of the project. • Selecting an appropriate procurement route commensurate with contract value. • Producing formal tender opening registers and retaining them on file. • Recording submitted tender prices. • Having the requisite number of people present at tender opening in accordance with Contract Standing Orders (CSOs). • Scoring, recording and retaining tender evaluations. • Clarifying rejection criteria in CSOs. • Ensuring approval to proceed to 'award of contract' is in accordance with CSOs. • Considering the form of contract to be used as part of the delivery/procurement strategy at the time of procurement. • Completing contracts correctly and checking prior to entering into them, particularly where the tendered prices/rates are subject to fluctuations. • Pricing service delivery performance prior to tender submissions through published KPIs at invitation to tender stage. • Holding regular and timely contract monitoring meetings. • Maintaining, for large and/or complex projects, an up to date risk and issues register as part of the monthly KPI monitoring report. • Recording, approving and instructing contract variations. • Producing and certifying valuations or checking contractors' applications for payment. • Producing and certifying interim/final payment certificates. • Not processing contractors' invoices for payment where they do not match the corresponding Payment Certificate and Valuation Summary & Application for Payments. • Reporting anticipated programme and cost effects in a regular and timely manner. • Rectification of defects. • Retention of documents on file.

Follow Up of Recommendations 2013/14 Audit Plan **APPENDIX**

Audit	Joint Audit	Final Report Date	Assurance level	Recs not applicable for follow up	Total No of Recs	Number of agreed recs completed	% of recs completed	Recs carried over into next audit	% of recs carried over	Number of recs outstanding	& of recs outstanding	Comments	Notes re outstanding Priority 1 recommendations	Date Further Follow-up due
Director of Digital & Resources														
Finance														
AGS (control issues)	*	N/A	N/A	N/A	N/A							N/A		N/A
General Ledger	*	May-14	Satisfactory	1	7	5	71%	2	29%			Recs were followed up as part of 14/15 audit - 2 were reiterated in 14/15 report		
Cashiering	*	Jun-14	Satisfactory	1	4	3	75%	1	25%			Self assessment received 7/11/14 - remaining recs were as part of 14/15 annual audit - one complete & one reiterated in 14/15 report		
Creditors	*	May-14	Satisfactory	1	2	2	100%					Recommendations followed up as part of 14/15 annual audit.		
Debtors	*	May-14	Satisfactory		3	2	67%	1	33%			Recommendation relates to review of procedures		
Capital Expenditure & Fixed Assets	*	Dec-14	Satisfactory	1	7			7	100%			Recommendations were followed up a part of annual audit. All were reiterated in 14/15 report		
Treasury Management	*	Jun-14	Satisfactory		2	2	100%					COMPLETE		
Staff expenses (inc car mileage)	*	May-14	Satisfactory		2	2	100%					COMPLETED before FU due		
Probity - Staff discounts & Concessions	*	Mar-14	N/A		5	5	100%					COMPLETE		
Probity - Underbankings		N/A	N/A		N/A							N/A		
Probity audit - Stores	*	Oct-12	N/A		1	1	100%					COMPLETE - Manager requested to note bolt stock in next year end stock report		
Legal Services														
Corporate Governance	*	Mar-14	Limited		10	5	50%	5	50%					
DBS checks & requirements	*	Oct-13	Satisfactory	1	3	1	33%			2	67%	**Rec 1 still partly outstanding - Note HR are chasing leisure re oustanding issue from rec 3.**		
Legal Services	*	Dec-13	Limited	1	7	7	100%					COMPLETE		
Business & Technical Services														
Digital & Design														
Risk Management	*	Jul-14	Satisfactory		9	2	22%	7	78%					
Director of Economy														
Growth														
Bailiffs	*	Nov-14	Limited	4	3	3	100%					COMPLETE		
Director of Communities														
Housing														
Housing Rents		May-14	Satisfactory		2	1	50%	1	50%					
Property Buy Back		Mar-14	Satisfactory	1	1	1	100%					Updated provided on 5 Oct confirms this scheme is no longer going to take place therefore O/S rec no longer applicable.		

Building Maintenance	*	May-15	Limited	1	9			2	22%	7	78%	**Met with Head of Bus Serv & Tech Services 23 Feb - agreed to share report with new Surveyor's Manager for update**		**Mar-16**
Wellbeing														
Local Strategic Partnership	*	Apr-15	Satisfactory		4	**3**	**75%**			**1**	**25%**	**Self Assessment sent 8/9 - response received 13/11 - 3 completed & one partly completed - Request for update re rec 3.1**		
Safer Communities Partnership	*	Jun-14	Satisfactory		3	**3**	**100%**					**COMPLETE**		
Community Wellbeing	*	Mar-14	Limited	1	3	3	100%					COMPLETE		
Anti Social Behaviour Management	*	Jun-14	Satisfactory	2	4	4	100%					COMPLETE		
Environment														
Foreshore Service		Apr-14	Satisfactory		6	5	83%	1	17%			Over 80% complete so no further FU required. O/s rec was partly implemented.		
Cemeteries & Churchyards	*	May-14	Satisfactory		1	1	100%					COMPLETE		
Grounds Maintenance	*	May-14	Limited		5	3	60%			2	40%	**2 recs outstanding 3.1 - GM Strategy & 3.2 - working procedures (WIP)**	P1 rec discussed at Communities DMT in April & Aug - Rec will not be started until Q4. Further FU required.	
Parks Income Management	*	Oct-13	Satisfactory		5	5	100%					COMPLETE		
Probity - Crematorium Ashes Procedure	*	Apr-14	Satisfactory		6	6	100%					COMPLETE		
Director of Customer Services														
Revenues & Benefits														
Benefits		Jun-14	Satisfactory		3	2	67%	1	33%			Rec relates to DR plans		
Revenues (Council Tax & NDR)		May-14	Satisfactory		3	2	67%	1	33%			O/s rec relates to updating procedures		
WBC - Business Improvement District		Dec-13	Satisfactory		2	2	100%					COMPLETE		
CenSus NDR		Jun-14	Satisfactory		9	**8**	**89%**	**1**	**11%**			**89% complete - no further FU required**		
Waste & Cleansing														
AWCS - Vehicle Maintanance	*	May-14	Satisfactory		2	**2**	**100%**					**COMPLETE**		
Building Control & Land Charges														
Local Land Charges	*	Apr-14	Satisfactory		1	1	100%					COMPLETE		
Computer Audits														
Joint website - content & workflow	*	Nov-13	Satisfactory	1	2	2	100%					Part of OS rec cannot be implemented due to functionality of T4 system - no further FU req'd.		

Network (LAN & WAN)	*	Apr-15	Limited	1	10	4	40%			6	60%	**Update rec'd 2/3 confirmed no further progress on implementation of outstanding recommendations**	P1 recs relate to IOS version & security patch management (not due for implementation until Sept 15) and change & configuration/release management controls (due May 15 & partly implemented)	**Apr-16**
Data Centre	*	Nov-13	Satisfactory		4	**4**	**100%**					**COMPLETE**		
House on the Hill	*	Mar-14	Satisfactory	2	8	4	50%			4	50%	**Update provided on 12/11/15 - work in progress on o/s recs - Further FU required.**		**Jul-16**
					158	**106**	**67%**	**30**	**19%**	**22**	**14%**			

