



## Communities Directorate

13 January 2017

**Joint Governance Committee  
6.30pm on Tuesday 24 January 2017  
Gordon Room, Town Hall, Worthing**

**Adur District Council:** Councillors George Barton (Chairman), Kevin Boram (Vice-Chairman), Carol Albury, Ken Bishop, Jim Funnell, Paul Graysmark, Emily Hilditch and Barry Mear

**Worthing Borough Council:** Councillors Elizabeth Sparkes (Chairman), Paul Yallop (Vice-Chairman), Paul Baker, Joan Bradley, Alex Harman, Lionel Harman, Steve Wills and Mark Withers

### Agenda

<b>Part A</b>	<b>Page No.</b>
<b>1. Declarations of Interest / Substitute Members</b>	-
<p>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.</p> <p>If in doubt contact the Legal or Democratic Services representative for this meeting.</p>	
<b>2. Minutes</b>	-
<p>To approve the minutes of the Joint Governance Committee meeting held on 22 November 2016, copies of which have been previously circulated.</p>	

<b>3.</b>	<b>Public Question Time</b>	-
	To receive any questions from members of the public.	
	<i>(Note: Public Question Time will operate for a maximum of 30 minutes.)</i>	
<b>4.</b>	<b>Items Raised Under Urgency Provisions</b>	-
	To consider any items the Chairman of the meeting considers to be urgent.	
<b>5.</b>	<b>Audit Plans 2016/17</b>	4
	To consider the audit plans from the External Auditor, copies attached as item 5.	
<b>6.</b>	<b>Certification of claims and returns annual reports 2015/16</b>	41
	To consider reports from the External Auditor, copies attached as item 6.	
<b>7.</b>	<b>Joint Half Year In-House Treasury Management Operations Report 1 April - 30 September 2016 for Adur District Council and Worthing Borough Council</b>	59
	To consider a report by the Director for Digital and Resources, copy attached as item 7.	
<b>8.</b>	<b>Risk &amp; Opportunity Management</b>	90
	To consider a report by the Director for Digital and Resources, copy attached as item 8.	
<b>9.</b>	<b>Disaster Recovery Provisions</b>	99
	To consider a report by the Director for Digital and Resources, copy attached as item 9.	
<b>10.</b>	<b>The Appointment of External Auditors for Adur District Council and Worthing Borough Council</b>	105
	To consider a report by the Director for Digital and Resources, copy attached as item 10.	

**11. Proposed Revisions to Contract Standing Orders** 109

To consider a report by the Director for Digital and Resources, copy attached as item 11.

**12. Elected Member Involvement in the Appointment and Discipline of the Councils' Senior Officers** 145

To consider a report by the Monitoring Officer, copy attached as item 12.

**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.

For Democratic Services enquiries relating to this meeting please contact:

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The agenda and reports are available on the Councils website, please visit [www.adur-worthing.gov.uk](http://www.adur-worthing.gov.uk)



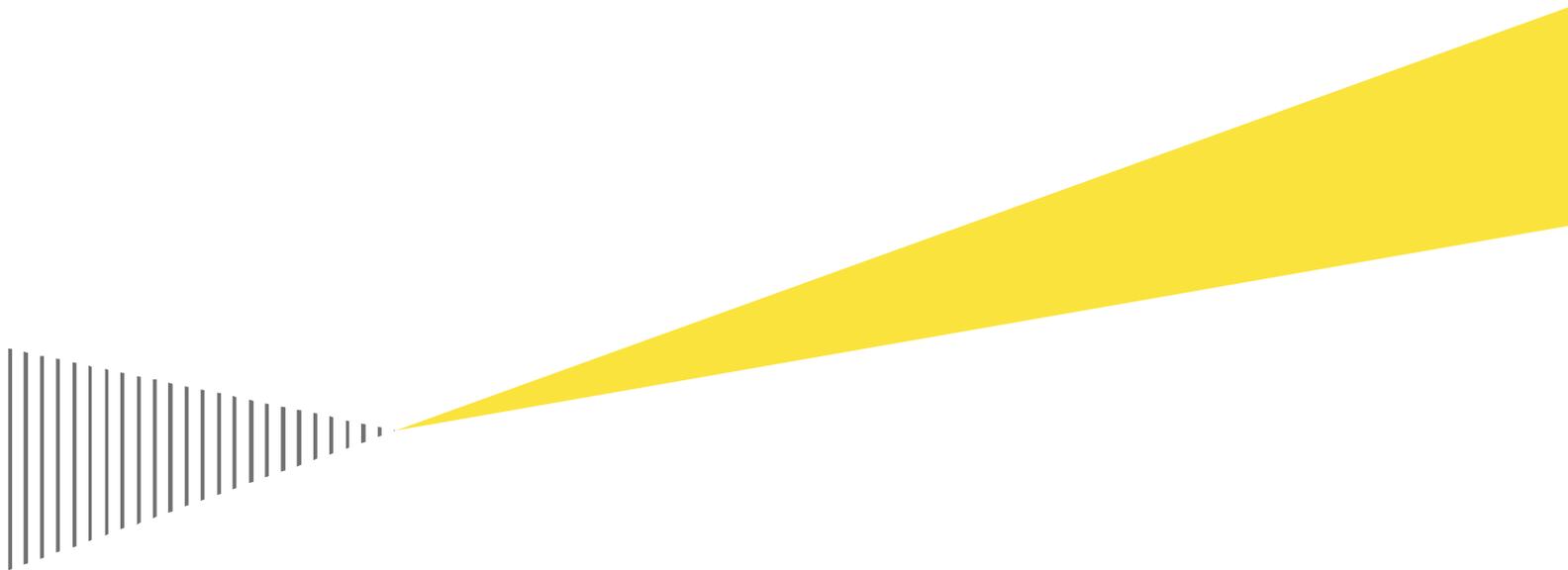
# Adur District Council

Year ending 31 March 2017

Audit Plan

January 2017

Ernst & Young LLP



Joint Governance Committee  
Worthing Town Hall,  
Chapel Road  
Worthing,  
West Sussex,  
BN11 1HA

January 2017

Dear Committee Members

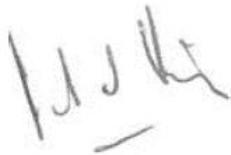
## **Adur District Council: Audit Plan 2016/17**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Joint Governance Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit 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. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 24 January 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Paul King  
*For and behalf of Ernst & Young LLP*  
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.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 Audit Plan 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.

# 1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Adur District Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended; and
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and,
- ▶ management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

## 2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks	Our audit approach
<b>Risk of fraud in revenue recognition</b>	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>▶ Review and test revenue and expenditure recognition policies.</li> <li>▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias.</li> <li>▶ Develop a testing strategy to test material revenue and expenditure streams.</li> <li>▶ Review and test revenue cut-off at the period end date.</li> </ul>
<b>Risk of management override</b>	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>▶ Reviewing accounting estimates for evidence of management bias, and</li> <li>▶ Evaluating the business rationale for significant unusual transactions</li> <li>▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>

### 2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;

- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ performing mandatory procedures regardless of specifically identified risks.

### 3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. For 2017/18 this is based on the overall evaluation criterion:

*"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".*

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

*"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public".*

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risks which we view as relevant to our value for money conclusion.

#### Significant value for money risks

#### Our audit approach

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#### **The Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.**

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The Council continues to face significant financial challenges over the coming years. Whilst we concluded last year that the Council's Medium Term Financial Plan was sound and we noted that plans were in place to deliver the 2016/17 budget, and your financial monitoring is suggesting a marginal overspend of £40 thousand compared to the forecast. We note the Council needs to deliver savings of £2.433 million for 2017/18. At 31 March 2016, the Council had £1.686 million of useable reserves. This includes your General Fund reserves, which at the end of the 2015/16 financial year, were just below the minimum level set by the Section

Our approach will focus on:

- ▶ use of PSAA's value for money profile tool to assess Council spending against similar councils;
  - ▶ review and assess the updated assumptions within the Council's 2017/18 budget and medium term financial plan; and,
  - ▶ Review of the outturn position against budget for 2016/17 and the Council's financial position at 31 March 2017.
  - ▶ Monitoring of savings needed in service budgets.
-

151 Officer. These reserves would not be sufficient to cover any shortfall in savings were they not to be achieved.

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## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

### 4.2 Audit process overview

#### Processes

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test key controls, both manual and IT:

- ▶ Accounts Receivable
- ▶ Accounts Payable
- ▶ Cash & Bank
- ▶ Housing Rent

#### Analytics

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

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests.
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Joint Governance Committee by exception.

### Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

### Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
IAS19 Pensions	EY pensions specialists Hymans Robertson - Actuary
Property, Plant and Equipment valuations	EY valuation expert (as necessary) Wilks, Head and Eve – RICS Registered Valuers

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ assess the reasonableness of the assumptions and methods used;
- ▶ consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ assess whether the substance of the specialist's findings are properly reflected in the financial statements.

## 4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

### Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;

- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

#### **Procedures required by the Code**

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration and Staff Report.
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.
- ▶ Examining and reporting on the consistency of any consolidation schedules or returns with the Councils audited financial statements for the relevant reporting period.

### **4.4 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £1,178,000 based on 2% of Gross Revenue Expenditure. We will communicate uncorrected audit misstatements greater than £59,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

### **4.5 Fees**

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Adur District Council is £48,122.

### **4.6 Your audit team**

The engagement team is led by Paul King, Executive Director who has significant experience auditing local authorities. Paul is supported by Tom Wilkins who is responsible for the day-to-day direction of audit work and is the key point of contact for the Chief Financial Officer.

### **4.7 Timetable of communication, deliverables and insights**

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Joint Governance Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Joint Governance Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

<b>Audit phase</b>	<b>Timetable</b>	<b>Joint Governance Committee timetable</b>	<b>Deliverables</b>
High level planning	<b>Completed</b>	<b>Completed</b>	Audit Fee Letter
Risk assessment and setting of scopes	<b>December 2016 and January 2017</b>	<b>January 2017</b>	Audit Plan
Testing routine processes and controls	<b>February and March 2017</b>	<b>March 2017</b>	Progress Report
Year-end audit	<b>July and August 2017</b>		
Completion of audit	<b>August 2017</b>	<b>TBC August / September 2017</b>	Report to those charged with governance via the Audit Results Report. Audit report (including our opinion on the financial statements and overall value for money conclusion). Audit completion certificate. Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	<b>September 2017</b>	<b>TBC</b>	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

## 5. Independence

### 5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

<b>Required communications</b>	
<b>Planning stage</b>	<b>Final stage</b>
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

### 5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

### ***Self-interest threats***

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

### ***Self-review threats***

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

### ***Management threats***

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

### ***Other threats***

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

### ***Overall Assessment***

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Paul King, the audit engagement Executive Director and the audit engagement team have not been compromised.

## **5.3 Other required communications**

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	<b>Planned Fee 2016/17 £</b>	<b>Scale fee 2016/17 £</b>	<b>Outturn fee 2015/16 £</b>
Opinion Audit and VFM Conclusion	48,122	48,122	48,122
<b>Total Audit Fee – Code work</b>	<b>48,122</b>	<b>48,122</b>	<b>48,122</b>
Certification of claims and returns*	12,230	12,230	27,019

\* – Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA. All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Joint Governance Committee. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	▶ Audit Results Report
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	▶ Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Joint Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	▶ Audit Results Report
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	▶ Audit Results Report
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	▶ Audit Results Report
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Joint Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Joint Governance Committee may be aware of</li> </ul>	▶ Audit Results Report

Required communication	Reference
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> </ul>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<ul style="list-style-type: none"> <li>▶ Certification Report</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>

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# Worthing Borough Council

Year ending 31 March 2017

Audit Plan

January 2017

Ernst & Young LLP



Joint Governance Committee  
Worthing Town Hall,  
Chapel Road  
Worthing,  
West Sussex,  
BN11 1HA

January 2017

Dear Committee Members

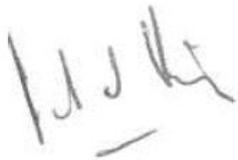
## **Worthing Borough Council: Audit Plan 2016/17**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Joint Governance Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit 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. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 24 January 2017 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Paul King  
*For and behalf of Ernst & Young LLP*  
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.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 Audit Plan 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.

# 1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Worthing Borough Council give a true and fair view of the financial position as at 31 March 2017 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and,
- ▶ management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

## 2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks	Our audit approach
<b>Risk of fraud in revenue recognition</b>	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>▶ Review and test revenue and expenditure recognition policies.</li> <li>▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias.</li> <li>▶ Develop a testing strategy to test material revenue and expenditure streams.</li> <li>▶ Review and test revenue cut-off at the period end date.</li> </ul>
<b>Risk of management override</b>	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>▶ Reviewing accounting estimates for evidence of management bias, and</li> <li>▶ Evaluating the business rationale for significant unusual transactions</li> <li>▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>

### 2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;

- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ performing mandatory procedures regardless of specifically identified risks.

### 3. Value for money risks

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources.

For 2017/18 this is based on the overall evaluation criterion:

*“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”.*

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”.*

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risks which we view as relevant to our value for money conclusion.

#### Significant value for money risks

#### Our audit approach

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#### **The Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.**

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The Council continues to faces significant financial management challenges over the coming years. While we concluded last year that the Council's Medium Term Financial Plan was sound and we noted that plans are in place to deliver the 2016/17 budget, and your financial monitoring is suggesting an underspend of £298 thousand compared to the forecast. We note the Council is required to deliver savings of £2.380m for 2017/18. At 31 March 2016, the Council had £3.024m of useable reserves. This includes your General Fund reserves, which are just above the minimum level set by the Section 151 Officer. While this is sufficient to cover the budget

Our approach will focus on:

- ▶ use of PSAA’s value for money profile tool to assess Council spending against similar councils;
  - ▶ review and assess the updated assumptions within the Council’s 2017/18 budget and medium term financial plan; and,
  - ▶ Monitoring of savings needed in service budgets.
-

gap for 2017/18 should these savings not be made, it does not represent a longer term solution.

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## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

### 4.2 Audit process overview

#### Processes

Our initial assessment of the key processes across the Council has identified the following key processes where we will seek to test key controls, both manual and IT:

- ▶ Accounts receivable
- ▶ Accounts Payable
- ▶ Cash & Bank

#### Analytics

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

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests.
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Joint Governance Committee by exception.

## Internal audit

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

## Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
IAS19 Pensions	EY pensions specialists Hymans Robertson - Actuary
Property, Plant and Equipment valuations	EY valuation specialist (as necessary) Wilks, Head and Eve – RICS Registered Valuers

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ assess the reasonableness of the assumptions and methods used;
- ▶ consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ assess whether the substance of the specialist's findings are properly reflected in the financial statements.

## 4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

### Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;

- ▶ Auditor independence.

#### **Procedures required by the Code**

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration and Staff Report.
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.
- ▶ Examining and reporting on the consistency of any consolidation schedules or returns with the Councils audited financial statements for the relevant reporting period.

### **4.4 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £1,355,000 based on 2% of Gross Revenue Expenditure. We will communicate uncorrected audit misstatements greater than £68,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

### **4.5 Fees**

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Worthing Borough Council is £47,157.

### **4.6 Your audit team**

The engagement team is led by Paul King, Executive Director who has significant experience auditing local authorities. Paul is supported by Tom Wilkins who is responsible for the day-to-day direction of audit work and is the key point of contact for the Chief Financial Officer.

### **4.7 Timetable of communication, deliverables and insights**

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Joint Governance Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Joint Governance Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

<b>Audit phase</b>	<b>Timetable</b>	<b>Joint Governance Committee timetable</b>	<b>Deliverables</b>
High level planning	<b>Completed</b>	<b>Completed</b>	Audit Fee Letter
Risk assessment and setting of scopes	<b>December 2016 and January 2017</b>	<b>January 2017</b>	Audit Plan
Testing routine processes and controls	<b>February and March 2017</b>	<b>March 2017</b>	Progress Report
Year-end audit	<b>July and August 2017</b>		
Completion of audit	<b>August 2017</b>	<b>TBC August / September 2017</b>	Report to those charged with governance via the Audit Results Report. Audit report (including our opinion on the financial statements and overall value for money conclusion). Audit completion certificate. Reporting to the NAO on the Whole of Government Accounts return.
Conclusion of reporting	<b>September 2017</b>	<b>TBC</b>	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

## 5. Independence

### 5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

### 5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

### ***Self-interest threats***

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Council has approved and that are in compliance with PSAA Terms of Appointment.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

### ***Self-review threats***

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

### ***Management threats***

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

### ***Other threats***

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

### ***Overall Assessment***

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Paul King, the audit engagement Executive Director and the audit engagement team have not been compromised.

## **5.3 Other required communications**

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	<b>Planned Fee 2016/17 £</b>	<b>Scale fee 2016/17 £</b>	<b>Outturn fee 2015/16 £</b>
Opinion Audit and VFM Conclusion	47,157	47,157	47,157
<b>Total Audit Fee – Code work</b>	<b>47,157</b>	<b>47,157</b>	<b>47,157</b>
Certification of claims and returns*	6,716	6,716	8,184

- Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.  
All fees exclude VAT.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- ▶ We can rely on the work of internal audit as planned;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Joint Governance Committee. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	▶ Audit Results Report
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	▶ Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Joint Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	▶ Audit Results Report
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	▶ Audit Results Report
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	▶ Audit Results Report
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Joint Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Joint Governance Committee may be aware of</li> </ul>	▶ Audit Results Report

Required communication	Reference
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> </ul>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<ul style="list-style-type: none"> <li>▶ Certification Report</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>

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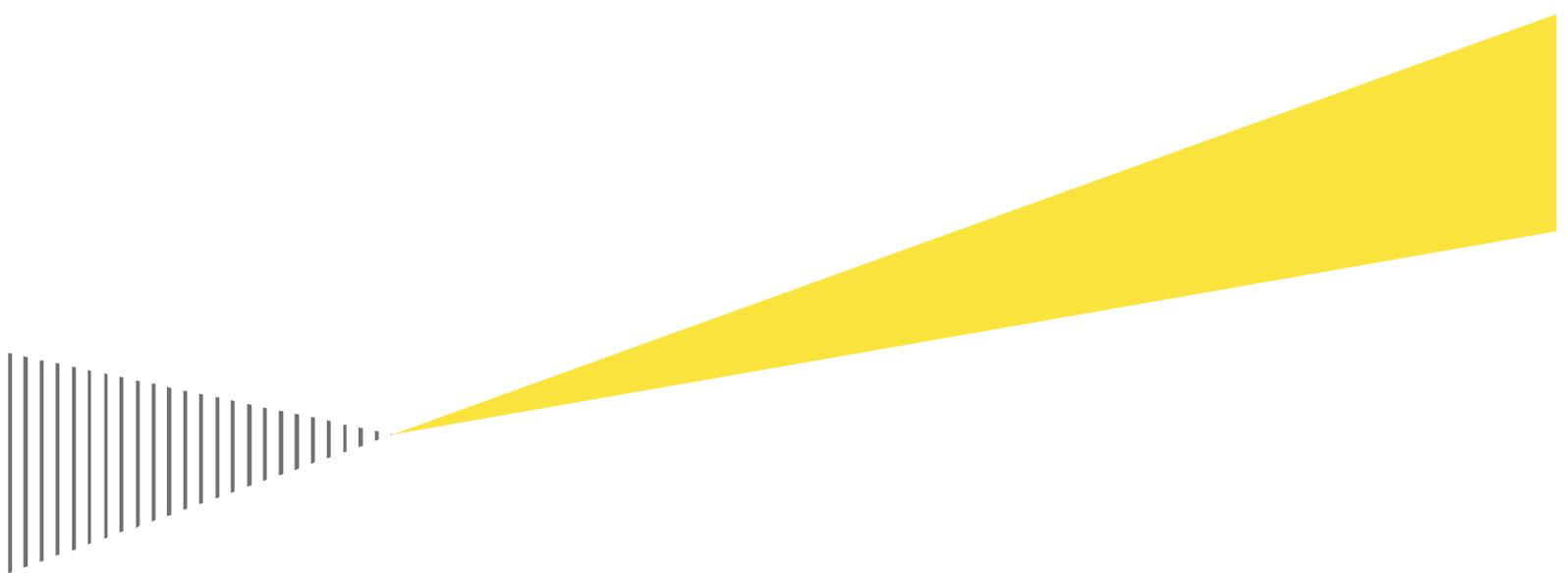
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# Certification of claims and returns annual report 2015-16

Adur District Council

December 2016

Ernst & Young LLP



The Members of the Joint Governance Committee  
Adur & Worthing Councils,  
Worthing Town Hall,  
Chapel Road,  
Worthing,  
West Sussex,  
BN11 1HA

December 2016  
Ref:

Direct line: 0118 928 1556  
Email: [pking1@uk.ey.com](mailto:pking1@uk.ey.com)

Dear Members

## **Certification of claims and returns annual report 2015-16 for Adur District Council**

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

### **Scope of work**

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

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

For 2015-16, 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 (DWP) and did not undertake an audit of the claim.

### **Summary**

Section 1 of this report outlines the results of our 2015-16 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £20,585,756. Our initial work identified a number of errors. As a result further testing needed to be undertaken by the Council and reviewed by us. We reported the results of our initial and additional testing to the DWP in a qualification letter. Details of the qualification matters are included in section 2.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2015-16 were published by PSAA in March 2015 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).



We welcome the opportunity to discuss the contents of this report with you at the 24 January 2017 Joint Governance Committee.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Paul King', is written over a horizontal line.

**Paul King**  
Executive Director  
Ernst & Young LLP  
Enc

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<b>2. 2015-16 certification fees.....</b>	<b>2</b>
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## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£20,585,756
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2015-16	£27,019 <sup>1</sup>
Fee – 2014-15	£16,307

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the DWP towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. We found errors and carried out extended testing in several areas. These areas are largely consistent with those errors identified in previous years, showing little improvement in the assessment of cases year on year.

We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

### Non HRA Rent Rebates

- We identified 1 failure in our initial testing of Non-HRA Rent Rebate cases whereby the Council incorrectly recorded a technical overpayment as an eligible overpayment. This resulted in an overstatement of Cell 28 and understatement of cell 27. We undertook additional testing on the remaining population (11 cases) of Non-HRA Rent Rebate cases containing an entry in cell 28 (eligible overpayments). No further errors were identified. The claim form was subsequently amended to correct this error. Amendments are not required to be reported in the qualification letter.
- We identified 2 failures in our initial testing of Non-HRA Rent Rebate cases whereby the Council had incorrectly offset an overpayment against an underlying entitlement. This resulted in the headline cell 11 and Technical Overpayments in cell 27 being understated by the same amount. We asked the Council to undertake 40+ testing on Non-HRA Rent Rebate cases containing an entry in cell 27 to determine whether the overpayment had been offset against underlying entitlement. No further errors were identified. This error was reported in our Qualification Letter.

### HRA Rent Rebates

- We identified 1 failure in our initial testing of HRA Rent Rebate cases whereby an incorrect working tax credit figure had been used in the calculation of a claimant's income. We also identified 2 failures in our initial testing whereby self-employed earnings were incorrectly calculated, resulting in an overpayment of benefit. We asked the Council to undertake 40+ testing on HRA Rent Rebate cases containing an income assessment. A further 13 cases were identified where the claimant's income

<sup>1</sup> Further information regarding the fee is in Section 2.

had been incorrectly assessed. Those errors resulting in an overpayment extrapolated and reported in our Qualification Letter.

- As part of our 2014/15 certification work, we identified a number of errors whereby non-dependant deductions were incorrectly calculated and included in a claimant's assessment. The certification instructions issued by the DWP state where such errors arise in previous years, auditors should consider asking the authority to undertake 40+ testing to determine if the error arises in the subsequent year. We therefore asked the Council to undertake 40+ testing on such cases. 7 errors were identified. Those errors resulting in an overpayment extrapolated and reported in our Qualification Letter.

### Rent Allowances

- We identified 6 failures in our initial testing of HRA Rent Rebate cases whereby the Council had incorrectly assessed a claimant's income:
  - 1 case where benefit was underpaid as a result of self-employed earnings being calculated incorrectly.
  - 1 case where a claimant's self-employed earnings had been calculated incorrectly, but had no impact on the subsidy received by the claimant.
  - 2 cases where benefit was overstated as a result of earnings being calculated incorrectly.
  - 1 case where benefit was understated as a result of childcare payments being understated.
  - 1 case where benefit was overpaid due to an understatement of the State Retirement Pension in the claimant's income assessment.

We asked the Council to undertake 40+ testing on Rent Allowance cases containing an income assessment. This identified a further 19 cases where income had been incorrectly assessed. Those errors resulting in an overpayment extrapolated and reported in our Qualification Letter.

- We identified 3 failures in our initial testing of Rent Allowance cases whereby benefit was overstated as a result of using an incorrect deduction for non-dependants. We asked the Council to undertake 40+ testing on Rent Allowance cases containing a non-dependent deduction. A further 10 cases were identified where the assessment included incorrect values for non-dependent deductions. Those errors resulting in an overpayment extrapolated and reported in our Qualification Letter.
- We identified 2 failures in our initial testing of Rent Allowance cases whereby the claimants rent was incorrectly recorded. We asked the Council to undertake 40+ testing on Rent Allowance cases containing a rental value. A further 2 cases were identified where the assessment included incorrect rental values. All of these errors resulted in an underpayment of subsidy to the claimant (and therefore understatement of subsidy claimed from the DWP). In accordance with the DWP's certification instructions, as this error resulted in underpayments only, there was no amendment to the claim form and the error was not extrapolated or reported to the DWP in our Qualification Letter.
- We identified 1 failure in our initial testing of Rent Allowance cases whereby an incorrect non-dependent deduction had been recorded, which resulted in an underpayment of benefit in the prior year. We asked the Council to undertake 40+ testing on Rent Allowance cases containing an overpayment in the prior year to

determine the overpayment was correctly calculated and recorded. We identified a further 6 errors. Those errors resulting in an overpayment extrapolated and reported in our Qualification Letter.

## 2. 2015-16 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2015 and are now available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).

Claim or return	2015-16	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	27,019	27,019	16,307

The actual fee of £27,019 is the scale fee set by the PSAA and is based upon the 2013/14 fee, where significant additional procedures were completed by the audit team. We are in discussion with officers in order to refund part of this fee.

### 3. Looking forward

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

The Council's indicative certification fee for 2016-17 is £6,716. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015-16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. 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/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

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

PSAA is currently consulting on the 2017-18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018-19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

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# Certification of claims and returns annual report 2015-16

Worthing Borough Council

December 2016

Ernst & Young LLP



The Members of the Joint Governance Committee  
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Worthing Town Hall,  
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December 2016  
Ref:

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Email: [pking1@uk.ey.com](mailto:pking1@uk.ey.com)

Dear Members

## **Certification of claims and returns annual report 2015-16 for Worthing Borough Council**

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Worthing Borough Council's 2015-16 claims.

### **Scope of work**

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

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

For 2015-16, 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 (DWP) and did not undertake an audit of the claim.