Follow Up of Recommendations 2014/15 Audit Plan **APPENDIX 4**

Audit	Joint Audit	Final Report Date	Assurance level	Recs not applicable for follow	Total No of Recs	Number of agreed recs completed	% of recs completed	Recs carried over into	% of recs carried over	Number of recs outstandi	1	2	3	Other	% of recs outstanding	Comments	Comments re Outstanding Priority 1 recs	Date Further Follow-up
Organisational Development																		
Change Management	*																	
Director of Digital & Resources																		
Finance																		
Annual Governance Statements	*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	No Follow up required		
Budgetary Control	*	Dec-14	Satisfactory		1	1	100%									COMPLETE		
General Ledger	*	Mar-15	Satisfactory		3			**3**	**100%**							**All recommendations made in 2014/15 have been reiterated in 15/16 audit so none had been implemented**		
Cashiering	*	May-15	Satisfactory		4	**3**	**75%**	**1**	**25%**							**15/16 audit has confirmed 3 recommendations from 2014/15 audit have been completed - one (re procedures) is being reiterated in 15/16**		Mar-16
Creditors	*	Apr-15	Satisfactory		2	**1**	**50%**	**1**	**50%**							**15/16 audit confirmed P1 recommendation has been completed - one (re dup;icate paymentreports) is being reiterated in 15/16 report.**		
Debtors	*	Feb-15	Satisfactory		2	2	100%									COMPLETE		
Insurance	*	Oct-14	Satisfactory		2	2	100%									COMPLETE		
Payroll	*	Sep-15	Satisfactory	3	5	**2**	**40%**	**3**	**60%**							**15/16 audit has confirmed 2 recommendations from 2014/15 audit have been completed - 3 are being reiterated in 15/16 report.**		
Capital Expenditure & Fixed Assets	*	N/A	N/A													15/16 audit in progress which focuses on Fixed Assets only as this is the area where all recommendations have been made in recent audits		
Treasury Management	*	May-15	Satisfactory		2	2	100%									COMPLETE		
Petty Cash	*	Jan-15	Satisfactory		2	1	50%			1	0	1	0	0	50%	Response to self assessment confirmed 1 rec still outstanding - update porivided in Oct confirmed rec re procedures will not be complete until Mar 16		
Staff Loans	*	Jan-15	Satisfactory		3	3	100%									COMPLETE		
Probity audits - inventories	*	Aug-15	N/A		6					6	0	0	0	6	100%	Issues to be addressed by Head of Finance review of Financial Regulation requirements in Mar 16.		Apr-16
Probity - cash floats	*	Oct-14	N/A		1	1	100%									COMPLETE		
Business Rates - Forecasting & Income Projection	*	Feb-15	Satisfactory		1	**1**	**100%**									**COMPLETE**		
Pension Scheme- local adminstration	*	Oct-14	Full		0											No Follow up required		
Legal Services																		
Corporate Governance	*	May-15	Satisfactory		6	**6**	**100%**									**COMPLETE**		
Business & Technical Services																		
Desktop Printing & Reprographics	*																	
Facilities Management & Security	*	May-15	Satisfactory		15					15	0	10	5	0	100%	**Met with Head of Bus & Tech Sertvices on 23 Feb - Self Assessment to be re-issued to Facilities Officer - done on 9/3**		
Health & Safety	*	Sep-15	Limited	3	7	**5**	**71%**			**2**	**1**	**1**	0	0	**29%**	**Update received from Corp H & S Officer confirmed 2 still outstanding. Further FU required**		**May-16**
Pool Car Pilot	*	May-15	Satisfactory		5	**2**	**40%**			**3**	0	**2**	1	0	**60%**	**Met with Head of Bus & Tech Services on 23 Feb - 1 o/s rec will be addressed by newly appointed officer - other 2 need referring to Head of People**		
Term Maintenance Contract Management - Keith Long	*																	
Construction Contract - MTC Adaptations	*																	
Land Drainage	*	Jul-15	Satisfactory		5					5	0	4	1	0	100%	**Met with Head of Bus & Tech Sertvices on 23 Feb - report to be shared with new Senior Surveyor for update**		
Shoreham Centre	ADC	Mar-16	Satisfactory		**5**					**5**	**1**	**4**	0	0	**100%**	**FOLLOW UP DUE JUL 16**		

Digital & Design																		
Risk Management	*	Jun-15	Satisfactory	**1**	**14**	**5**	**36%**			**9**	0	**8**	1	0	**64%**	**Meeting held on 21/1 with CPO - remaining recs are in progress further FU will be performed as part of 15/16 audit booked in Mar 16**		
People																		
Agency Staff Arrangements	*	Dec-14	Satisfactory		4					4	1	3	0	0	100%	**Met with HR 18 Jan 16 - 4 rec still O/S - actions agreed - Further update requested 29/2**	**The P1 rec relates to the checking and authorisation of timesheets and not relying on the system's automatic approval. This was due to be implemented by Jan 2015 but has not yet been actioned - action agreed with C Samaras on 18 Jan 16**	
Sickness Recording & Monitoring	*																	
Director of Economy																		
Place & Investment																		
External Funding	*	Apr-15	Limited		9					9	2	5	2	0	100%	**Meeting with new External Funding Officer held in Dec 15 to discuss issues and recs raised - agreed to follow up again in April 16**	The P1 recs relate to reminding officers regarding the process for bid approval and monitoring this to ensure the appropriate approvals are obtained and reminding officers and monitoring that all funding bids are processed through the corporate process. No implementation dates were set as	**Apr 16**
Growth																		
Director of Communities																		
Housing																		
Housing Rents	ADC	May-15	Satisfactory		3	3	100%									COMPLETE		
Housing Maintenance	ADC	Oct-14	Satisfactory		4	**3**	**75%**			**1**	0	**1**	0	0	**25%**	**Outstanding rec 3.4 relates to production of Annual report**		
Void Management	ADC	Apr-15	Limited	1	9	9	100%									COMPLETE - Self Assessment response received which indicates all recommendations have been implemented.		
Housing - Homelessness, Advice & Allocations	*	Jan-15	Limited		29	14	48%			15	6	9	0	0	52%	**Self Assessment issued - response rec'd confirmed an action plan is in place to ensure implementation of the recommendations & monthly monitoring meetings are held. Update provided on 24 Aug confirmed 14 completed but no evidence has been provided to support this so testing will be performed by IA after restructure -Q4. Requests for update on progress against recs sent on 6 Jan and 29/2**	The 6 outstanding P1 recs are being monitored by Head of Housing through an Action Plan.	
Wellbeing																		
Hackney Carriage & Private Hire	*	Jul-15	Satisfactory	**1**	**4**	**3**	**75%**			**1**	**0**	**1**	0	0	**25%**	**Update of 30/11 confirmed 3 recs completed and 1 no longer applicable. Rec 3.2 in progress & due to be completed by Feb 16. Request for update**		
Third Party Commissioning	*	Nov-15	Satisfactory		1					**1**	**1**	0	0	0	100%	**Issue relates to Procurement - advised on 1/3 that the Commissioning Strategy will be incorporated into the Procurement Straegy due to go to JSC on 5th April**		**Apr-16**
Environment																		
Beach Huts	*	May-15	Limited		12	**9**	**75%**			**3**	**0**	**3**	0	0	**25%**	**Update provided in Nov 15 - 3 still in progress. Update needed in respct of 3.1 & 3.4. Info has been received re 3.8 - Audit to meet with officers to clarify actions needed**		
Director of Customer Services																		
Revenues & Benefits																		
WBC Benefits	WBC	Apr-15	Satisfactory		1	1	100%									COMPLETE		
WBC Revenues (Council Tax & NDR)	WBC	May-15	Satisfactory		5	2	40%			3	0	1	2	0	60%	**Examination of Customer Services follow-up monitoring confirmed all 3 recs still in progress**		
CenSus - Benefits	ADC	Nov-15	Satisfactory	1	4					4	1	2	1	0	100%	**Implementation of recommendations will be ascertained when 2015/16 final report is issued by MSDC**		
Customer Contact & Engagement																		
Complaints	*	Dec-14	Limited	2	7	**6**	**86%**			**1**	**0**	**1**	0	0	**14%**	**Update re outstanding rec requested 2/3**		
Register of Electors	*	Jul-15	Satisfactory	5												No follow up required		

Car Parks	*	Oct-14	Satisfactory	**2**	**1**	**1**	**100%**									**COMPLETE - the service has accepted that the 2 P1 recommendations re reconciliations could not be implemented as processes did not allow. The entire process for collecting car park income has therefore been revised instead.**		
MSCP Plate Recognition Barrier System - Procurement	WBC	Nov-15	Satisfactory		2					2	0	2	0	0	100%	**Self Assessment issued 29/2**		
Computer Audits																		
Disaster Recovery	*	Jul-15	Limited		3					3	3	0	0	0	100%	**Recommendations not due to be implemented until end Dec 15 - Update was provided by Head of CenSuS ICT at JGC 24/11/15 to confirm work in progress. Further report due to JGC in 6 months. Request for update sent 2/3**		
HMS Application	*	Sep-15	Satisfactory	2	3	1	33%			2	0	2	0	0	67%	**Self Assessment issued 29/2 for 2 outstanding recs**		
Data Protection & Information Governance	*	Mar-15	Limited		9	**1**	**11%**			**8**	1	**3**	4	0	**89%**	**Self Assessment received confirm 1 completed, 1 partly completed and the other 7 had revised completion dates of Mar 16 - Further FU required**	The P1 rec is not due to be implemented until Dec 15. Response 22/12/15. FU March 2016	**Apr-16**
Service Desk (ITIL)	*	Sep-15	Limited	3	2					2	1	1	0	0	100%	**FU self assessment schedule issued 6 Jan - response awaited**		
					203	**90**	**44%**	**8**	**4%**	**105**	**18**	**64**	**17**	**6**	**52%**			
														105				

Joint Governance Committee
22 March 2016
Agenda Item 8

Ward: N/A

Internal Audit 2016/17 Annual Audit Plan & 2016/19 3 Year Strategic Audit Plan

Report by the Acting Head of Internal Audit

1.0 Summary

1.1 This report presents the draft Internal Audit 2016/17 Annual Audit Plan and 2016/19 3 Year Strategic Audit Plan for consideration and approval.

2.0 Background

2.1 The Annual Audit Plan and 3 Year Strategic Audit Plan have since 1998, been presented annually to Members for approval.

2.2 In drafting the 2016/17 Annual Audit Plan and the 2016/19 3 Year Strategic Audit Plan, the Acting Head of Internal Audit has completed a re-assessment of the Councils' audit universe in order to focus reduced audit resources on completing audits in high risk areas. The draft plans have therefore been formulated by:

- Mapping the current directorates and services against the risks contained within the Councils' corporate and service risk registers to identify potential audits;
- Mapping audits performed in recent years and current issues impacting on Local Government against the directorates and service areas to identify further potential audits (this has highlighted some areas where risks should be considered for inclusion in the risk registers);
- Considering the requirements of the Chartered Institute of Internal Auditors (CIIA) International Standards which became effective from 1 April 2013.

2.3 The Acting Head of Internal Audit and Head of Finance attended the Councils' Leadership Team meeting on 16 February to advise them on the way that the Audit Plans would be developed and to seek their comments. The plans were then drafted and provided to the Head of Finance for her consideration before being sent to the Directors and Heads of Service for comment. When writing this report we are still awaiting feedback from senior officers and any comments received will be addressed against the attached draft plans and advised to the committee on or before the meeting.

2.4 The proposed 2016/17 Annual Audit Plan (which includes the proposed quarterly split) is attached as **Appendix A.** The proposed 2016/19 3 Year Strategic Audit Plan is attached as **Appendix B**.

3.0 Proposals

3.1 The proposed 2016/17 Annual Internal Audit Plan is presented for approval by this committee. The plan consists of 43 audits and 559 days of work allocated as summarised below:

Category of Work	Type of Work	Number of Days
Audits of Very High & High Risk areas	System audits & annual testing of key financial and governance systems	259
Audits of Very High & High Risk areas	Cross service audits	30
ICT Audits	Specialist ICT related audits and Application Reviews	80
Contract Audits	Specialist reviews & Contract examination	30
NFI	Co-Ordination & investigation of matches	20
Follow Up	Follow up to confirm implementation of agreed audit recommendations	30
Other	Management, & Contingency	65
Total Days in Plan		**514**

3.2 An ongoing system of monitoring the progress of audit work against the plan is in place. Monthly progress is reported to the Head of Finance and quarterly reports on progress are presented to this Committee. In accordance with the Terms of Reference, other reports may be presented to the Committee as necessary during the year.

3.3 The Committee is also asked to consider whether there are any specific areas of interest which they would like to see covered in the 2016/17 Annual Audit Plan.

4.0 Legal

4.1 There are no legal matters arising as a result of this report.

5.0 Financial implications

5.1 These plans have been based on reducing the Audit plan by 1/3 a year in accordance with the savings reported to Overview & Scrutiny Committee on 26 November 2015.

6.0 Recommendations

6.1 That the Committee consider whether there are any specific audits which they would like to see progressed in 2016/17 which are not currently contained within the proposed plans.

6.2 That the 2016/17 Annual Audit Plan and the 2016/19 3 Year Strategic Audit Plan be approved

Local Government Act 1972
Background Papers:

Contact Officer:

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Acting Head of Internal Audit
Town Hall, Worthing
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pat.stothard@mazars.co.uk

Schedule of Other Matters

1.0 Council Priority

1.1 The report does not seek to meet any particular Council priorities.

2.0 Specific Action Plans

2.1 (A) Matter considered and no issues identified.
(B) Matter considered and no issues identified.

3.0 Sustainability Issues

3.1 Matter considered and no issues identified.

4.0 Equality Issues

4.1 Matter considered and no issues identified.

5.0 Community Safety Issues (Section 17)

5.1 Matter considered and no issues identified.

6.0 Human Rights Issues

6.1 Matter considered and no issues identified.

7.0 Reputation

7.1 Matter considered and no issues identified.

8.0 Consultations

8.1 (A) Matter considered and no issues identified.
(B) Matter considered and no issues identified.

9.0 Risk Assessment

9.1 Matter considered and no issues identified.

10.0 Health & Safety Issues

10.1 Matter considered and no issues identified.

11.0 Procurement Strategy

11.1 Matter considered and no issues identified.

12.0 Partnership Working

12.1 Matter considered and no issues identified.

DRAFT 2016/17 AUDIT PLAN BY QUARTER

APPENDIX A

CHIEF EXECUTIVE	Q1	Q2	Q3	Q4
COMMUNITIES				
Leisure				
WBC Leisure Trust - Contract Management		8		
Housing				
Compliance with the Housing & Planning Bill 2015				10
Rent Collection and Collection of Arrears			10	
Right to Buy	8			
Sheltered Accommodation				8
Wellbeing				
Contract Management audit - Voluntary & Community contract		10		
Environment				
CUSTOMER SERVICES				
Disability Awareness	8			
Revenues & Benefits				
WBC Revenues (Council Tax & NDR)			15	
WBC Benefits			10	
CenSus - NDR			30	
Waste & Cleansing				
Fleet & Transport Management	8			
Customer Contact & Engagement				
Contact Centre		10		
Building Control & Land Charges				
Local Land Charges	10			
ECONOMY				
Culture				
Place & Investment				
Fixed Assets				10
Growth				
Compliance with the Housing & Planning Bill 2015	10			
DIGITAL & RESOURCES				
Finance				
Medium Term Financial Strategy	8			
General Ledger			10	
Capital Accounting				8
Treasury Management				8
Creditors			10	
Debtors			10	
Payroll				10
Cashiering				10
Legal Services				
Corporate Governance		10		
Digital & Design				
Risk Management				10
People				
Business & Technical Services				
Organisational Development				
COMPUTER AUDITS				
Cyber Security		15		
Operating system review				10
Firewall Security	10			
Penetration Testing	15			
Remote Access protals/VPN				10
Disaster Recovery		5		
Telephony			15	
CONTRACT AUDITS				
Programme Management		10		
Final Accounts		10		
Contract Management audits		10		
CROSS SERVICE REVIEWS				
Fire Risk Management	10			
Property Management		10		
Welfare Reform - Support to claimants				10
OTHER				
Management & Admin	10	10	10	10
Ad-Hoc/Contingency	6.5	6	6.5	6
NFI Co-Ordination	2.5	2.5	2.5	2.5
NFI Testing	2.5	2.5	2.5	2.5
Follow Up	7.5	7.5	7.5	7.5
	116	**126.5**	**139**	**132.5**