### **Summary**

Section 1 of this report outlines the results of our 2015-16 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £39,974,509. Our initial work identified a number of errors. As a result further testing needed to be undertaken by the Council and reviewed by us. We reported the results of our initial and additional testing to the DWP in a qualification letter. Details of the qualification matters are included in section 2.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2015-16 were published by the PSAA in March 2015 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).



We welcome the opportunity to discuss the contents of this report with you at the 24 January 2017 Joint Governance Committee.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Paul King', with a horizontal line underneath.

**Paul King**  
Executive Director  
Ernst & Young LLP  
Enc

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## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£39,974,509
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2015-16	£9,184 <sup>1</sup>
Fee – 2014-15	£7,730

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the DWP towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. We found errors and carried out extended testing in several areas.

We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

- We identified 1 failure in our initial testing of Non-HRA Rent Rebate cases whereby the Council incorrectly posted a correction to a previous error through the wrong subsidy cell on the claim form, resulting in an overstatement of Cell 15. We investigated this error further and determined it was isolated. The claim form was subsequently amended to correct this error. Amendments are not required to be reported in the Qualification Letter.
- We identified 1 failure in our initial testing of Non-HRA Rent Rebate cases whereby the Council misclassified an overpayment as an eligible overpayment in cell 28, rather than as a Local Authority error in cell 26. Cell 28 was therefore overstated and cell 26 understated. We asked the Council to undertake 40+ testing on Non-HRA Rent Rebate cases containing an entry in cell 28 to determine whether the classification was correct. We tested the whole population of 25 cases. No further errors were identified. This error was reported in our Qualification Letter.
- We identified 3 failures in our initial testing of Rent Allowance cases whereby claimant income had been incorrectly assessed. We asked the Council to undertake 40+ testing, which identified a further 3 errors. These errors were extrapolated and reported in our Qualification Letter.

We experienced considerable delays in the Council completing the two sets of 40+ testing, which resulted in certification of the claim being delayed to 1 December 2017, the day after the certification deadline of 30 November. The 40+ testing should have been completed sooner, which would have enabled us to complete our work and certify the claim before the deadline date. Due to these delays, the additional time spent following up the uncompleted work and the additional volume of errors identified compared to 2013/14 (upon which the indicative fee is based), we intend to charge the Council an additional £1000 (subject to approval by PSAA).

<sup>1</sup> The Actual Fee differs from the Indicative Fee due to significant delay in the delivery of 40+ testing and the additional errors (and therefore procedures which had to be completed in response to these errors).

## 2. 2015-16 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2015-16, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2015 and are now available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).

Claim or return	2015-16	2015-16	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	9,184 <sup>2</sup>	8,184	7,730

<sup>2</sup> As noted on page 1, the Actual Fee differs from the Indicative Fee due to significant delay in the delivery of 40+ testing and the additional errors (and therefore procedures which had to be completed in response to these errors).

### 3. Looking forward

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

The Council's indicative certification fee for 2016-17 is £6,716. This was prescribed by PSAA in March 2016, based on no changes to the work programme for 2015-16. Indicative fees for 2016/17 housing benefit subsidy certification work are based on final 2014/15 certification fees. 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/201617-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

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

PSAA is currently consulting on the 2017-18 work programme. There are no changes planned to the work required and the arrangements for certification of housing benefit subsidy claims remain in the work programme. However, this is the final year in which these certification arrangements will apply. From 2018-19, the Council will be responsible for appointing their own auditor and this is likely to include making their own arrangements for the certification of the housing benefit subsidy claim in accordance with the requirements that will be established by the DWP.

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**JOINT HALF YEAR IN-HOUSE TREASURY MANAGEMENT OPERATIONS REPORT  
1 APRIL – 30 SEPTEMBER 2016 FOR ADUR DISTRICT COUNCIL AND  
WORTHING BOROUGH COUNCIL**

**REPORT BY DIRECTOR OF DIGITAL AND RESOURCES**

**1.0 SUMMARY**

- 1.1 This report presents the treasury management portfolio position for the halfway point of the 2016/17 financial year for both Adur District Council and Worthing Borough Council.
- 1.2 The Councils operate a balanced budget, which broadly means cash raised during the year will meet the cash expenditure. Part of the treasury management function ensures this cash flow is adequately planned, with surplus monies being invested in approved counterparties, providing security foremost, adequate liquidity, then a yield commensurate with going market rates at the time of investment.
- 1.3 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 long-term borrowing needs of the Councils: essentially the longer term cash flow planning is to ensure the Councils can meet their capital spending plans. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

**2.0 BACKGROUND**

- 2.1 The presentation of this report complies with the requirements of the CIPFA Code of Practice on Treasury Management (The Code), and also the reporting arrangements contained within the Councils' approved Joint Treasury Management Practices (TMPs).
- 2.2 The purpose of this report is to inform members of the treasury management position and performance in the first half of the financial year compared with the position expected at the start of the year as reported within the Joint Treasury Management Strategy Statement and Annual Investment Strategy.
- 2.3 The main contents of the report are:
  - A review of the Treasury Management Strategy Statement and Annual Investment Strategy (Section 3)
  - The Councils' overall portfolio position (Section 5)

## **2.0 BACKGROUND**

- The Councils' capital expenditure (Section 4) and prudential indicators (Appendix 2)
- A review of the Councils' borrowing and debt restructuring during 2016/17 (Section 6)
- A review of the Councils' investments during 2016/17 (Section 7)
- An economic update for the first six months of 2016/17 – Appendix 1

## **3.0 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE**

- 3.1 The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by the Joint Strategic Committee on 2nd February 2016. The Strategy contained the general expectation that the base interest rate would rise to 0.75% by December 2016, resulting in a trend of gently rising gilt yields and PWLB rates.
- 3.2 The commentary provided in Appendix 1 by the Councils' joint treasury management consultants Capita Asset Services recognises that economic growth will be weak during the second half of 2016 and in 2017. The base interest rate has been held at 0.25% and any rise may be delayed until May 2018.
- 3.3 The returns on investment up to 30 September 2016 equate to 0.58% for Worthing and 0.87% for Adur, compared to budgeted returns of 0.75%. The difference in returns reflects the relative liquidity positions of the Councils – Adur has more cash available for longer term investments, including a five year investment for £2m taken out in 2013 at 1.9%. Worthing needs to retain more of its cash in short term investments, including Money Market Funds, where rates are currently very low. Capita's Benchmark Return for investments up to 6 months for the period to 30 September is 0.52%. Officers are exploring the options that are available to achieve the maximum possible returns.
- 3.4 Borrowing costs have also remained below budget, resulting in some offset to the interest foregone on investments. (See Section 6 Borrowing Outturn).

## **4.0 THE COUNCILS' CAPITAL EXPENDITURE AND FINANCING 2016/17**

- 4.1 The Councils undertake capital expenditure on long-term assets. These activities may be financed in one of two ways:
- financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Councils' borrowing needs; or
  - if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need. This is known as 'unfinanced' capital expenditure.

#### 4.0 THE COUNCILS' CAPITAL EXPENDITURE AND FINANCING 2016/17

4.2 Capital expenditure forms one of the required prudential indicators. The revised forecast for the capital expenditure outturn position for 2016/17 is compared below to the original estimate. The increases in the revised estimates are due to the re-profiling of 2015/16 expenditure, for example in Adur £0.5m slippage for the Riverside Car Park enhancements, and in Worthing slippage of £270k for additional burial space at Durrington Cemetery, £280k for driveway and car park works at the Crematorium and £280k for the replacement of Brooklands Club House. The Adur Capital Grants variance is due to the slippage in the Environment Agency Coastal Protection Grant.

<b>Adur DC - Capital Expenditure</b>	<b>2016/17 Original Estimate</b>	<b>2016/17 Revised Estimate at 30 Sept 16</b>
	<b>£m</b>	<b>£m</b>
General Fund	9.830	10.321
HRA	5.686	5.139
<b>Total Capital Expenditure</b>	<b>15.516</b>	<b>15.460</b>
<b>Resourced By:</b>		
Capital Receipts	0.546	0.771
HRA Major Repairs & Develop Reserves	5.286	4.645
Capital Grants and Contributions	4.325	1.318
Revenue Reserves and Contributions	0.091	0.198
Unfinanced Capital Expenditure	5.268	8.528

<b>Worthing B.C. - Capital Expenditure</b>	<b>2016/17 Original Estimate</b>	<b>2016/17 Revised Estimate at 30 Sept 16</b>
	<b>£m</b>	<b>£m</b>
General Fund	20.073	20.984
<b>Total Capital Expenditure</b>	<b>20.073</b>	<b>20.984</b>
<b>Resourced By:</b>		
Capital Receipts	0.369	0.509
Capital Grants and Contributions	1.037	1.486
Revenue Reserves and Contributions	0.273	0.346
Unfinanced Capital Expenditure	18.394	18.643

4.3 Total actual capital expenditure as at 30 September 2016 is as follows:-

- Adur                    £1.018m            representing 6.6% of the revised estimate
- Worthing            £3.945m            representing 18.8% of the revised estimate

#### 4.0 THE COUNCILS' CAPITAL EXPENDITURE AND FINANCING 2016/17

4.4 Unfinanced capital expenditure, ie expenditure to be funded from borrowing for Adur and Worthing, is estimated to be £8.5m and £18.6m respectively. Any unfinanced capital expenditure results in an increase to the Councils' Capital Financing Requirements, and the need to borrow and make Minimum Revenue Provisions (MRP). This is explained further in Paragraph 5.12 below.

#### 5.0 TREASURY POSITION AND OVERALL BORROWING NEED AS AT 30.09.2016

5.1 The Councils' debt and investment positions are organised by the in-house treasury management service in order to ensure security for investments, adequate liquidity for revenue and capital activities and to manage risks within all treasury management activities.

5.2 The beginning and half year 2016/17 treasury position for each Council is summarised in the tables which follow, with a full breakdown of the composition for Adur at Appendix 3, and for Worthing at Appendix 4.

##### ADUR DC at 30 September 2016

Adur District Council	30-Sep-16 Principal	30-Sep-16 Total	01/04/2016 to 30/09/2016 Rate/Return	31-Mar-16 Principal	Total 2015/16	Rate/Return 2015/16
	£m	£m	%	£m	£m	%
Fixed rate funding:						
PWLB	55.5		3.8%	56.3		3.8%
Market	17.9		5.2%	7.3		5.2%
Variable rate funding:		73.4			63.6	
Market	0		N/A	10.7	10.7	5.2%
Temporary Loans <1yr	0.2	0.2	0.3%			
<b>Total Debt (a)</b>		<b>73.6</b>	<b>4.1%</b>		<b>74.3</b>	<b>4.1%</b>
<b>CFR(b)</b>		<b>75.9</b>			<b>76.8</b>	
<b>Over/(under) borrowing (a-b)</b>		<b>(2.3)</b>			<b>(2.5)</b>	
Investments						
Long Term	2.0		1.9%	2.0		1.9%
Short Term	17.2		0.7%	11.0		0.8%
Share Cap/Bonds	0.1		N/A	0.1		N/A
		19.3			13.1	
<b>Total Investments (c)</b>		<b>19.3</b>	<b>0.9%</b>		<b>13.1</b>	<b>0.9%</b>
<b>Net Debt (a-c)</b>		<b>54.3</b>			<b>61.2</b>	

## 5.0 TREASURY POSITION AND OVERALL BORROWING NEED AS AT 30.09.2016

- 5.3 The £10.7m variable rate borrowing at 31 March 2016 has been converted by the lender, Barclays Bank, into fixed rate borrowing for the full term of the loan. It is therefore now included in the fixed rate market borrowing total above.
- 5.4 The reduction in Adur's net indebtedness of £6.9m since the start of the year is due to the half year repayment of HRA debt (£0.9m) for self-financing, plus the increase in investment balances (£6.2m), less Lancing Parish Council precepts (-£0.2m)
- 5.5 The half year underlying need to borrow (as measured by the CFR) is estimated to be approximately £75.9m, based on the opening year position, plus unfinanced capital expenditure less provisions for MRP.
- 5.6 The comparison above of actual debt at 30 September with the expected CFR results in an under borrowing position of £2.3m, compared to an under-borrowed position of £2.5m at 31 March 2016.

### HRA and General Fund Overall Borrowing Need

- 5.7 In recognition of the introduction of the HRA Self-financing Regime the treasury management policy for 2012/13 onwards contains a requirement to account for HRA and General Fund debt separately.
- 5.8 Consequently the respective debt positions of the HRA and General Fund for Adur is compared to the CFR as follows:

Adur Council	HRA	General Fund	TOTAL
	£m	£m	£m
Long Term Debt at 1 April 2016	61.29	12.98	74.27
New Debt	-	0.22	0.22
Long Term Debt Repayments	(0.85)	-	(0.85)
Long Term Debt (30 Sept 2016)	60.44	13.20	73.64
CFR (30 September 2016)	60.97	14.92	75.89
(Under)/Over Borrowed	(0.53)	(1.72)	(2.25)
<b>HRA Debt Limit</b>	68.91	N/A	
<b>HRA Borrowing Headroom</b>	8.47	N/A	

- 5.9 The table above includes the comparison of actual HRA Debt with the debt ceiling set by central government at the commencement of the Self-Financing regime. This comparison shows headroom exists for new HRA borrowing of £8.47m at 30 September 2016.