CHIEF EXECUTIVE	16/17	17/18	18/19	NOTES
COMMUNITIES				
Leisure				
WBC Leisure Trust - Contract Management	8			Postponed from 2015/16 Plan
Housing				
Compliance with the Housing & Planning Bill 2015	10			
Local Plans for new homes		10		
Housing Maintenance			10	
Housing Tenancy		8		
Rent Collection and Collection of Arrears	10	10	10	Annual audit
Right to Buy	8			
Void Management			8	
Sheltered Accommodation	8			
Leasehold Management		8		
Private Sector Leasing arrangements		8		
Homelessness		15		
Wellbeing				
Grants to Voluntary Orgs/ ADC Pot of Gold			8	
Contract Management audit - Voluntary & Community contract	10			
Partnerships			15	Look at all of the Wellbeing partnerships
Environment				
CUSTOMER SERVICES				
Disability Awareness	8			
Revenues & Benefits				
WBC Revenues (Council Tax & NDR)	15	15	15	
WBC Benefits	10	10	10	
CenSus - NDR	30	10	10*	Cover all 3 areas in 17/18 due to service coming back from CenSus
CenSus - Benefits		10	10*	* possiby cover within overall W & A Revs & Bens audits
CenSus - Council Tax		10	10*	
Waste & Cleansing				
Waste Management			8	
Recycling		10		
AWCS			10	
Fleet & Transport Management	8			
Customer Contact & Engagement				
Contact Centre	10			
Electoral Services			10	
Building Control & Land Charges				
Building Control			10	
Local Land Charges	10			
Local Land & Property Gazetteer			8	
ECONOMY				
Culture				
Visitors & Events			10	
Place & Investment				
Economic Development			10	
Fixed Assets	10	10	10	Annual audit
Growth				
Compliance with the Housing & Planning Bill 2015	10			
Planning			10	
Estates		10		
Local Development Framework			10	
DIGITAL & RESOURCES				
Finance				
Medium Term Financial Strategy	8			
Budget Monitoring		10		
General Ledger	10	10	10	Annual audit
Business rate Forecasting & Income Projection		8		
Capital Accounting	8	8	8	Annual audit
Treasury Management	8	8	8	Annual audit
Tax Risk assessments (VAT & employee taxes)		8		
Creditors	10	10	10	Annual audit
Debtors	10	10	10	Annual audit
Payroll	10	10	10	Annual audit
Cashiering	10	10	10	Annual audit
Counter Fraud Arrangements & Fraud Awareness			10	
Legal Services				
Corporate Governance	10	10	10	Annual audit
Compliance with the Freedom of Information Act			10	
Compliance with the Data Protection Act		10		
Adoption of powers from the Psychoactive Substance Bill 2015			8	
Digital & Design				
ICT Management & Strategy		10		
Risk Management	10	10	10	Annual audit
People				
Business & Technical Services				
Organisational Development				
COMPUTER AUDITS				
HMS Application			10	
Other application audit (to be determined)		10		
Cyber Security	15			
Thematic review of password security of all key systems		15		
Operating system review	10			
Incident Management			10	
Firewall Security	10			
Web Security		15		
Internet & Email security			10	
Penetration Testing	15			
Bring Your Own Devices		10		
Gap analysis against Government Cyber Essentials Initiative		15		
Network Infrastructure Security			15	
Mobile Devices		10		
Remote Access protals/VPN	10			
Disaster Recovery	5		15	Extended follow-up in 16/17
Telephony	15			Postponed from 2015/16 Plan

Data Protection & Information Governance			15	
CONTRACT AUDITS				
Programme Management	10			Postponed from 2015/16 Plan
Final Accounts	10			Postponed from 2015/16 Plan
Contract Management audits	10	10	20	Contracts to be determined
Compliance with Public Contacts Regulations 2015		10		
Procurement Regulations			10	
CROSS SERVICE REVIEWS				
Fire Risk Management	10			
Project Management			10	
Property Management	10			
Debt Management		8		Debt recovery reviewed as part of rent accounting, NDR, C Tax and Debtors audits
Business Continuity			10	
Welfare Reform - Support to claimants	10			
Ethics (including gifts & hospitalities and declarations of interest)		8		
OTHER				
Management & Admin	40	40	40	
Ad-Hoc/Contingency	25	25	20	
NFI Co-Ordination	10	10	10	
NFI Testing	10	25	10	
Follow Up	30	25	20	
	514	**512**	**511**	

Joint Governance Committee
22 March 2016
Joint Strategic Committee
5 April 2016

Agenda Item 9

Ward: N/A

Risk and Opportunity Management Strategy 2016-2018

Report by the Director for Digital & Resources

1.0 Summary

1.1 This report provides the detail of a revised Risk and Opportunity Management Strategy (ROMS) for the Councils for 2016 - 2018.

2.0 Background

2.1 The current Risk Management Strategy was approved by the Leaders in November 2014. Because there is now a clear senior management structure in place it is considered timely to revise the existing Strategy and provide an updated version to ensure that a strong framework is in place for considering key threats to the organisation and its objectives, taking action to mitigate risk and identifying opportunities to respond differently to the challenges we face.

2.2 A revised Risk and Opportunity Management Framework will help improve strategic, operational and financial management and help provide better decision making.

3.0 Proposals

3.1 A copy of the revised ROMS is attached to this report and provides a framework for how the Councils should manage risk and opportunities. The revised Strategy provides more clarity on the Councils' risk appetite, how Opportunities can be identified and evaluated and also will help in embedding Risk and Opportunity Management within the wider workforce. The Strategy does also reflect the processes already being put in place to provide business continuity and related business impact analysis to help identify Risks amongst business units.

3.2 The revised Code of Corporate Governance, approved by the Councils in 2015, requires that the Councils should seek to ensure that Risk Management is embedded into the culture of the organisation. The revised Strategy will ensure that Managers and staff at all levels recognise that Risk and Opportunity management is part of their job.

4.0 Legal

4.1 The approved Code of Corporate Governance specifies that the Councils should have an effective system of risk management in place. The approval of this revised Risk and Opportunity Management Strategy falls within the Portfolio of the Leaders but can be exercised by the Joint Strategic Committee. The Joint Governance Committee has responsibility for receiving the annual risk report and also for monitoring the effective development and operation of risk management.

4.2 Section 111 of the Local Government Act 1972 provides Local Authorities with the power to do anything ancillary or incidental to the discharge of their function.

4.3 Section 1 of the Localism Act 2011 provides the Councils with a general power of competence and empowers Local Authorities to do anything which individuals generally do.

4.4 The management of all Risks and Opportunities should be carried out in accordance with the Council's policies and procedures including the Constitution, the financial procedure rules and the Contract procedure rules.

5.0 Financial implications

5.1 There are no direct financial implications associated with the implementation of the revised ROMS, however, there will likely be some financial implications associated with the Risks and Opportunities identified.

6.0 Recommendation for Joint Governance Committee

6.1 That the revised Risk and Opportunity Management Strategy 2016 - 2018 be noted and any comments be submitted to the Joint Strategic Committee.

7.0 Recommendation for Joint Strategic Committee

7.1 That the revised Risk and Opportunity Management Strategy 2016-2018 be approved and adopted from 1 May 2016.

Local Government Act 1972
Background Papers:

Risk Management Strategy - November 2014

Contact Officer:
Mark Lowe
Policy Officer
Digital and Design Team,
Portland House,
Worthing
01903 221009

Schedule of Other Matters

1.0 Council Priority

1.1 Catching the Wave was approved by both Councils as a key strategic policy document in early 2014. ‘Surf’s Up’ identifies a number of key deliverables required to ensure the policy aspiration of Catching the Wave is brought to fruition. An effective Risk and Opportunity Management Strategy will help the Councils achieve the objectives and deliverables.

2.0 Specific Action Plans

2.1 None specific to this report.

3.0 Sustainability Issues

3.1 Matter considered and no sustainability issues identified as part of the implementation of the Strategy but there may be sustainability issues which emerge from the management of risks.

4.0 Equality Issues

4.1 Matter considered and no issues identified although there may be some equality issues associated with risks identified.

5.0 Community Safety Issues (Section 17)

5.1 Matter considered. No issues identified with the implementation of the revised Strategy but there may be some community safety issues associated with the risks and opportunities identified.

6.0 Human Rights Issues

6.1 Matter considered and no issues associated with the implementation of the new Strategy but there may be some issues associated with the risks and opportunities identified.

7.0 Reputation

7.1 Matter considered and no reputational issues identified with the implementation of the new Strategy but there may be some risks identified which have reputational impacts.

8.0 Consultations

8.1 Matter considered. The revised Strategy has been the subject of conversations with the Councils Leadership Team and if approved will be discussed with the wider workforce.

9.0 Risk Assessment

9.1 The Risk and Opportunity Management Strategy will enable the Councils to provide effective Risk Management to ensure strategic objectives can be achieved and seizing opportunities is important to reduce the impact of risks.

10.0 Health & Safety Issues

10.1 None specific to this report.

11.0 Procurement Strategy

11.1 Matter considered and no specific issues related to this report.

12.0 Partnership Working

12.1 The Risk and Opportunity Management Strategy will help to manage risks and identify opportunities which will enhance overall partnership working.

DRAFT

RISK AND OPPORTUNITY MANAGEMENT STRATEGY

2016 to 2018

EXECUTIVE SUMMARY

We live in very challenging times, but also ones that provide us with real opportunities. Adur and Worthing Councils need to be continuously looking at how they can be more efficient and customer focused. Risk and Opportunity Management is a vital part of corporate governance and good overall management. It is important to have an effective Risk and Opportunity Management Strategy in place to ensure that the Councils are able to discharge their functions and deliver public services efficiently and cost effectively.

Risk is unavoidable. It is an important part of life that allows us all to move forward and develop. Successful risk management is about ensuring that we have the correct level of control in place to provide sufficient protection from harm, without stifling our development. The Council's overriding attitude to risk is to operate in a culture of creativity and innovation, in which all key risks are identified in all areas of the business and are understood and proactively managed, rather than avoided.

Risk and Opportunity Management, therefore, needs to be taken into the heart of the Councils and our key partners. We need to have the structures and processes in place to ensure the risks and opportunities of daily Council activities are identified, assessed and addressed in a standard way. We should not shy away from risk but instead seek to proactively manage it. This will allow us to meet the needs of the community today and also meet future challenges.

The Councils will record the significant risks identified as potential threats to the delivery of the objectives within Risk and Opportunity Registers and incorporate mitigation controls within action plans to include details of any opportunities that might arise from the successful management of each risk. Risks and the Opportunities will be continually monitored via the Councils Leadership Team, Service Heads, Informal Cabinets, Cabinets and the Joint Governance Committee.

A Risk and Opportunity Management Framework will help improve strategic, operational and financial management, provide better decision making, improve compliance and help improve customer service delivery and provide better outcomes for the citizens of Adur and Worthing.

Councillor Neil Parkin (Leader of Adur District Council)

Councillor Dan Humphries (Leader of Worthing Borough Council)

Alex Bailey (Chief Executive, Adur and Worthing Councils)

The Risk and Opportunity Management Strategy

1. Definitions

What is a risk?

Risk is most commonly held to mean ‘hazard’ and something to be avoided but it has another face - that of opportunity. Improving public services requires innovation - seizing new opportunities and managing the risks involved. In this context risk is defined as uncertainty of outcome, whether positive opportunity or negative threat of actions and events. It is the combination of likelihood and impact, including perceived importance.

What is Risk and Opportunity Management?

Risk and Opportunity Management is the culture, processes and structures that are directed towards effective management of potential opportunities and threats to an organisation achieving its objectives.

This Strategy is intended to reaffirm and improve effective Risk and Opportunity Management in Adur and Worthing to comply with good practice and in doing so, effectively manage potential opportunities and threats to the Councils achieving their objectives.

2. Types of Risk

Corporate and Service Risks

Corporate Risks affect the aims and objectives of the Councils - risks that hinder or stop successful achievement of corporate priorities/aims. These tend to be more medium to long term but some risks, because of a significant event or planned business activity, may feature for a shorter period of time. Inclusion of a risk or opportunity in the Corporate Risk and Opportunity Register indicates that it is one of a number of risks/opportunities that the Councils need to be aware of and ensure appropriate management arrangements are in place to manage/mitigate them.

Service Risks should link to each service area’s Service Plan. The Service Plan is a document that brings key information together in one place and demonstrates the Service’s focus on the Councils priorities. All of the major risks facing the service and partners resulting from the consequences of a service plan should be recorded with details of the mitigation plan and potential outcomes. Service Risks will also be identified as part of the business continuity process. As part of these business continuity processes, each business unit will be required to complete a business impact analysis which will identify risks associated with its operation and the impact on business processes/activities and appropriate mitigation procedures that will be implemented. Local business unit strategies will help to mitigate the risks.

Project Risks

These are Risks identified in connection with all major projects which the Councils undertake. These projects will be run in accordance with appropriate project management guiding principles. Risks associated with major projects are those that if they occur will have an effect on at least one project objective. All major Projects Risks will be identified, managed and reported via either the Corporate Risk or Service Risk registers. All major Project Risks should have a risk budget identified within internal controls.

3. Risk analysis and monitoring arrangements

The Councils Leadership Team/Organisational Leadership Group will monitor and manage the delivery of the Risk and Opportunity Management Strategy at a strategic level. It will be their purpose to effectively embed Risk and Opportunity Management as part of the Council's culture as an integral part of strategic planning, decision-making and its performance management framework. Business impact analysis monitoring will also take place annually

4. Performance Management

Monitoring, managing and responding to risks are essential to the delivery of priorities and services. Regular Corporate performance monitoring is undertaken which shows progress and the emerging trends set against 'Surf's Up' Strategic document and 'Catching the Wave' and provides a progress report which complements the Council's Risk and Opportunity Policy framework.

5. Corporate Governance

Risk and Opportunity management is essential to effective corporate governance.

6. Embedding Risk and Opportunity Management

The Risk and Opportunity Management Strategy is reviewed annually to ensure it remains up to date. The Leaders and the Director for Digital and Resources/Head of Digital and Design jointly champion this process.

The Digital and Design Team can provide advice for staff on best practice to ensure that the Risk and Opportunity Management process is embedded in the Council's business processes.

Each Service area should designate an Officer as Risk Champion to embed Risk and Opportunity Management processes in their business processes including strategic and business planning, financial planning, policy making and review and project management.

Awareness training will be provided for all Directors and Service Heads and can be arranged for other staff via the Digital & Design Team.

7. Benefits of good Risk and Opportunity Management

Integration of Risk and Opportunity Management into the culture and working practices of the Council and its delivery partnerships has numerous benefits which include:

- Protecting and adding value to the Councils and stakeholders by supporting the achievement of the Council aims and objectives.
- Improved strategic, operational and financial management
- Contributing to more efficient use/allocation of resources within the Councils and partners
- Keeping the Councils within the requirements of the law
- Mitigation of key threats and taking advantage of key opportunities
- Protecting and enhancing assets and image
- Improving decision-making (making the right decisions), planning and prioritisation by comprehensive and structured understanding of activity and volatility.
- Enabling future activity to take place in a consistent and controlled manner.
- Promotion of innovation and change
- Improved customer service delivery
- Continuity of knowledge and information management processes
- Developing and supporting people and the Council's knowledge base
- Optimising operational efficiency and, therefore, delivering efficiency gains and value for money
- Better allocation of time and management effort to major issues
- Avoiding nasty surprises, shocks and crises
- Ensures that the approach is aligned to 'Best Practice'
- Satisfies stakeholder/partner expectations on internal control.

8. Culture

The Councils will be open in approach to managing risks and will seek to avoid a blame culture. Lessons from events that lead to loss or reputational damage will be shared as well as lessons when things go well. Discussion on risk in any context will be conducted in an open and honest manner. Reference should be made to the Business Continuity cycle to embed business continuity into the risk process.

9. Guidance and assistance

The Digital & Design Team, through the Policy Officer, will promote and monitor good practice, provide guidance, support, advice and information and organise training.

10. Risk and Opportunity Management Policy Statement

Adur District and Worthing Borough Councils are aware that they do get exposed to a very wide range of risks and threats to the delivery of key services to the communities they serve and there are also opportunities which if taken could help the Councils achieve the vision and corporate priorities.

The Councils recognise that they have a responsibility to identify, evaluate and manage risk and opportunities whilst still creating a climate for innovation. It, therefore, supports a structured approach to Risk and Opportunity Management through this Risk and

Opportunity Management Strategy, the aims and objectives of which are described below:-

The aims and objectives of the Risk and Opportunity Management Strategy are to:-

- Integrate and raise awareness of Risk and Opportunity Management for all those connected with the delivery of Council services.
- Embed Risk and Opportunity Management as an integral part of strategic, service, information use, financial, business continuity and project planning and policy making.
- Establish a standard systematic approach to risk identification, analysis, control and monitoring and reviewing.
- Provide a process for identifying threats or drawbacks that also includes finding and considering opportunities.
- Provide a robust and transparent framework for managing risk and supporting decision making.
- Support well thought-through risk taking
- Anticipate and respond to changing external and internal environment
- Embed Risk and Opportunity Management as an integral part of delivering and aligning successful partnerships.
- To embed Risk and Opportunity Management as part of the Council's culture of Governance.
- To provide a robust and systematic framework for identifying, managing and responding to risk
- To provide a robust and transparent track record of managing, communicating and responding to risk
- To encourage staff to think creatively about ways to work better, simpler and more effectively.

11. Risk Management Framework

The Councils maintain two different types of Risk and Opportunity Registers - Corporate and Service (each Directorate has its own Service Risk register).

The Corporate Risk register records risks that affect the aims and objectives of the Councils - Risks that hinder or stop successful achievement of corporate objectives and aims are generally of a medium to long term nature and the Service Risk registers record those risks affecting the day to day Directorate Service operations. Both Risk registers will include any major projects risks.

Both Registers detail the following:-

- Potential effects of the risks identified, both negative (risks and threats) and positive (opportunities)
- The impact and likelihood of the risk/opportunity identified
- Existing Internal controls in place to mitigate the Risk
- Internal Controls planned to mitigate the risks with relevant timescales and the responsible officers.

The Corporate Risk Register is owned by the Councils Leadership Team (CLT) and is maintained by the Digital & Design Team (Policy Officer) in conjunction with CLT and relevant Heads of Service. Any potential new Corporate Risks identified by Officers are referred to CLT for consideration as to their inclusion on the Risk Register.