## 5.0 TREASURY POSITION AND OVERALL BORROWING NEED AS AT 30.09.2016

### Worthing BC at 30 September 2016

Worthing Borough Council	30-Sep-16 Principal	30-Sep-16 Total	01/04/2016 30/09/2016 Rate/Return	31-Mar-16 Principal	Total 2015/16	Rate/Return 2015/16
	£m	£m	%	£m	£m	%
Fixed rate funding:						
PWLB	7.8		2.1%	6.1		2.1%
Market	7.0		1.1%	7.0		1.0%
Temporary Loans	11.0		0.6%	6.0		0.5%
<b>Total Debt (a)</b>		<b>25.8</b>	1.2%		<b>19.1</b>	1.0%
<b>CFR(b)</b>		<b>26.3</b>			<b>23.4</b>	
<b>Over/(under) borrowing (a-b)</b>		<b>(0.50)</b>			<b>(4.30)</b>	
Investments						
Share						
Cap/Bonds	0.1		N/A	0.1		N/A
Long Term	0.0		N/A	0.0		
Short Term	19.9		0.6%	8.0		0.7%
<b>Total Investments (c)</b>		<b>20.0</b>	0.6%		<b>8.1</b>	0.7%
<b>Net Debt (a-c)</b>		<b>5.8</b>			<b>11.0</b>	

5.10 For Worthing Council the reduction in net indebtedness since the start of the year is £5.2m due to an increase in borrowing of £6.7m and an increase in investments of £11.9m.

5.11 Actual borrowing of £25.8m at the half year point compares to an expected full year CFR for 2016/17 of £47.1m. Worthing is under borrowed by £0.5m and further borrowing will be arranged as required for the capital programme. The under borrowing arises from the use of internal funds in previous years to finance capital expenditure to avoid the “cost of carry” (i.e. the difference between interest received on investments and the interest charged on new borrowing).

5.12 The Councils’ underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This represents the 2016/17 unfinanced capital expenditure and prior years’ net unfinanced capital expenditure which has not yet been paid for by revenue or other resources. Hence, the CFR is a gauge of the Councils’ debt position resulting from the capital activity of the Councils and what resources have been used or set aside to pay for capital expenditure.

## **5.0 TREASURY POSITION AND OVERALL BORROWING NEED AS AT 30.09.2016**

- 5.13 The Councils are mandatorily required to make an annual revenue charge, called the Minimum Revenue Provision (MRP) to reduce the CFR for the General Fund. This is effectively a repayment of the borrowing need. Adur Council also makes a Voluntary Revenue Provision to reduce the HRA CFR.
- 5.14 The Councils' 2016/17 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy Statement and Annual Investment Strategy Report. An amendment to the Councils' 2016/17 MRP Policy was approved by the Joint Strategic Committee on 2 June 2016.

## **6.0 BORROWING OUTTURN FOR 1 APRIL – 30 SEPTEMBER 2016**

- 6.1 The borrowing at 30 September is detailed in Appendices 3 and 4.
- 6.2 Worthing obtained 5 new loans in the 6 month period totalling £13m, partly to re-finance temporary loans that matured and were formerly obtained for up to one year duration and partly to take advantage of the current low interest rates to fund the capital programme. Four of the loans have been re-financed on a short term basis and one is a 20 year loan with the PWLB. Worthing expects to receive the proceeds of asset sales that will be used to repay any outstanding debt associated with Splashpoint Swimming Pool (currently £9.4m).
- 6.3 For Adur District Council the total cost of interest on all borrowing to 30 September 2016 amounted to £1.5m for average debt of £74.6m, equating to an average rate of 4.11%.
- 6.4 For Worthing Council the total cost of interest on all borrowing for the half year amounted to £138k for average debt of £22.8m, equating to an average rate of 1.2%.

### **Debt Rescheduling**

- 6.5 No debt was rescheduled during the half year for either Council.

## **7.0 INVESTMENT OUTTURN FOR HALF YEAR TO 30 SEPTEMBER 2016**

### **Investment Policy**

- 7.1 The Councils' investment policy is governed by CLG guidance, and implemented in the Annual Investment Strategy and Treasury Management Practices approved by the Councils before the start of the 2016/17 financial year.
- 7.2 The investment policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

## **7.0 INVESTMENT OUTTURN FOR HALF YEAR TO 30 SEPTEMBER 2016**

- 7.3 The total interest receivable from investments for the half year to 30 September 2016 was £83k for Adur and £45k for Worthing, relating to average balances of £19.0m and £15.6m respectively.

## **8.0 OTHER ISSUES**

### **Approved Counterparty List for Investments**

- 8.1 Credit and counterparty risk has fallen since the height of the global financial crisis but it remains one of the most important concerns for treasury management.
- 8.2 The policy for choosing investment counterparties is based on credit ratings provided by the three main credit rating agencies (Fitch, Standard & Poor's and Moody's) supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

## **9.0 LEGAL**

- 9.1 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.
- 9.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 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.

## **10.0 CONCLUSIONS**

- 10.1 For both Councils, the position for investments and borrowings at the 2016/17 half year was broadly in line with expectations. However, interest rates for both borrowing and investments have been lower than was forecast in the Treasury Management Strategy at the start of the year, due to the economic climate. Overall the treasury management budgets are expected to underspend this year.

## **11.0 RECOMMENDATIONS**

- 11.1 The Joint Strategic Committee is recommended to:-

a) Note the contents of this report; and

- 11.2 The Joint Governance Committee is recommended to:-

a) Note this report and refer any comments or suggestions to the next meeting of Joint Strategic Committee.

**Background Papers:**

1. Joint Treasury Management Strategy Statement and Annual Investment Strategy 2016/17
2. Housing Revenue Account – Budget 2016/17, to Adur Cabinet (February 2016)
3. Estimates 2016/17 and Setting of 2016/17 Council Tax, to Adur Cabinet and Worthing Cabinet (February 2016).
4. Joint Annual Treasury Management Report 2015/16 to Joint Governance and Audit September 2016, and Joint Strategic Committee October 2016.
5. Capita Asset Services Mid Year Report Template 2016/17

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## **SCHEDULE OF OTHER MATTERS**

### **1.0 COUNCIL PRIORITY**

1.1 The Councils' Treasury Management Strategy and Annual Investment Strategy place the security of investments as foremost in considering all treasury management dealing. By so doing it contributes towards the following Council priority:

- To protect and enhance priority services.

### **2.0 SPECIFIC ACTION PLANS**

2.1 As contained within Councils' Treasury Management Strategy and Annual Investment Strategy 2016/17-2018/19, submitted to and approved by full Councils before the commencement of the 2016/17 financial year.

### **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**

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 Matter considered and no issues identified

### **9.0 RISK ASSESSMENT**

9.1 In the current economic climate the security of investments is paramount, the management of which includes regular monitoring of the credit ratings and other incidental information relating to credit worthiness of the Councils' investment counterparties.

### **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

## ECONOMIC PERFORMANCE AND OUTLOOK PROVIDED BY CAPITA ASSET SERVICES

### NOVEMBER QUARTERLY INFLATION REPORT AND POST US PRESIDENTIAL ELECTION REVIEW

- We have updated our forecasts of 9 August to take into account the Bank of England quarterly Inflation Report for November 2016, the decision of the MPC meeting of 3 November, and the US Presidential election of 8 November. We also felt that we should allow financial markets to settle down for a few days after the result of that election, which provided a surprise outcome. We therefore undertook a review of our forecasts on 15 November.
  - Despite many ominous warnings that there could be significant turbulence in financial markets if **Donald Trump won the election**, markets have surprised by their lack of such a reaction. In fact, stock markets in America have hit a new record high in the first few days since the election. However, Treasury yields have risen sharply in expectation of a significant rise in inflation, as an economy which is already working near to full capacity could be in line for a significant boost to economic growth if Trump's expansion of infrastructure expenditure plans become a reality.
  - His plans to cut taxes, at the same time as boosting expenditure, could also lead to a sharp rise in total debt issuance from the current level of around 72% of GDP towards 100% during his term in office. However, although the Republicans now have a monopoly of power for the first time since the 1920s, in having a President and a majority in both Congress and the Senate, there is by no means any certainty that the politicians and advisers he has been appointing to his team, and both houses, will implement the more extreme policies that Trump outlined during his election campaign. Indeed, Trump may even rein back on some of those policies himself.
  - The **MPC meeting of 3 November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unaltered. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer in its forward guidance that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank.
  - The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolve in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in June 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.
- NEWSFLASH Capita Asset Services 3

## ECONOMIC PERFORMANCE AND OUTLOOK PROVIDED BY CAPITA ASSET SERVICES

### NOVEMBER QUARTERLY INFLATION REPORT AND POST US PRESIDENTIAL ELECTION REVIEW

- The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.
- The August quarterly Inflation Report was based on a pessimistic forecast of near to zero **GDP growth** in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the shock of the result of the referendum in June. However, consumers have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015. In addition, the GfK consumer confidence index has recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result.
- Bank of England GDP forecasts in the November quarterly Inflation Report were as follows, (August forecasts in brackets) - 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.
- Capital Economics' forecasts for economic growth are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.
- The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017; (Capital Economics are forecasting a peak of 3.2% in 2018). This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, (16% down against the US dollar and 11% down against the Euro); this will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external, (outside of the UK), influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.
- What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure for October surprised by under shooting forecasts at 0.9%. However, producer output prices rose at 2.1% and core inflation was up at 1.4%, confirming the likely future upwards path.

## ECONOMIC PERFORMANCE AND OUTLOOK PROVIDED BY CAPITA ASSET SERVICES

### NOVEMBER QUARTERLY INFLATION REPORT AND POST US PRESIDENTIAL ELECTION REVIEW

- **Gilt yields, and consequently PWLB rates**, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and have hit a peak on the way up again of 1.46% on 14 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling. NEWSFLASH Capita Asset Services 4
- **The Chancellor** has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, (and ultimately boosting tax revenues in the longer term), will be a more urgent priority.
- **Employment** has been continuing to grow steadily, despite initial expectations that the referendum would cause a fall in employment. House prices are also continuing to rise at a modest pace; but a downturn in prices could dampen consumer confidence and expenditure.
- **Rising EU and geopolitical risks e.g.**
  - \* **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country being able to pay its way – and before the EU is prepared to agree to release further bail out funds.
  - \* **Spain** has had two general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (130), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.

**ECONOMIC PERFORMANCE AND  
OUTLOOK PROVIDED BY CAPITA ASSET SERVICES**

**NOVEMBER QUARTERLY INFLATION REPORT AND POST US PRESIDENTIAL  
ELECTION REVIEW**

- \* The under capitalisation of **Italian banks** poses a major risk with state aid firmly ruled out by the EU as a potential way out.
- \* **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this has also become a confidence vote on Prime Minister Renzi who originally said he would resign if there is a 'no' vote, but has since back tracked on that in the light of adverse poll predictions. A rejection of these proposals would stop progress to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth. They are also intended to give Italy more stable government as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. It is unclear if a No vote could bring down the government.
- \* **Dutch general election 15.3.17**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and antiEU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the EU – Canada free trade pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU.
- \* **French presidential election**; first round 13 April; second round 7 May 2017.
- \* **French National Assembly election June 2017**
- \* **German Federal election August – 22 October 2017**. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.
- \* The core EU, (note, not just the Eurozone currency area), principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states, especially with the Visegrad bloc of former communist states.

## ECONOMIC PERFORMANCE AND OUTLOOK PROVIDED BY CAPITA ASSET SERVICES

### NOVEMBER QUARTERLY INFLATION REPORT AND POST US PRESIDENTIAL ELECTION REVIEW

- \* Given the number and type of challenges the EU faces in the next eighteen months, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks.
- **Economic growth in the EU**, (the UK's biggest trading partner), has been lack lustre despite the ECB cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing during 2016. Growth could be negatively impacted by political developments which would then also impact on UK exports and growth.
  - The **US economy** has been growing strongly in quarter three at 2.9%, (on an annualised basis), after only 1.4% in quarter 2. The election does not appear likely to have much impact on the Fed. in terms of holding back further on increasing the Fed. Rate. Accordingly, the next rate rise is still widely expected to occur in December 2016, followed by sharper increases thereafter, which may also cause Treasury yields to rise further; this could give rise to a growing gap between Treasury and gilt yields over time. If the Trump package of policies is implemented, there is likely to be an increase in inflationary pressures which could then mean that the pace of further Fed. Rate increases will be quicker and stronger than formerly expected.
  - In the first week since the US election, there has already been a major shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which is likely to be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels by the artificial and temporary power of quantitative easing.
  - **Japan** is struggling to gain consistent significant growth, although quarter 3 has come in at +2.2%, (annualised rate). It is also struggling to put deflation firmly behind it and to get inflation up to reasonable levels, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy
  - **Chinese economic growth** has been weakening despite successive rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

## ECONOMIC PERFORMANCE AND OUTLOOK PROVIDED BY CAPITA ASSET SERVICES

### 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 and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. Rate is likely to go up more quickly and more strongly than Bank Rate in the UK and recent events have not changed that view, just that the timing of such increases may well have been deferred somewhat during 2016. While there is normally a high degree of correlation between the two yields, we would expect to see a growing decoupling of yields between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and the resulting effect on PWLB rates.

The overall balance of risks to economic recovery in the UK remains to the downside, particularly with the current uncertainty over the final terms of Brexit.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

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

- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.

## ECONOMIC PERFORMANCE AND OUTLOOK PROVIDED BY CAPITA ASSET SERVICES

### CAPITA ASSET SERVICES' FORWARD VIEW

- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: - NEWSFLASH Capita Asset Services 7

- The pace and timing 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.