12. Risk and Opportunity Identification

Before it is possible to identify our risks and opportunities it is necessary to establish the context by looking at the business/Service unit, the functions needed to make it work, what is being achieved and what the proposed outcomes are. Depending on the area under review, the relevant objectives and outcomes will usually be detailed in existing documents such as Service Plans, project plans or partnership agreements as well as the business impact analysis. The Councils may face a number of different types of risk including financial loss, failure of service delivery, physical risks to people and damage to reputation including business continuity issues and emergency management/civil protection risk. To act as a prompt, a Risk Identification checklist is attached to this Strategy.

Opportunities can also arise from areas within the organisation and externally. Internal sources of opportunity include how the Authorities structure themselves, partnerships with other entities, operational changes and technological innovation. External sources of opportunity include changes to political, legal, social and environmental forces.

Opportunities can also be identified by giving consideration to those that have been neglected because of perceived, but unexamined risk. These include:-

- Learning from the past - whilst past experience cannot necessarily be a predictor for future performance, signals that were ignored and missed opportunities can provide insight into organisational blind spots;
- Customer sensitivity - trying to understand customer needs and creating systems to exploit this information can lead to great gains.
- Learning from others - exploring and sharing best practice with other organisations can lead to benefits.
- Scenario planning - can be a powerful tool for generating new ideas.

Once the opportunity has been identified it should be described to include the expected benefits, contributions to business objectives and stakeholders.

13. Risk description

The risks and opportunities identified need to be recorded in a structured format. A template in a Google doc has been created for this which will include a description of the Risk covering the cause, the event and the potential effect if the risk or opportunity occurs.

14. Risk Analysis

When Risks and Opportunities have been identified they need to be assessed systematically and accurately. The process requires Directors and Service Heads in consultation with the Policy Officer to assess the level of risk by considering:

The probability of an event occurring - ‘Likelihood’ and the potential outcome of the consequences should such an event occur - ‘Impact’. Directors and Service Heads should assess each element of the judgement and determine the score in accordance with the scoring system set out below:-

Likelihood

Score	Likelihood	Threat/Risk
5	Very Likely (80-100%)	Is expected to occur in most circumstances. Will undoubtedly happen, possibly frequently for example annually or more frequently. Imminent/near miss.
4	Likely (60-80%)	Will probably occur in many circumstances. Will probably happen, but not a persistent issue for example once in three years. Has happened in the past.
3	Moderate (30-60%)	Could occur in certain circumstances. May happen occasionally, for example once in 10 years. Has happened elsewhere.
2	Unlikely (15-30%)	May occur only in exceptional circumstances. Not expected to happen, but is possible for example once in 25 years.
1	Rare (0 to 15%)	Is never likely to occur. Very unlikely this will ever happen for example once in 100 years.

Impact

Score	Impact	Threat/Risk
5	Extreme Risk	Risks which can have an extreme effect on the operation of the Council or service. This may result in critical financial loss, severe service disruption or a severe impact on the public. Examples: ● Unable to function without aid of Government or other external agency. ● Inability to fulfil obligations

		• Medium - long term damage to service capability • Severe financial loss - supplementary estimate needed which will have a catastrophic impact on the Council's financial plan and resources are unlikely to be available. • Death • Adverse national publicity - highly damaging, severe loss of public confidence • Significant public interest • Litigation certain and difficult to defend • Breaches of law punishable by imprisonment. • Very significant exposure of public funds with funding being managed across organisations and complex reporting. • Total project budget in excess of £250,000.
4	Major Risk	Risks which can have a major effect on the operation of the Council or service. This may result in major financial loss, major service disruption or a significant impact on the public. Examples: • Significant impact on service objectives. • Short - medium term impairment to service capability. • Major financial loss - supplementary estimate needed which will have a major impact on the Council's financial plans. • Extensive injuries, major permanent harm, long term sick. • Major adverse local publicity, major loss of confidence. • Litigation likely and may be difficult to defend. • Breaches of law punishable by fines or possible imprisonment. • Relatively large budget of £75K to £250K
3	Moderate Risk	Risks which have a noticeable effect on the services provided. Each one will cause a degree of disruption to service provision and impinge on the budget. Examples: • Service objectives partially achievable. • Short term disruption to service capability. • Significant financial loss - supplementary estimate needed which will have an impact on the Council's financial plan. • Medical treatment required, semi permanent harm up to one year. • Some adverse publicity, needs careful public

		relations. ● High potential for complaint, litigation possible. ● Breaches of law punishable by fines only.
2	Minor Risk	Risks where the consequences will not be severe and any associated losses will be minor. As individual occurrences they will have a negligible effect on service provision. However, if action is not taken, then such risks may have a more significant cumulative effect. Examples: ● Minor impact on service objectives ● No significant disruption to service capability. ● Moderate financial loss - can be accommodated at Service Head level. ● First aid treatment, non permanent harm up to one month. ● Some public embarrassment, no damage to reputation. ● May result in complaints/litigation ● Breaches of regulations/standards ● Budget within delegation.
1	Trivial Risk	Risks where the consequences will not be severe and any associated losses will be relatively small. As individual occurrences they will have a negligible effect on service provision. Examples: ● Minimal impact, no service disruption ● Negligible impact on service capability. ● Minimal loss - can be accommodated at Service Level ● No obvious harm/injury. ● Unlikely to cause any adverse publicity, internal only. ● Breaches of local procedures/standards. ● Budget within delegation and relatively small or within operational costs.

The risk ratings for each part of the assessment are then combined to give an overall ranking for each risk. The ratings can be plotted onto the risk matrix, see below, which assists in determining the risk priority and the amount of attention it deserves.

15. Risk ranking table/Matrix

Likelihood					
Very likely (5)	Medium	Medium	High	High	High
Likely (4)	Medium	Medium	Medium	High	High
Moderate (3)	Low	Medium	Medium	Medium	High
Unlikely (2)	Low	Low	Medium	Medium	Medium
Rare (1)	Low	Low	Low	Medium	Medium
	Trivial (1)	Minor (2)	Moderate (3)	Major (4)	Extreme (5)
	Impact				

The risk rating is based upon the the result of any mitigation measures. If after considering mitigation it appears the likelihood or impact has been reduced then the risk rating should be changed.

Risk Tolerance

Red (High Risk)	Must be managed down urgently
Amber (Medium Risk)	Seek to influence medium term/monitor
Green (Low Risk)	Acceptable but continue to monitor

16. Risk appetite

Risk appetite is the level of risk the Councils are prepared to tolerate or accept in the pursuit of strategic objectives. The aim is to consider all options to respond to risk appropriately and make informed decisions that are most likely to result in successful delivery whilst also providing an acceptable level of value for money.

The acceptance of risk is subject to ensuring that all potential benefits and risks are fully understood and that appropriate measures to mitigate risks are established before decisions are made. The Councils recognise that the appetite for risk will vary according to the activity undertaken and hence different appetites and tolerances to risk apply. Specifically, our approach is to minimise exposure to compliance and reputation risk, whilst accepting and encouraging an increased degree of risk in other areas in pursuit of our strategic objectives as illustrated in the diagram and statements below:

Lower Risk Higher Risk

	1	**2**	**3**	**4**	**5**
Compliance & Regulation					
Operational/Service delivery					
Financial					
Reputation					
Strategic transformational change					
Development & Regeneration					
People & Culture					

Compliance and Regulation - The Council recognises the need to place high importance on compliance, regulation and public protection and has no appetite for breaches in statute, regulation, professional standards, ethics, bribery or fraud.

Operational/Service delivery - The Council accepts a moderate to high level of risk arising from the nature of the Council's business operations and service delivery to deliver an appropriate level of service at value for money, whilst minimising any negative reputational impact.

Financial - The Council acknowledges the responsibility it has for administration of public funds and emphasises to both the public and its employees the importance it places upon probity, financial control and honest administration. Financial Regulations provide the framework for managing the Council's financial affairs and should be adhered to at all times. All schemes must be fully financed and the Financial Services Section should be consulted when planning new projects.

Reputation - It is regarded as essential that the Councils preserve a high reputation and, therefore, a low appetite for risk has been set in the conduct of activities that puts the reputation of the Councils in jeopardy through any adverse publicity.

Strategic transformational change - The environment that the Councils work in is continually changing through both internal operations and the services provided. Change projects provide the Council with an opportunity to move forward and develop and establish benefits for the longer term. The Councils recognise that this may require increased levels of risk and are comfortable accepting the risk subject to always ensuring that risks are appropriately managed.

Development and Regeneration - The Councils have a continuing obligation to invest in the development and regeneration of the areas. To continue to be progressive and innovative in the work performed the Councils are willing to accept a higher risk appetite whilst ensuring that benefits are assessed and risks are fully scrutinised and appropriately mitigated before developments are authorised.