	NOW	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
<b>BANK RATE</b>	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
<b>3 month LIBID</b>	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.60	0.70	0.80	0.90
<b>6 month LIBID</b>	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.50	0.60	0.70	0.80	0.90	1.00
<b>12 month LIBID</b>	0.70	0.70	0.70	0.70	0.70	0.70	0.70	0.80	0.80	0.90	1.00	1.10	1.20	1.30	1.40
<b>5 yr PWLB</b>	1.50	1.60	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	2.00	2.00
<b>10 yr PWLB</b>	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.70
<b>25 yr PWLB</b>	3.00	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.30	3.40
<b>50 yr PWLB</b>	2.70	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20

<b>BANK RATE</b>	<b>NOW</b>	<b>PREVIOUSLY</b>
Q1 2017	0.25%	0.10%
Q1 2018	0.25%	0.10%
Q1 2019	0.25%	0.25%
Q1 2020	0.75%	-

Our target borrowing rates and the current PWLB (certainty) borrowing rates are set out below:

<b>PWLB debt</b>	<b>Current borrowing rate as at 15.11.16</b>	<b>Target borrowing rate now (Q4 2016)</b>	<b>Target borrowing rate previous (Q4 2016)</b>
5 year	1.53%	1.60%	1.00%
10 year	2.24%	2.30%	1.50%
25 year	2.89%	2.90%	2.30%
50 year	2.63%	2.70%	2.10%

## ECONOMIC PERFORMANCE AND OUTLOOK PROVIDED BY CAPITA ASSET SERVICES

### CAPITA ASSET SERVICES' FORWARD VIEW

**Borrowing advice:** although yields have risen from their low points, yields are still at historic lows and borrowing should be considered if appropriate to your strategy. We still see value in the 40yr to 50yr range at present but that view would be negated if Bank Rate does not climb to at least 2.5% over the coming years. Accordingly, clients will need to review and assess their risk appetite in terms of any underlying borrowing requirement they may have, and also project forward their position in respect of cash backed resources.

Any new borrowing should also take into account the continuing cost of carry, the difference between investment earnings and borrowing rates, especially as our forecasts indicate that Bank Rate may not rise from 0.25% until June 2019 and then will only rise slowly.

Our suggested budgeted investment earnings rates for investments up to about three months duration in each financial year for the next seven years are as follows:

Average earnings in each year	Now	Previously
2016/17	0.25%	0.25%
2017/18	0.25%	0.10%
2018/19	0.25%	0.25%
2019/20	0.50%	0.50%
2020/21	0.75%	0.75%
2021/22	1.00%	1.00%
2022/23	1.50%	1.25%
2023/24	1.75%	1.50%
Later years	2.75%	2.50%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is expected to remain unchanged. Negative, (or positive), developments could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

## **THE COUNCILS' PRUDENTIAL INDICATORS - Based on The Half Year Monitoring Reports**

In order to demonstrate that borrowing for capital expenditure purposes is affordable, sustainable and prudent, the Prudential Code for Capital Finance (The Prudential Code) requires the Councils to determine a number of Prudential Indicators before the start of the financial year, and to monitor these throughout and at the end of the year.

In particular, the borrowing activity of both Councils is constrained by the Prudential Indicators for Net Borrowing and the CFR, and by the Authorised Limit.

The complete set of Prudential and Treasury Management Indicators for each Council is estimated (where possible at the mid-year point) for the full financial year 2016/17. These estimates are based on the half year outturn and forward projections.

The indicators are explained as follows:

### **Net borrowing and the CFR**

In order to ensure that borrowing levels are prudent over the medium term the Councils' external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Councils are not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, exceed the CFR for 2016/17 plus the expected changes to the CFR over 2017/18 and 2018/19.

This indicator allows the Councils some flexibility (if required or beneficial) to borrow in advance of its immediate capital needs. Both Councils have complied with this prudential indicator, as the actual or expected net borrowing position (i.e. gross borrowing less gross investments) is below the value of the CFR.

### **The Authorised Limit**

The Authorised Limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. The Councils do not have the power to borrow above the respective limit. Neither Council exceeded its Authorised Limit by 30 September 2016, nor is expected to do so.

### **The Operational Boundary**

The Operational Boundary is the expected borrowing position of the Councils during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. Neither Council exceeded its Operational Boundary in the half year to 30 September.

The tables below compare the maximum actual borrowing position at 30 September 2016 for both Councils with the authorised and operational limits.

**THE COUNCILS' PRUDENTIAL INDICATORS**  
**- Based on The Half Year Monitoring Reports**

<b>Adur District Council</b> <b>Actual Borrowing Compared to Prudential Limits</b>	<b>2016/17</b> <b>£m</b>
Authorised limit	100
Maximum gross borrowing position during half year	74.6
Operational boundary	94
Average gross borrowing position for half-year	74.6
Financing costs as a proportion of net revenue stream revised forecast	56.11%
Financing costs as a proportion of net revenue stream original forecast	58.25%

<b>Worthing Borough Council</b> <b>Actual Borrowing Compared to Prudential Limits</b>	<b>2016/17</b> <b>£m</b>
Authorised limit	45
Maximum gross borrowing position during half-year position	25.76
Operational boundary	40
Average gross borrowing position for half-year	22.8
Financing costs as a proportion of net revenue stream - revised forecast	8.25%
Financing costs as a proportion of net revenue stream original forecast	11.56%

**Actual financing costs as a proportion of net revenue stream**

This indicator, shown in the Tables above, expresses the cost of capital (borrowing and other long term obligation costs net of investment income) as a percentage of the Councils' projected net revenue expenditure.

**THE COUNCILS' PRUDENTIAL INDICATORS**  
**- Based on The Half Year Monitoring Reports**

1	<b>PRUDENTIAL INDICATORS - ADUR</b> Extract from budget and rent setting report	<b>2015/16</b> <b>Actual</b>	<b>2016/17</b> <b>Original</b>	<b>2016/17</b> <b>Revised</b>
	<b>Capital Expenditure</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	General Fund	4,965	9,830	10,321
	HRA (applies only to housing authorities)	4,651	5,686	5,139
	<b>TOTAL</b>	9,616	15,516	15,460
	<b>Ratio of financing costs to net revenue stream</b>			
	General Fund	13.93%	17.25%	15.65%
	HRA (applies only to housing authorities)	41.94%	41.00%	40.46%
	<b>External Borrowing</b>			
	Brought forward 1st April	75,986	74,268	74,268
	Carried forward 31st March	74,268	72,549	72,549
	In year Increase +/-Decrease -	(1,718)	(1,719)	(1,719)
	<b>Capital Financing Requirement as at 31st March</b>			
	General Fund	15,003	19,282	22,642
	HRA (applies only to housing authorities)	61,819	60,102	60,102
	<b>TOTAL</b>	76,822	79,384	82,744
	<b>Annual change in Capital Financing Requirement</b>			
	General Fund	2,554	4,279	7,639
	HRA (applies only to housing authorities)	(1,717)	(1,717)	(1,717)
	<b>TOTAL</b>	837	2,562	5,922
	<b>Incremental impact of capital investment decisions</b>			
	Increase in Council Tax (Band D) per annum	-£5.92	£12.75	£10.41
	Increase in average housing rent per week (Housing Authorities only)	-£0.39	-£0.25	-£0.37

**THE COUNCILS' PRUDENTIAL INDICATORS**  
**- Based on The Half Year Monitoring Reports**

<b>2</b>	<b>TREASURY MANAGEMENT INDICATORS ADUR DISTRICT COUNCIL</b>	<b>2015/16 Actual</b>	<b>2016/17 Original</b>	<b>2016/17 Revised</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	<b>Authorised Limit for External Debt</b>			
	Borrowing	99,000	99,000	99,000
	Other long term liabilities	1,000	1,000	1,000
	<b>TOTAL</b>	100,000	100,000	100,000
	<b>Operational Boundary for external debt</b>			
	Borrowing	93,000	93,000	93,000
	Other long term liabilities	1,000	1,000	1,000
	<b>TOTAL</b>	94,000	94,000	94,000
	<b>Upper Limits for debt and investments</b>	<b>Actual 31 March 2016</b>	<b>2016/17 Upper Limit</b>	<b>Actual 30 Sept 2016</b>
	External debt:			
	Upper limit for fixed interest rate exposure	100%	100%	100%
	Upper limit for variable rate exposure	0%	50%	0%
	Principal sums invested for over 364 days	15%	50%	11%

<b>Adur District Council</b>	
<b>Maturity structure of fixed rate borrowing at 30 September 2016</b>	
under 12 months	3%
12 months and within 24 months	2%
24 months and within 5 years	7%
5 years and within 10 years	14%
10 years and above	74%
<b>Total</b>	<b>100%</b>

**PRUDENTIAL INDICATORS**  
Based on The Half Year Monitoring Reports

1	<b>PRUDENTIAL INDICATORS - WORTHING</b> Extract from budget and rent setting report	2015/16 Actual	2016/17 Original	2016/17 Revised
	<b>Capital Expenditure</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	General Fund	2,373	20,073	20,984
	<b>TOTAL</b>	2,373	20,073	20,984
	<b>Ratio of financing costs to net revenue stream</b>			
	General Fund	7.36%	11.56%	8.25%
	<b>External Borrowing</b>			
	Brought forward 1st April	18,088	19,136	19,136
	Carried forward 31st March*	19,136	28,350	36,993
	In year Increase -/Decrease +	(1,048)	(9,214)	(17,857)
	<b>Capital Financing Requirement as at 31st March</b>			
	General Fund	23,361	42,944	41,027
	<b>Annual change in Capital Financing Requirement</b>			
	General Fund: Increase +/Decrease -	(225)	19,583	17,666
	<b>Incremental impact of capital investment decisions</b>			
	Increase in Council Tax (Band D) per annum	-£1.77	£10.56	£3.66

\* The projected increase in borrowing in 2016/17 is due to the delay in the sale of the Aquarena site.

<b>2 TREASURY MANAGEMENT INDICATORS WORTHING BOROUGH COUNCIL</b>	<b>2015/16 Limit</b>	<b>2016/17 Original</b>	<b>2016/17 Revised</b>
<b>Authorised Limit for External Debt</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Borrowing	34,000	34,000	34,000
Borrowing re Worthing Homes Loan	0	10,000	10,000
Other long term liabilities	1,000	1,000	1,000
<b>TOTAL</b>	<b>35,000</b>	<b>45,000</b>	<b>45,000</b>
<b>Operational Boundary for external debt</b>			
Borrowing	29,000	29,000	29,000
Borrowing re Worthing Homes Loan	0	10,000	10,000
Other long term liabilities	1,000	1,000	1,000
<b>TOTAL</b>	<b>30,000</b>	<b>40,000</b>	<b>40,000</b>
<b>Upper Limits for debt and investments</b>	<b>Actual 31 March 2016</b>	<b>2016/17 Upper Limit</b>	<b>Actual 30 Sept 2016</b>
<b>External debt:</b>			
Fixed interest rate exposure	100%	100%	100%
Variable rate exposure	0%	25%	0%
Principal sums invested for over 364 days	0%	50%	0%

<b>Worthing Borough Council Maturity structure of fixed rate borrowing at 30 September 2016</b>	
under 12 months	66%
12 months and within 24 months	3%
24 months and within 5 years	18%
5 years and within 10 years	15%
10 years and above	0%
<b>Total</b>	<b>100%</b>

<b>ADUR DISTRICT COUNCIL - PORTFOLIO OF INVESTMENTS AND LOANS</b>						
<b>INVESTMENTS AT 31ST MARCH 2016</b>						
<b>Deal Ref.</b>	<b>Counterparty</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Term (Days)</b>	<b>Principal (£)</b>	<b>Interest Rate %</b>
6014	BARCLAYS TREASURY DEPOSIT	21-Apr-15	19-Apr-16	364	1,000,000	0.92
6022	BARCLAYS TREASURY DEPOSIT	02-Sep-15	31-Aug-16	364	1,000,000	1.00
6025	BARCLAYS TREASURY DEPOSIT	30-Sep-15	28-Sep-16	364	1,000,000	0.99
6029	BARCLAYS TREASURY DEPOSIT	25-Nov-15	24-Nov-16	365	1,000,000	0.97
6024	LLOYDS BANK	16-Sep-15	15-Sep-16	365	1,000,000	1.05
6027	LLOYDS BANK	09-Oct-15	10-Oct-16	367	1,000,000	1.05
6032	NATIONWIDE BLDG SOCIETY	25-Jan-16	25-Apr-16	91	1,000,000	0.50
6034	NATIONWIDE BLDG SOCIETY	17-Mar-16	28-Jul-16	133	1,000,000	0.57
6023	SANTANDER UK	02-Sep-15	31-Aug-16	364	2,000,000	1.00
6031	STIRLING COUNCIL	11-Dec-15	01-Apr-16	112	1,000,000	0.50
50781	KINGSTON UPON HULL COUNCIL	02-Dec-13	30-Nov-18	1824	2,000,000	1.90
50782	LOCAL CAPITAL FINANCE	30-Sep-14	Unspecified		50,000	Unspecified
50783	W SUSSEX CREDIT UNION	06-Mar-15	Unspecified		25,000	Unspecified
<b>TOTAL INVESTMENTS AT 31ST MARCH, 2016</b>					<b>13,075,000</b>	

<b>ADUR DISTRICT COUNCIL - PORTFOLIO OF INVESTMENTS AND LOANS</b>						
<b>INVESTMENTS AT 30TH SEPTEMBER 2016</b>						
<b>Deal Ref.</b>	<b>Counterparty</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Term (Days)</b>	<b>Principal (£)</b>	<b>Interest Rate %</b>
6027	LLOYDS BANK PLC	09-Oct-15	10-Oct-16	367	1,000,000	1.05
6029	BARCLAYS TREASURY DEPOSIT	25-Nov-15	24-Nov-16	366	1,000,000	0.97
6042	BARCLAYS TREASURY DEPOSIT	21-Jun-16	31-Mar-17	283	1,000,000	0.81
6049	BARCLAYS TREASURY DEPOSIT	13-Sep-16	12-Sep-17	364	1,000,000	0.69
6035	FEDERATED INVESTORS MMF	01-Apr-16	N/A	N/A	2,950,000	VARIABLE
6036	BLACKROCK	01-Apr-16	N/A	N/A	310,000	VARIABLE
6037	HANDELSBANKEN	03-May-16	On Call	On Call	50,000	VARIABLE
6039	NATIONWIDE BLDG SOCIETY	25-May-16	30-Mar-17	309	1,000,000	0.88
6040	NATIONWIDE BLDG SOCIETY	02-Jun-16	02-Mar-17	273	1,000,000	0.84
6041	NATIONWIDE BLDG SOCIETY	14-Jun-16	14-Mar-17	273	1,000,000	0.84
6044	NATIONWIDE BLDG SOCIETY	28-Jul-16	27-Jul-17	364	1,000,000	0.70
6043	SKIPTON BUILDING SOCIETY	28-Jun-16	24-Feb-17	241	1,000,000	0.72
6045	SKIPTON BUILDING SOCIETY	02-Aug-16	01-Aug-17	364	1,000,000	0.75
6046	SANTANDER UK	02-Aug-16	22-Feb-17	204	1,000,000	0.45
6047	SANTANDER UK	16-Aug-16	16-Feb-17	184	1,000,000	0.45
6048	SANTANDER UK	31-Aug-16	12-Jan-17	134	2,000,000	0.35
50781	KINGSTON UPON HULL CITY	02-Dec-13	30-Nov-18	1824	2,000,000	1.90
50782	LOCAL CAPITAL FINANCE CO. LTD.	30-Sep-14	Unspecified		50,000	Unspecified
50783	W SUSSEX CREDIT UNION	06-Mar-15	Unspecified		25,000	Unspecified
<b>TOTAL INVESTMENTS AT 30TH SEPTEMBER 2016</b>					<b>19,385,000</b>	

ADUR DISTRICT COUNCIL - PORTFOLIO OF INVESTMENTS AND LOANS: BORROWING 2016/17							
Deal Ref.	Counterparty	Start Date	Maturity Date	Term (Yrs)	Principal (£) at 31.03.16	Interest Rate %	Principal (£) at 30.09.16
1388	BARCLAYS CAPITAL	22-Aug-05	24-Aug-65	60	3,563,270	5.150	3,563,270
1389	BARCLAYS CAPITAL	22-Aug-05	24-Aug-65	60	3,563,270	5.150	3,563,270
1390	BARCLAYS CAPITAL	22-Aug-05	24-Aug-65	60	3,563,270	5.150	3,563,270
1391	DEPFA BANK PLC	30-Mar-07	30-Mar-67	60	3,250,000	6.660	3,250,000
1392	DEPFA BANK PLC	30-Mar-07	30-Mar-67	60	4,000,000	4.035	4,000,000
476087	PUBLIC WORKS LOAN BOARD	13-Jun-95	21-Dec-54	59	1,000,000	8.375	1,000,000
476088	PUBLIC WORKS LOAN BOARD	13-Jun-95	21-Dec-53	58	1,000,000	8.375	1,000,000
476089	PUBLIC WORKS LOAN BOARD	13-Jun-95	21-Dec-52	57	1,000,000	8.375	1,000,000
478322	PUBLIC WORKS LOAN BOARD	17-Oct-96	07-May-56	60	1,000,000	8.000	1,000,000
479540	PUBLIC WORKS LOAN BOARD	28-May-97	21-Dec-56	59	1,000,000	7.375	1,000,000
479868	PUBLIC WORKS LOAN BOARD	24-Sep-97	12-Apr-57	60	1,000,000	7.125	1,000,000
479888	PUBLIC WORKS LOAN BOARD	24-Sep-97	12-Apr-57	60	1,000,000	6.750	1,000,000
481007	PUBLIC WORKS LOAN BOARD	09-Jun-98	11-Jan-58	60	1,000,000	5.750	1,000,000
481320	PUBLIC WORKS LOAN BOARD	17-Sep-98	11-Apr-55	57	455,795	5.250	455,795
482485	PUBLIC WORKS LOAN BOARD	22-Apr-99	11-Apr-59	60	1,000,000	4.750	1,000,000
483648	PUBLIC WORKS LOAN BOARD	25-Nov-99	02-Aug-59	60	726,000	4.500	726,000
483649	PUBLIC WORKS LOAN BOARD	25-Nov-99	02-Aug-59	60	273,531	4.500	273,531
484177	PUBLIC WORKS LOAN BOARD	20-Apr-00	07-Nov-24	24	1,000,000	5.125	1,000,000
485172	PUBLIC WORKS LOAN BOARD	18-Jan-01	15-Sep-25	24	335,133	4.625	335,133
485173	PUBLIC WORKS LOAN BOARD	18-Feb-01	15-Sep-25	24	164,867	4.875	164,867
499487	PUBLIC WORKS LOAN BOARD	28-Mar-12	28-Mar-42	30	44,360,333	3.030	43,507,250
13/17	SALIX FINANCE	07-Feb-13	01-Mar-17	3-4 years	361	0.000	100
20/21	SALIX FINANCE	03-Apr-13	01-Sep-17	3-4 years	12,520	0.000	7,760
22	LANCING PARISH COUNCIL	01-Apr-16	On Call	1	0	VARIABLE	232,170
<b>TOTAL BORROWING</b>					<b>74,268,350</b>		<b>73,642,416</b>
<b>NET BORROWING</b>					<b>61,193,350</b>		<b>54,257,416</b>

<b>WORTHING BOROUGH COUNCIL - PORTFOLIO OF INVESTMENTS AND LOANS</b>						
<b>INVESTMENTS AT 31ST MARCH 2016</b>						
<b>Deal Ref.</b>	<b>Counterparty</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Term (Days)</b>	<b>Principal (£)</b>	<b>Interest Rate %</b>
1158	FEDERATED INVESTORS MMF	01-Apr-16	N/A	N/A	3,000,000	VARIABLE
1153	HANDELSBANKEN	05-Jan-15	N/A	N/A	50,000	VARIABLE
1175	BARCLAYS BANK	15-Dec-15	14-Dec-16	365	1,000,000	1.00
1177	BARCLAYS BANK	06-Jan-16	04-Jan-17	364	1,000,000	1.01
1176	LLOYDS BANK	05-Jan-16	03-Jan-17	364	1,000,000	1.05
1178	LLOYDS BANK	20-Jan-16	20-Apr-16	91	1,000,000	0.57
1179	STOCKPORT MET COUNCIL	17-Mar-16	19-May-16	63	1,000,000	0.46
9001	LOCAL CAPITAL FINANCE	30-Sep-14	Unspecified		50,000	Unspecified
9002	W SUSSEX CREDIT UNION	06-Mar-15	Unspecified		25,000	Unspecified
<b>TOTAL INVESTMENTS AT 31ST MARCH 2016</b>					<b>8,125,000</b>	

INVESTMENTS AT 30TH SEPTEMBER, 2016						
Deal Ref.	Counterparty	Start Date	Maturity Date	Term (Days)	Principal (£)	Interest Rate %
1153	HANDELSBANKEN	05-Jan-15	On Call	On Call	50,000	VARIABLE
1158	FEDERATED INVESTORS PRIME	01-Apr-16	N/A	N/A	3,000,000	VARIABLE
1175	BARCLAYS BANK PLC	15-Dec-15	14-Dec-16	365	1,000,000	1.00
1177	BARCLAYS BANK PLC	06-Jan-16	01-Jan-17	364	1,000,000	1.01
1192	BARCLAYS BANK PLC	29-Jul-16	16-Feb-17	202	1,000,000	0.52
1195	BARCLAYS BANK PLC	19-Aug-16	14-Nov-16	87	1,000,000	0.27
1176	LLOYDS BANK	05-Jan-16	03-Jan-17	365	1,000,000	1.05
1189	LLOYDS BANK	06-Jul-16	20-Feb-17	229	1,000,000	0.83
1180	BLACKROCK MMF	01-Apr-16	N/A	N/A	1,800,000	VARIABLE
1185	NATIONWIDE BUILDING SOCIETY	14-Jun-16	05-Oct-16	113	2,000,000	0.54
1191	NATIONWIDE BUILDING SOCIETY	12-Jul-16	17-Feb-17	220	1,000,000	0.52
1198	NATIONWIDE BUILDING SOCIETY	27-Sep-16	16-Feb-17	142	1,000,000	0.34
1190	SKIPTON BUILDING SOCIETY	06-Jul-16	12-Dec-16	159	2,000,000	0.57
1194	COVENTRY BLDG SOCIETY	19-Aug-16	14-Nov-16	87	1,000,000	0.27
1196	COVENTRY BLDG SOCIETY	24-Aug-16	20-Feb-17	180	1,000,000	0.35
1197	LEEDS BUILDING SOCIETY	14-Sep-16	14-Nov-16	61	1,000,000	0.20
9001	LOCAL CAPITAL FINANCE	03-Sep-14	Unspecified		50,000	Unspecified
	W SUSSEX CREDIT UNION	06-Mar-15	Unspecified		25,000	Unspecified
<b>TOTAL INVESTMENTS AT 30TH SEPTEMBER 2016</b>					<b>19,925,000</b>	

WORTHING BOROUGH COUNCIL - PORTFOLIO OF INVESTMENTS AND LOANS							
BORROWING FOR 2016							
Deal Ref.	Counterparty	Start Date	Maturity Date	Term (Yrs)	Principal (£) at 31.03.16	Interest Rate %	Principal (£) at 30.09.16
27	SALIX FINANCE	07-Feb-13	01-Sep-16	3.57	4,437	0.00	0
29	SALIX FINANCE	03-Apr-13	01-Mar-17	3.91	447	0.00	224
33	SALIX FINANCE	02-Aug-13	01-Mar-17	3.58	2,592	0.00	1,296
35	SALIX FINANCE	23-Dec-13	01-Sep-17	3.69	17,395	0.00	11,597
37	SALIX FINANCE	12-Feb-14	01-Sep-17	3.55	11,006	0.00	7,338
46	LONDON BOROUGH OF EALING	15-May-15	13-May-16	1.00	2,000,000	0.58	0
47	W.YORKSHIRE POL.& CRIME COMMISSIONERS	05-Jun-15	03-Jun-16	1.00	2,000,000	0.50	0
49	HYNDBURN BOROUGH COUNCIL	13-Jul-15	11-Jul-16	1.00	2,000,000	0.48	0
50	GLOUCESTERSHIRE COUNTY	30-Jul-15	30-Jul-20	5.01	2,000,000	1.90	2,000,000
9002	ISLINGTON FINANCE	14-May-15	14-Nov-16	1.51	5,000,000	0.75	5,000,000
51	MID SUSSEX DISTRICT COUNCIL	03-May-16	02-May-17	1.00	0	0.60	2,000,000
52	BARNSLEY DONCASTER	03-Jun-16	03-Apr-17	0.83	0	0.60	2,000,000
53	LONDON BOROUGH OF EALING	06-Jun-16	05-Jun-17	1.00	0	0.62	2,000,000
54	HERTFORDSHIRE COUNTY C	11-Jul-16	10-Jul-17	1.00	0	0.55	5,000,000
503406	PUBLIC WORKS LOAN BOARD	22-Oct-14	22-Oct-24	10.00	1,800,000	2.32	1,700,000
503538	PUBLIC WORKS LOAN BOARD	12-Dec-14	12-Dec-19	5.00	800,000	1.62	700,000
504511	PUBLIC WORKS LOAN BOARD	02-Dec-15	02-Dec-25	10.00	3,500,000	2.07	3,325,000
504512	PUBLIC WORKS LOAN BOARD	13-Jun-16	13-Jun-36	20.00	0	2.16	2,000,000
<b>TOTAL BORROWING</b>					<b>19,135,877</b>		<b>25,745,453</b>
<b>NET BORROWING</b>					<b>11,010,877</b>		<b>5,820,453</b>



Ward: N/A

## Risk & Opportunity Management

### Report by the Director for Digital & Resources

#### 1.0 Summary

1.1 This report provides the quarterly updates on the management of Risks and Opportunities.

#### 2.0 Background

2.1 The Committee has previously requested that quarterly progress update reports on the management of the Risks and Opportunities should be reported to the Committee.

2.2 Progress continues to be made to monitor and review the full Risk and Opportunity 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, Service Heads, Departmental Management Team meetings and Risk and Opportunity management is being integrated into the culture and working practices of the organisation to ensure that Risks and Opportunities are identified in an open and honest manner ;
- 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'.

2.3 Details of the latest Risks and Opportunities 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](#)

2.4 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. The Corporate Risks will be reviewed and aligned with the commitments and themes set out in the Strategic document 'Platforms for our Places' which was recently endorsed by the Councils.

2.5 These regular Risk/Opportunities review techniques continue to expand the coverage/control of Risk and Opportunity management across the Councils and identification/updates of Risks and Opportunities is helping to close any gaps in Risk and Opportunity assessments.

### **3.0 A summary of the Risk and Opportunity Management Updates**

3.1 A summary of the main changes to the Risks and Opportunities since the last update reports is included in the table attached as an Appendix to this report.

3.2 There are currently 122 Risks and 16 Opportunities compared with 136 Risks and 15 Opportunities in the report in September 2016.

### **4.0 Proposals**

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

### **5.0 Legal**

5.1 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.

### **6.0 Financial implications**

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

### **7.0 Recommendation**

7.1 **That the progress in managing risks and opportunities be noted and a further progress report be presented to the Committee in June 2017.**

**Local Government Act 1972**  
**Background Papers:**

Risk and Opportunity Management Strategy 2016-2018

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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 The Council's Risk and Opportunity Management Strategy sets out clear governance controls for the management of Risks and Opportunities and part of these include provision for the Service Risks and Opportunities to be considered quarterly by the Joint Governance Committee.