People and Culture - The Councils recognise that staff are critical to achieving objectives and, therefore, the support and development of staff is key to making the Councils an inspiring and safe place to work. It has a moderate to high appetite for decisions that involve staffing or culture to support transformational change and ensure the Councils are continually improving.

17. Risk Response

There are four basic ways of treating risk, which are:

- Treat - Ensuring effectiveness of existing controls and implementing new controls where considered necessary and cost effective.
- Transfer - Involves another party bearing or sharing the risk in other words via insurance.
- Tolerate - Where it is not possible to treat or transfer consideration needs to be given to how the risk and consequences of such are to be managed should they occur.
- Terminate - Deciding where possible not to continue or proceed with the activity in view of the level of risks involved.

18. Opportunity Response

There are four basic ways of treating opportunity, which are:-

- Enhance - Seek to increase the likelihood and/or the impact of the opportunity in order to maximise the benefit.
- Ignore - Minor opportunities can be ignored by adopting a reactive approach without taking any explicit actions.
- Share - Seek partners/stakeholders able to manage the opportunity which can maximise the likelihood of it happening and increase the potential benefits.
- Exploit - Seek to make the opportunity definitely happen. Aggressive measures to ensure the benefits from the opportunity are realised.

19. Monitoring arrangements for Corporate and Service Risks

The reason for monitoring risks is to create an early warning system for any movement in the risks - Key risks are defined as those in the Red and Amber category of the Risk ranking table/matrix on Page 10 of this Strategy. Risks scoring in the ‘Green’ category are considered to be managed effectively and, therefore, within the Council’s ‘risk tolerance’. Any risk scoring outside of these categories can be removed from the Risk Register and archived subject to agreement with the Council’s Leadership Team and relevant Directors/Service Heads.

Risk Registers are live documents and, therefore, must be regularly reviewed and amended. All Risks are regularly monitored by the Councils in the following ways:-

- **Corporate Risks**
  - Reported to the Councils Leadership Team bi monthly for review.
  - Reported to the Adur and Worthing Informal Cabinets quarterly and Directors to regularly brief Executive Members.
  - Reported quarterly to Joint Strategic Committee
  - Reported to the Joint Governance Committee as part of the Annual Risk Management report and quarterly.

- **Service Risks**
  - Reviewed by Directors/Service Heads/DMT's on a quarterly basis.
  - Directors to brief Executive Members on a regular basis.
  - Reported quarterly to the Joint Governance Committee
  - Reported annually to Councils Leadership Team

  The questions that need to be asked during the monitoring are:

  - Is the risk still relevant?
  - Is there any movement in the risk score?
  - Are the controls still in place and operating effectively?
  - Has anything occurred which might change its impact and/or likelihood?
  - Have potential opportunities been considered and maximised?
  - Have any significant control failures or weaknesses occurred since the last monitoring exercise?
  - If so, does this indicate whether the risk is increasing or decreasing?
  - If the risk is increasing do we need to devise more controls or think of other ways of mitigating the risk?
  - If the risk is decreasing can some of the existing controls be relaxed?
  - Are controls/actions built into appropriate documented action plans?
  - Are there any new or emerging risks?
  - Have any of the existing risks ceased to be an issue (and can, therefore, be archived?)

20. Roles and responsibilities

Council Leaders

- Approve the Councils Risk and Opportunity Management Strategy annually.

Informal Cabinets

- Receive regular monitoring reports on the Corporate Risk register on a quarterly basis.

Joint Strategic Committee

- Receive regular monitoring reports on the Corporate Risk register.

Joint Governance Committee

- Receive and approve monitoring reports on the Corporate and Service level Risk register and the Annual Risk and Opportunity Management report.
- Provide independent assurance to the Council on the effectiveness of the Council Risk and Opportunity Management, internal control and overall assurance framework.

Councils Leadership Team (CLT)

- Ensure the Councils implement and manage risks effectively through the delivery of the Risk and Opportunity Management Strategy and consider risks affecting the delivery of services.
- Be responsible for the Corporate Risk and Opportunity register and related Risk and Opportunity Management issues and ensure that they are considered on a bi monthly basis at CLT meetings. Approve the Risk and Opportunity Management updates for consideration by the Informal Cabinets
- Provide assurance to the Adur and Worthing Cabinets regarding Risk and Opportunity Management compliance.
- Support the embedding of Risk and Opportunity Management within the culture of the Council as an integral part of strategic/business planning, decision making and performance management framework.

Directors

- Take responsibility for the promotion of the Risk and Opportunity Management Strategy within their Directorate.
- Ensure that the Service Risk and Opportunity Registers for their Directorate are managed, monitored, responded to and communicated effectively in their areas.
- Ensure that Risk and Opportunity Management is a key consideration in the delivery of the Council priorities.

Service Heads

- Identify, evaluate, prioritise and control risks and opportunities facing the Council in achieving its objectives.
- Support, assist and inform their Director on risk issues.
- Include staff without direct responsibility for owning and managing risk in risk discussions to ensure Teams identify potential risks associated with service delivery.

Head of Digital and Design

Provide the necessary Officer support from the Digital and Design Team to:-

- support the Council and its Directorates in the effective development, implementation and review of the Risk and Opportunity Management Strategy.
- Provide training and guidance in Risk and Opportunity Management
- Support the CLT in its oversight of Risk and Opportunity Management.

Employees

- Assess and manage risks effectively in their job and report hazards/risks to their service managers.
- Liaise with their Service Head/Director on risk related issues.

Checklist for Risk and Opportunity Identification

(Please note that this is meant as a guide and is not an exhaustive list)

Compliance and regulation	• Legislation and internal policies/regulations • Grant funding conditions • Legal challenges, legal powers, judicial reviews or public interest reports. • Change in Government policy.
Operational/service delivery	• Emergency preparedness/business continuity • Poor quality/reduced service delivery • Information security, retention accuracy • ICT integrity, availability • Changing needs and expectations of customers - poor communication/consultation
Financial	• Budgetary pressures • Loss of/reduction in income/funding, increase in energy costs • Costs of living, interest rates, inflation and so on • Financial management arrangements • Investment decisions, sustainable economic growth • Affordability models and financial checks • Inadequate insurance cover • System/procedure weaknesses that could lead to fraud.
Reputation	• Negative publicity (local and national) • Increase in complaints • Fines

Strategic transformational change	• New initiatives, new ways of working, new policies and procedures. • New relationships - accountability issues/unclear roles and responsibilities. • Monitoring arrangements. • Managing change
Development and Regeneration	• Demographics • Economic downturn - prosperity of local businesses/local communities • Impact of planning or transportation policies • Environmental, landscape, countryside, historic environment, open space. • Property, land, buildings and equipment
People and Culture	• Political personalities • Member support/approval • New political arrangements • Loss of key staff, recruitment and retention issues • Training issues • Lack of/or inadequate management support • Poor communication/consultation • Capacity issues - availability, sickness and absence and so on.
Opportunities/outcome	• Add value or improve customer experience/satisfaction • Reduce waste and inefficiency • Improve staff skills/morale • Helping to cultivate, develop and protect enterprising communities • Supporting wealth generators and leading and driving forward economic growth.

Version 3 - 16 February 2016

Joint Governance Committee
22 March 2016
Agenda Item 10

Ward: N/A

Risk and Opportunity Management updates

Report by the Director for Digital & Resources

1.0 Summary

1.1 This report provides the quarterly updates on the management of the Councils risks and opportunities.

2.0 Background

2.1 At the meeting of the Committee on 24 November 2015 it was requested that quarterly progress update reports on the management of the Councils risks and opportunities should be reported to the Committee. Since that meeting progress has continued to be made to monitor and review the full Risk registers:-

- Regular bi monthly reports on Corporate Risks are reported to the Councils Leadership Team for monitoring and review;
- Executive Members receive the details of Corporate Risks;
- All Service Risks are regularly updated in consultation with Directors and Service Heads;
- All risks are monitored in a free to use app called 'Trello'. Trello Boards have been created for the Risk Registers and the detail of each risk is provided in an accompanying 'google doc'.

2.2 Details of the latest Risks can be viewed by using Trello at:-

Corporate Risks
Communities Directorate Service Risks
Customer Services Directorate Service Risks
Digital and Resources Directorate Service RIsks
Economy Directorate Service Risks

2.3 It should be noted that there is some information provided in the reports attached to the Trello Boards which is of a commercially sensitive and/or confidential nature, therefore, these are not to become broader public documents at this stage but are used for internal management purposes only.