### **3.0 Sustainability Issues**

3.1 Matter considered. Some of the Risks and Opportunities may impact on sustainability.

### **4.0 Equality Issues**

4.1 Matter considered. Some of the Risks and Opportunities refer to equalities issues.

### **5.0 Community Safety Issues (Section 17)**

5.1 Matter considered. Some of the Risks and Opportunities may relate to crime and disorder issues.

### **6.0 Human Rights Issues**

6.1 Matter considered and no direct issues identified.

### **7.0 Reputation**

7.1 Matter considered. Some of the Risks and Opportunities will impact on the reputation of the Councils if they occur.

### **8.0 Consultations**

8.1 As part of this report, Heads of Service and Directors have been consulted on the progress in managing the Risks and Opportunities in order to provide updates.

### **9.0 Risk Assessment**

9.1 As part of good governance the Councils need to manage Risks and Opportunities.

### **10.0 Health & Safety Issues**

10.1 Matter considered. Some of the Risks relate to health and safety issues.

## **11.0 Procurement Strategy**

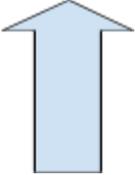
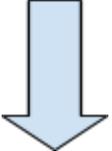
11.1 Matter considered. All Risks and Opportunities refer to relevant procurement processes where appropriate.

## **12.0 Partnership Working**

12.1 Matter considered. The Risks and Opportunities are joint Adur and Worthing Risks and Opportunities and may also refer to any other partnership working as appropriate.

Updates on Risk and Opportunity management

Risk & Opportunity Management Dashboard	January 2017 update	September 2016 update
Corporate Risks & Opportunities (Under review)	Risks - 6 Opportunities - 5	Risks - 7 Opportunities - 5
Service Risks & Opportunities	Environment - 3 Risks Housing - 10 Risks/2 Opportunities Wellbeing - 5 Risks AWCS - 9 Risks Building Control & Land Charges - 6 Risks/1 Opportunity Customer Contact & Engagement - 12 Risks Revenues & Benefits - 7 Risks Business & Technical Services - 6 Risks Digital & Design - 6 Risks Financial Services - 13 Risks/1 Opportunity Human Resources - 6 Risks/1 Opportunity Legal Services - 1 Risk/1 Opportunity Culture - 10 Risks/5 Opportunities Economic Growth - 14 Risks Place & Investment - 6 Risks	Environment - 4 Risks Housing - 16 Risks/2 Opportunities Wellbeing - 7 Risks AWCS - 9 Risks Building Control & Land Charges - 7 Risks Customer Contact & Engagement - 15 Risks Revenues & Benefits - 7 Risks Business & Technical Services - 6 Risks Digital & Design - 6 Risks Financial Services - 13 Risks/1 Opportunity Human Resources - 6 Risks/1 Opportunity Legal Services - 3 Risks Culture - 6 Risks/5 Opportunities Economic Growth - 12 Risks Place & Investment - 3 Risks
<b>Number of High Risks on Service Registers</b>	Environment - 1 Housing - 4 AWCS - 1 Customer Contact & Engagement - 3 Revenues & Benefits - 1 Business & Technical Services - 2 Digital & Design - 1 Financial Services - 4 Human Resources - 1 Culture - 5	Environment - 1 Housing - 3 AWCS - 3 Customer Contact & Engagement - 8 Revenues & Benefits - 1 Business & Technical Services - 2 Digital & Design - 1 Financial Services - 4 Human Resources - 1 Legal Services - 1

	Place & Investment - 1	Culture - 3
<p><b>Risks where assessment score has increased since the previous report</b></p> 	<p><b>Culture - 1</b> (Evening security of venues) - Increased from Medium to High)</p>	<p><b>Customer Contact &amp; Engagement - 1</b> (Risk relating to possible loss of skilled staff in the Contact Centre - Increased from Medium to High)</p> <p><b>Digital &amp; Design</b> - Technical issues about EDRMS and the R&amp;B system relating to Adur R&amp;B in-housing - Risk increased to Medium)</p> <p><b>Human Resources</b> - Risk of review of HR staff related policies and procedures - Risk increased to High Risk from Medium</p>
<p><b>Risks where assessment score has reduced since the previous report.</b></p> 	<p><b>AWCS - 3</b>  New Legislation - TEEP (Reduced from Medium to Low Risk)  Digital Platform - Delays in implementation (Reduced from Medium to Low Risk)  Continued slippage/delay of Digital AWCS/Customer Contact processes (Reduced from Medium to Low Risk)</p> <p><b>Customer Contact &amp; Engagement - 2</b>  Implementation of a new complaints/compliments system (Reduced from High to Medium)  Contact Centre - Loss of skilled staff (Reduced from High to Medium Risk)</p> <p><b>Human Resources - 1</b>  Potential impact of capacity and resilience within the HR team to provide professional support to the organisations strategic vision of reshaped services (Reduced from Medium to Low Risk)</p> <p><b>Digital and Resources Directorate wide - 1</b>  Freedom of Information requests processing - (Reduced from High to Medium Risk)</p>	<p><b>Housing - 1</b> (Risk of the withdrawal of housing related support from WSCC for sheltered housing - Reduced from High Risk to Medium )</p> <p><b>Customer Contact &amp; Engagement - 1</b>  (Risk relating to Governance and architecture for telephony in the Contact Centre  - Reduced to Low Risk from Medium)</p>

<p>New Risks/Opportunities added since last report</p>	<p><b>Housing -</b>  Risk - Costs of emergency and temporary accommodation (High Risk)</p> <p>Overall Risk of increasing demand for housing advice and homelessness applications (High Risk)</p> <p><b>Wellbeing -</b>  Risk - Fishersgate Community Centre - Failing to source a community group/charity to take over the running of the centre (Medium Risk)</p> <p><b>Building Control &amp; Land Charges -</b>  Opportunity - Service Redesign with Customer and Development Management - Opportunity to transition to a sustainable service model</p> <p><b>Digital &amp; Design -</b>  Risk - Organisational changes, restructure of service - Digital &amp; Design &amp; Census - Medium Risk  Risk - Migration to the Cloud - Medium Risk  Risk - Renewal of contract for Information @ Work - Medium Risk</p> <p><b>Culture -</b>  Risk - Venue Toilets Refurbishment - High Risk  Risk - Connaught Studio Seating Replacement - Medium Risk  Risk - Studio ceiling integrity - Medium Risk</p> <p><b>Economic Growth -</b>  Risk - Teville Gate redevelopment site  Risk - Grafton MSCP redevelopment  Risk - Sussex Yacht Club flood defence project</p> <p><b>Place &amp; Investment -</b>  Risk - Property Management and acquisition proposals</p>
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Ward: [All]

## Disaster Recovery Provisions

### Report by the Director for Digital and Resources

#### 1.0 Summary

- 1.1 This report is a response to queries raised at Adur and Worthing Councils Joint Governance Committee in 2013 and an update requested through JGC/16-17-008. CenSUS ICT were asked to respond to the Committee regarding the state of Disaster Recovery services and options at the Councils' disposal.

This report provides an update on activities undertaken since the Joint Governance Committee on 27/09/2016.

#### 2.0 Background and Progress

- 2.1 At the previous JGC meeting, an update was requested on the progress of ensuring disaster recovery arrangements are in place at the Councils in the event of serious ICT failure.

The current provisions were outlined along with the details of the long-term plan, to migrate all Council hosted services to public secure cloud services through the Infrastructure as a Service project (currently titled the CenSUS Cloud project).

On the request of JGC members, a service recovery test is being planned for a test execution of the current provisions in the coming quarter (January - March 2017).

#### 2.2 Business Continuity Planning

At the time of the last JGC the Digital Development team, was working with Lloyd Harris (Emergency Planning Officer) to complete and release a Business Impact Assessment / Business Continuity Planning tool on the Mats Platform. The development of this tool is now in an advance testing phase by Lloyd Harris, before he commences work with Heads of Service to begin to populate it with Business Impact Assessment data.

### 2.3 ICT Disaster Recovery Process / Plan

Engagement has been made with 'Adam Continuity', a business continuity and disaster recovery specialist consultancy firm, to review, test and report on the current arrangements in place at Adur and Worthing. Exercise planning with Adam Continuity is due to commence in late January.

This is principally a collaborative exercise between Digital, CenSus ICT, Business & Technical Services and Emergency Planning. However, as the exercise is planned to be a 'live' test (albeit out of hours), full engagement with heads of service will be required throughout the planning, scheduling, execution and feedback stages.

Consultation with Heads of Service may determine the schedule in order to avoid business service impact.

### 2.4 Resilience Arrangements - Data Backup

Offsite Backup - At the last JGC it was reported that CenSus were exploring options for storage of backup tapes offsite at a Centenary House, Durrington (owned and operated by WSCC). Since this time, we have determined that for ease of access and operation, the site at Commerce way offers us a more appropriate location.

CenSus ICT, working with AWCS have set up a backing store at Commerce Way. This means that offsite backup storage is now entirely independent of Worthing Town Hall and Portland House, offering a significantly greater separation between the data centre and recovery data sets.

### 2.5 Resilience Arrangements - Emergency Power Supply: Uninterruptable Power Supply (UPS) and Generator

The call off contract for the provision of an emergency diesel generator was renewed in November 2016 under the same service terms and conditions as the previous contract.

### 2.6 Server / Service Information Data Sheet

This information is being maintained and will be reviewed in line with findings and recommendations from the outputs from the Business Impact Assessment toolset (reference 2.2 of this document) and the Disaster Recovery Exercise.

### 2.7 DR Service Options Review

Specific disaster recovery options will be reviewed as outputs from the Disaster Recovery Exercise.

### **3.0 Legal**

- 3.1 Under Section 111 of the Local Government Act 1972, the Council has the power to do anything that is calculated to facilitate, or which is conducive or incidental to, the discharge of any of their functions.
- 3.2 Alternatively Section 1 of the Localism Act 2011 empowers the Council to do anything an individual can do apart from that which is specifically prohibited by pre-existing legislation.
- 3.3 Section 3(1) of the Local Government Act 1999 (LGA 1999) contains a general duty on a best value authority to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **4.0 Financial implications**

- 4.1 At present, all costs of DR options services for Adur and Worthing are being investigated, however, early indications are that such services are available for between £25-40k per annum. Outcomes of the engagement with Adam Continuity will clarify costs in this area.

Finance for other work mentioned in the report has already been signed off by the appropriate Committees.

### **5.0 Recommendation**

- 5.1 That Joint Governance Committee note the progress made towards the provision of IT disaster recovery arrangements; and wider business continuity planning.

### **Local Government Act 1972**

#### **Background Papers:**

- Moving to the Cloud, Joint Strategic Committee, 13 July 2016

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## Schedule of Other Matters

### 1.0 Council Priority

- 1.1 This work will enable the Councils to meet our ambitions around becoming an Adaptive Council, as set out in *Catching the Wave*.

### 2.0 Specific Action Plans

- 2.1 This work will enable the Councils to meet our commitment, as part of the 'Becoming Adaptive Councils (and Places)' wave catcher in *Surf's Up*:

*Our workforce is mobilised using modern devices and digital tools, working smarter and collaborating more easily with colleagues, partners and customers.*

### 3.0 Sustainability Issues

- 3.1 Cloud services make a positive contribution to sustainability: The cloud encourages important clean-tech applications like smart grids and it also encourages consumers to use virtual services such as video streaming to replace resource-heavy physical products.

The cloud also draws resources to where they are used most efficiently and its jobs tend to be cleaner and safer than those of more traditional industries. The cloud's efficiency and scalability help reduce energy usage. By reducing the need for hardware, companies can reduce costs and eliminate the need for maintenance and upgrades.

The cloud offers cheaper running costs and more flexibility for businesses hoping to expand. The cloud also increases productivity through its ability to accommodate online collaboration that reduces the need for face to face meetings.

### 4.0 Equality Issues

- 4.1 The related projects discussed in the report will enable the Councils to support a wider range of devices and working environments for our customers, staff, and partners.

### 5.0 Community Safety Issues (Section 17)

- 5.1 None identified.

### 6.0 Human Rights Issues

- 6.1 Privacy and security issues are the most important issues for citizens in relation to government use of ICT, particularly data, and it will be essential to strike the balance of risk and reward here, and communicate exceptionally well with residents and members.

## **7.0 Reputation**

- 7.1 ICT failure has a considerable impact on the Councils' ability to deliver services and thus on our reputation. One of the core objectives of this project is to reduce the likelihood and impact of ICT failure.
- 7.2 The Councils have achieved in recent times a good national reputation for innovation in ICT and digital.

## **8.0 Consultations**

- 8.1 None so far.

## **9.0 Risk Assessment**

- 9.1 The Councils currently have risks identified around the lack of reliable ICT infrastructure and disaster recovery. These are managed through the service risk and corporate risk management processes.

This work mentioned in this report will help mitigate both risks.

- 9.2 As part of the project management of any work, a full risk register will be produced and maintained.

## **10.0 Health & Safety Issues**

- 10.1 None identified.

## **11.0 Procurement Strategy**

- 11.1 The work to procure the new cloud infrastructure, the support for the transition and the ongoing managed service of the infrastructure will be carried out in full accordance with the Councils' Procurement Strategy and Contract Standing Orders.

## **12.0 Partnership Working**

- 12.1 The Councils are engaged with our partners in CenSus ICT and this work will help to inform the future direction of that partnership.