2.4 The Committee should also note that a review of the current Risk Management Strategy has now been undertaken to reflect changes to the way Risks/Opportunities are managed in the Councils. A report relating to this Strategy is included elsewhere on this agenda for the Committee to consider and submit comments to the Joint Strategic Committee.

3.0 Proposals

3.1 The Committee is requested to note the continued progress in managing the risks and opportunities and the current status of the risks.

4.0 Legal

4.1 There are no legal matters arising as a result of this report. The Joint Governance Committee does have responsibility for receiving the annual risk report and also for monitoring the effective development and operation of risk management.

5.0 Financial implications

5.1 There are no direct financial implications arising from this report. However, some of the risks do have potential cost implications.

6.0 Recommendation

6.1 That the progress in managing risks and opportunities be noted and a further progress report be presented to the Committee in September 2016.

Local Government Act 1972
Background Papers:

None.

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Schedule of Other Matters

1.0 Council Priority

1.1 Matter considered and no issues identified.

2.0 Specific Action Plans

2.1 Matter considered. Internal Audit reports.

3.0 Sustainability Issues

3.1 Matter considered and no issues identified.

4.0 Equality Issues

4.1 Matter considered.

5.0 Community Safety Issues (Section 17)

5.1 Matter considered. Some of the Risks may impact on community safety issues.

6.0 Human Rights Issues

6.1 Matter considered and no issues identified.

7.0 Reputation

7.1 Matter considered. Some of the Risks may impact on the reputation of the Council if they do occur.

8.0 Consultations

8.1 Matter considered and no issues identified.

9.0 Risk Assessment

9.1 Matter considered. Any areas of risk are identified in the Risk registers.

10.0 Health & Safety Issues

10.1 Matter considered and no issues identified.

11.0 Procurement Strategy

11.1 Matter considered and no issues identified.

12.0 Partnership Working

12.1 Matter considered. The Risk registers are joint registers for Adur and Worthing.

Joint Governance Committee
22 March 2016
Agenda Item 11

Ward: N/A

Local Government Ombudsman Complaints

Report by the Director for Customer Service

1.0 Summary

1.1 This report provides further quarterly analysis on the Local Government Ombudsman (LGO) complaints that have been processed by the Councils.

2.0 Background

2.1 The Commission for Local Administration in England was created by Part 3 of the Local Government Act 1974 to run the Local Government Ombudsman service. The Local Government Ombudsman investigates complaints by members of the public who, generally, have had complaints considered by the Local Authority, but still consider that they have been caused injustice by the administrative actions of Local Authorities and other bodies within the jurisdiction of the LGO.

2.2 Since April 2013 The Housing Ombudsman Service has also been available to consider complaints from Adur Homes tenants. The Housing Ombudsman can investigate complaints from tenants and make awards of compensation as well as supporting effective landlord-tenant dispute resolution. An Adur Homes Tenants Complaints Panel is in place to review complaints that have already been through the Council's existing two stage complaints procedure. The Panel is required to review complaints prior to consideration by the Housing Ombudsman. As yet, no complaints relating to Adur Homes tenants have been referred through to the Housing Ombudsman.

2.3 The Committee has previously requested further analysis on the LGO complaints and as part of this it received a report to its meeting on 29 September 2015.

3.0 Analysis of Complaints for 2015/16

3.1 Increased scrutiny and analysis of complaints continues to ensure that the available complaints data is accurate.

3.2 The Director for Customer Services, who is the Ombudsman link for both Councils, has commissioned a new digital complaints recording system which is about to be released. The system will enable the Councils to provide even more accurate complaints data as well as streamlining the complaints handling process.

3.3 In addition, the recent restructure of Customer Service has created additional capacity for and focus on the analysis of complaints and other data, including consideration of the detailed Focus reports produced by the Ombudsman which collate trends and themes across all local authorities, to inform ongoing service improvements, and a closer focus on the customer.

3.4 For this report, an analysis of updated LGO complaints information is provided below. This is showing the decisions from 3 Worthing Borough Council referrals included in the previous report which were pending at that time. Of those, 2 of the referrals have found no evidence of fault and have not been upheld and 1 decision has found some evidence of fault by the Council. New referrals are showing that for Adur District Council there were 4 referrals, 2 of which were not upheld and 2 decisions are pending and for Worthing Borough Council there was 1 referral which was not upheld.

Description of complaint	**LGO Decision**
Adur District Council	
Complaint that the Council wrongly took the complainant to Court over fraud charges related to overpayments of benefit, wrongly withdrew his benefit payments and failed to repay a promised housing benefit payment	Decision pending
Complainant disagreed with the Council's decision that she should repay overpayments of housing benefit and Council Tax support and claimed that overpayments arose due to fault by the Council.	No evidence of fault by the Council. LGO agreed not to investigate the complaint because it was reasonable to expect the complainant to use her appeal rights.
Complaint about the way the Council considered his neighbour's planning application in 2011 and the way it considered subsequent applications.	No evidence of fault causing injustice. Not upheld.
Complaint that the Council has failed to deal properly with the complainant's housing benefit and Council Tax matters which the complainant claims has resulted in unnecessary recovery action, considerable rent arrears and stress.	Decision pending.
Worthing Borough Council	
Complaint that the Council overlooked the complainant's application for the tenancy of a flat and offered it to someone else.(**Complaint included in previous report when decision was pending)**	No evidence of fault. Not upheld, Council acted in accordance with its Policy for allocating properties to people in priority need on the housing register.
Complaint that the Council failed to assist the complainant when he faced homelessness. (**Complaint included in previous report when decision was pending)**	Some evidence of fault by the Council found. The Council delayed in responding to the initial complaint from the complainant. Complaint upheld. Council has apologised to complainant for delays in responding and has been requested to takes lessons from the complaint to ensure that the same errors do not happen again.

	(**Note:** The Director for Communities has instigated a review of processes taking place in the Housing Solutions team currently. This will see the introduction of a new integrated casework management system that will greatly improve record keeping and case management. In turn this will significantly reduce the risk of the type of fault reported in this case happening again.
Complaint that the Council twice delayed validating a planning application for development of the site which the complainant owns. **(Complaint included in previous report when decision was pending)**	No evidence of fault. Not upheld.
Complaint that the Council had not allowed the complainant to join the housing register.	No evidence of fault. Not upheld.

3.5 The Service areas which have been generating the recorded LGO complaints during the previous 24 months are broken down as follows. It has not been possible to provide information comparing these figures with other similar Local Authorities:-

Adur District Council	
Planning	3 (Not upheld)
Housing Services	1 (Partially upheld)
Environmental Health	2 (1 not upheld and 1 partially upheld)
Census (Revenues & Benefits)	4 (2 not upheld and 2 decisions pending)
Worthing Borough Council	
Parks & Foreshore	2 (Not upheld)
Housing Services	2 (Not upheld)
Planning	2 (Not upheld)
Revenues & Benefits	2 (1 upheld and 1 not upheld)
Democratic Services	1 (Not upheld)

4.0 Proposals

4.1 That the Committee notes the contents of the report and agrees to receive a further report in September 2016 analysing the next batch of Local Government Ombudsman complaints which are received.

5.0 Legal

5.1 The role of the Local Government Ombudsman is governed by Part 3 of the Local Government Act 1974.

5.2 Section 111 of the Local Government Act 1972 allows the Council to do anything which is calculated to facilitate or is conducive or incidental to, the discharge of any of their functions.

6.0 Financial implications

6.1 There are no financial implications arising from this report.

7.0 Recommendation

7.1 That the Committee notes the contents of the report and agrees to receive a further analysis of Local Government Ombudsman complaints in September 2016.

Local Government Act 1972
Background Papers:

None.

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Schedule of Other Matters

1.0 Council Priority

1.1 Matter considered and no issues identified.

2.0 Specific Action Plans

2.1 Matter considered and no issues identified.

3.0 Sustainability Issues

3.1 Matter considered and no issues identified.

4.0 Equality Issues

4.1 Matter considered and no issues identified.

5.0 Community Safety Issues (Section 17)

5.1 Matter considered and no issues identified.

6.0 Human Rights Issues

6.1 Matter considered and no issues identified.

7.0 Reputation

7.1 Responding in a timely and open manner to investigations by the Local Government Ombudsman assists the Council to improve their service, service delivery and reputation.

8.0 Consultations

8.1 Matter considered and no issues identified.

9.0 Risk Assessment

9.1 Matter considered and no issues identified.

10.0 Health & Safety Issues

10.1 Matter considered and no issues identified.

11.0 Procurement Strategy

11.1 Matter considered and no issues identified.

12.0 Partnership Working

12.1 Matter considered and no issues identified.