Ward: **All**

## **The Appointment of External Auditors for Adur District Council and Worthing Borough Council**

### **Report by the Chief Financial Officer**

#### **1.0 SUMMARY**

- 1.1 This report summarises the changes to the arrangements for appointing external auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017-18 audits. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the Appointing Person regime or to establish an auditor panel and conduct their own procurement exercise.

#### **2.0 BACKGROUND**

- 2.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established the transitional arrangement of novating external audit contracts to Public Sector Audit Appointments Ltd (PSAA) on 1 April 2015. PSAA is an independent, not for profit company limited by guarantee, established by the LGA. The audit appointments were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.
- 2.2 In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This means that when the current arrangements end on 31 March 2018 it will be necessary for authorities to either undertake their own procurements or to have opted in to the Appointed Person regime.
- 2.3 There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

## **2.0 BACKGROUND**

2.4 The date by which authorities will need to opt in to the appointing person arrangements is not yet finalised but expected to be in spring 2017. However, it is anticipated that invitations to opt in will be issued in December 2016.

2.5 The main advantages of using PSAA are set out in its prospectus and are set out below; the Councils would not be able to lever in these advantages if the Councils decide to undertake their own procurement.

- Assure timely auditor appointments
- Manage independence of auditors
- Secure highly competitive prices
- Save on procurement costs
- Save time and effort needed on auditor panels
- Focus on audit quality
- Operate on a not for profit basis and distribute any surplus funds to scheme members.

## **3.0 CONCLUSION**

3.1 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Councils than any procurement we were to undertake by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

3.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by full council. To comply with this regulation the Joint Governance Committee is asked to make a recommendation to Council to opt in to the Appointing Person arrangements made by the Public Sector Audit Appointments (PSAA).

## **4.0 LEGAL IMPLICATIONS**

4.1 The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.

## **5.0 FINANCIAL IMPLICATIONS**

5.1 If PSAA is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA.

## **6.0 RECOMMENDATION**

6.1 The Joint Governance Committee is asked to:

- (a) Recommend to the Councils that the Councils opt in to the Appointing Person arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

### **Local Audit and Accountability Act 2014**

[http://www.legislation.gov.uk/ukpga/2014/2/pdfs/ukpga\\_20140002\\_en.pdf](http://www.legislation.gov.uk/ukpga/2014/2/pdfs/ukpga_20140002_en.pdf)

### **Regulation 19 of the Local Audit (Appointing Person) Regulations 2015**

#### **Background Papers:**

None

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## **Proposed Revisions to Contract Standing Orders**

### **Report by the Director for Digital & Resources**

#### **1.0 SUMMARY**

- 1.1 This report proposes some further amendments to the Joint Contract Standing Orders
- 1.2 These provisions have been the subject of consultation with both Executive Members of Resources, Chairman of the Joint Governance Committee and the Council's Leadership Team.

#### **2.0 BACKGROUND**

- 2.1 The Joint Contract Standing Orders provide the framework for procuring goods, services and works. They apply to every member and employee of the Councils and anyone acting on behalf of the Councils.
- 2.2 The Joint Contract Standing Orders were last approved by the Joint Governance Committee in January 2015 following changes in Procurement Legislation.
- 2.3 Since these changes were approved, there has been an extensive training programme given to Council officers on procurement to ensure that all involved in purchasing understand these contract standing orders and their responsibilities. In addition, following the approval of the revised contract standing orders a new toolkit will be released providing managers with detailed guidance on procurement matters.
- 2.4 There have also been a number of audit recommendations related to these Joint Contract Standing Orders which have now been incorporated into this version of the document.
- 2.5 Attached at Appendix 1 are the limits for other Councils in West Sussex.

#### **3.0 PROPOSALS**

- 3.1 The following major changes are proposed to the contract standing orders:

### **3.0 PROPOSALS**

- The most significant change to the contract standing orders is the increase in the thresholds where formal Procurement involvement is required; this has been increased from £5,000 to £25,000. This reflects the improvement in procurement skills throughout the organisation and the introduction of a new procurement toolkit to help guide managers through the process. This change and will release in capacity in the procurement team to support supplier and contract management, an acknowledged area of weakness within the organisations.
- All tenders over £25,000 are now to be submitted via the Council's e-procurement solution. The solution gives potential suppliers much better visibility of procurement activity via the Councils' website. Consequently, the section related to the submission of paper tenders have been removed from this version of the Contract Standing Orders and the distinctions between procurements under £50,000 and over £50,000 have been removed.
- The contract standing orders have been restructured to make it easier for the reader to follow and there is a complete revision of the introduction to provide clearer guidance. Pre-procurement considerations now form part of the introduction.

The changes to the contract standing orders have been highlighted so that members can easily identify the recommended amendments. As the introduction has been completely revised this is not highlighted.

3.2 The Cabinet Members for Resources from both Councils, Chairman of the Joint Governance Committee and the Council's Leadership Team have been consulted on the contents of the proposed Joint Contract Standing Orders and their views have been incorporated into the proposed document.

3.3 The rationale behind this increase is, as detailed above; staff have undergone significant training and the skills in Procurement have significantly improved since this level was first introduced.

### **4.0 LEGAL**

4.1 These Contract Standing Orders are made pursuant to the Local Government Act 1972 Section 151 which requires the Chief Financial Officer to ensure the proper administration of the Councils financial affairs.

4.2 In addition, the Contract Standing Orders includes guidance which is designed to ensure officers act legally when procuring works, goods and services.

### **5.0 FINANCIAL IMPLICATIONS**

5.1 Agreement of a revised set of Contract Standing Orders will improve the internal control environment of both Councils as the revision addresses any concerns raised by audit.

## **6.0 RECOMMENDATION**

- 6.1 Joint Governance Committee are asked to recommend to the Councils that the revised Contract Standing Orders be approved.

### **Local Government Act 1972**

#### **Background Papers:**

Adur District Council and Worthing Borough Council Contract Standing Orders

Internal audit report – Use of Consultants

Internal audit report - Voluntary and Community Infrastructure Support Service Contract Procurement Compliance

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## Appendix 1

Adur & Worthing Current Limits	Adur & Worthing Proposed Limits	Horsham (goods & services)	Horsham (works)	Crawley/ Mid Sussex (goods & services)	Crawley/ Mid Sussex (works)	Arun	Chichester
Under £5,000 2 quotes	Under £25,000 2 quotes	Under £20,000	Under £20,000	Under £20,000	Under £20,000	Under £10,000	Under £10,000
£5,001 - £10,000 2 quotes and consult with procurement	£25,000 - £99,999.99  3 Sealed tenders	£20,000 - £49,999.99	£20,000 - £99,999.99	£20,000 - £49,999.99	£20,000 - £99,999.99	£10,000 - £50,000	£10,000 to £50,000
£10,001 - £25,000 2 written quotes and consult with procurement							
£25,001 - £99,999.99 3 sealed tenders							
£100,000 - below EU Threshold  Invitation to Tender (from £100,000 to EU must be advertised on Contract Finder)	£100,000 - below EU Threshold  Invitation to Tender (from £100,000 to EU must be advertised on Contract Finder)	£50,000 – EU below Threshold	£100,000 - below EU Threshold	£50,000 – EU below Threshold	£100,000 - below EU Threshold	£50,000 - EU below threshold	£50,001 – EU below Threshold
EU Threshold  EU Invitation to Tender	EU Threshold  EU Invitation to Tender	EU Threshold	EU Threshold	EU Threshold	EU Threshold	EU Threshold	EU Threshold

# **JOINT COUNCILS**

# **CONTRACT - STANDING ORDERS**

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# **ADMINISTRATIVE PROCEDURES**

## **BEST PRACTICE MANUAL**

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### **INTRODUCTION**

The purpose of the contract standing orders ("Orders") is to establish the legal framework under which the Councils will enter into contracts for works, goods and services. Contract standing orders ensure that a uniform approach, that is both legally compliant and that will deliver the best value for money, is adopted when entering into contracts.

It is important to consider procurement carefully (see the Pre-procurement section for useful elements to consider) and ensure adequate time has been allocated to deliver the requirement. Further guidance on the different procedures is available in the Procurement Toolkit or from the Procurement Team.

### **Contract Formation**

A contract may exist between one or both of the Councils and another individual (person, partnership, company or other legal entity) where there is a legal intention by each party to create a legally binding agreement. An offer will have been made by one party (either the Councils or the individual) to the other party, which the other party has accepted and in return provides a Consideration, which is usually (but not always) in the form of a monetary payment.

A contract may be created orally or in writing so always exercise caution when discussing contract terms with a supplier to avoid inadvertently creating a binding contract. Declare all your negotiations are without prejudice and subject to an executed contract. A contract made orally can create difficulties if disputes arise as the precise terms of the contract will not have been recorded.

These contract standing orders require all contracts to be made in writing, setting out all the agreed terms clearly, preferably under the Councils' Terms and Conditions. Often, the specification and any tender documents will also form the terms of your contract.

Where a contract has been made that has not followed these contract standing orders or followed a proper procurement procedure, the contract can be challenged by unsuccessful tenderers putting the Council at risk.

### **Definition of a Quotation and a Tender**

For the purposes of these Contract Standing Orders, you will need to know when it is appropriate to obtain a quote and when it is appropriate to run a tender process:

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**Quote** - A quote is appropriate when you are able to fully specify what it is you wish to purchase and the value of your purchase is below £100,000. A quotation is a fixed price for an assessed job, often a one-off or short term requirement. The price may only increase in the event that something unforeseen by the supplier arises during the term of the contract. When obtaining a quotation you will need to prepare a full and detailed specification and provide all relevant information related to the contract. The supplier will then review what needs to be done and if necessary to inspect relevant work area, relying on their own skill and judgement in providing the quotation. The supplier will then give you the quotation and this is the price that he is legally bound to stick to, unless unforeseen events occur.

**Tender** - A Tender is required under the Contract Standing Orders when the value of the contract will exceed £100,000. Liaising with the Procurement team you will need to prepare a specification, which may be detailed, or may be based on performance outcomes, or invites a design element to the contract. The specification will explain what you want to achieve and will be accompanied by an invitation to tender which will set out how you intend to score or evaluate the tender responses received.

There are also circumstances when you will spend less than £100,000 but be unclear about how to achieve your desired result or if the requirement is more complex in nature. In such circumstances, running a tender process may be appropriate.

### **Getting Started**

The starting point on any procurement is to understand the potential total value of the contract as this will determine which procurement procedure to follow and what pre-procurement elements need to be considered.

### **Assessing the total value of a contract**

The total contract value is based on the whole cost of ownership in Pounds Sterling exclusive of Value Added Tax and therefore includes not only the initial purchase price but all the associated costs over the entire contract period (including any potential contract extension). These could include installation, training, maintenance, consumable items and disposal costs.

If the expenditure on an item, service or with a particular supplier is recurring then the likely expenditure over a 12 month period must be determined and multiplied by the length of the contract. Where the contract is for an uncertain duration, then, as per the requirements of the Public Contract Regulations 2015, the total value shall be determined as the value of the requirement over a period of 48 months. **For example, an ongoing service requirement costing £2,000 per month would have a total contract value of £96,000 (£2,000 per month x 48 months).**

Where the requirement covers a number of suppliers providing the same goods, services or works then the contract value shall be the combined sum of all the individual contracts.

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Where the Council is collaborating or acting on behalf of other public bodies then the contract value shall be determined as the combined sum of all the individual public bodies requirements.

Where it is intended to package the contract into several different "lots", e.g. based on geographical area or by particular type of requirements, then the contract value shall be the total value of all the combined lots.

Contracts cannot be shortened in length to less than 48 months, or a contract requirement split into separate or smaller packages, solely to avoid an EU or local tender threshold.

**In the case of Concession contracts** (i.e. where the Service Users as opposed to the Council make payments to the contractor for use of the service) then the total value (i.e. turnover) of the contract must be used to determine the contract value. Concession contracts are subject to different procurement rules and advice should be obtained from Procurement or Legal prior to undertaking a Concession procurement.

#### **Pre-Procurement Considerations**

Depending on the nature and value of the requirement some or all of the following elements may need to be considered for inclusion within the documentation that is issued. This list is not intended to be exhaustive. Further information is available in the Procurement Toolkit.

General considerations:

1. **Budget approval.** Ensure appropriate budget approval has been received prior to commencing the procurement project. If the requirement involves the supply of assets under lease finance arrangements it must be signed off by the Chief Financial Officer or their appointed deputy;
2. **Authority to enter into Contracts** - Officers should ensure they are aware of the level of Delegated Authority required to enter into the contract, and if necessary seek formal approval prior to commencing the procurement.
3. **Key Decisions/Decision making process.** When determining the procurement process and timetable also need to identify who can make the contract award decision and the timeframe for this to be completed. If the requirement is identified as a Key Decision then formal notice must also be included on the Forward Plan of Key Decisions/28 Day notice. As a general rule most procurements over £100,000 in value will be Key Decisions. A Decisions Pathway must also be completed and as much notice as possible given to the Councils' Leadership Team about the procurement project. Contact Democratic Services for information and guidance. *Note: If sufficient notice has not been given for a Key Decision then there is a high likelihood that when a contract is to be awarded there will be a delay whilst due public notice is given.*

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4. **IT software/hardware or digital service.** If the requirement may include any IT software/hardware or digital service then approval from the Director of Digital Service or their delegated nominee must have been received prior to commencement.

Specific considerations:

5. **Social Value.** If the requirement is for a service to be provided then the requirements of the Public Services (Social Value) Act 2012 may need to be considered. The Act normally applies to contracts with a value in excess of £150,000 but it is best practice to consider on lower value service contracts as well. Further information is available in the Procurement Toolkit or from the Procurement Team.
6. **Transfer of Duty.** Some legislation imposes a Duty upon the Councils to undertake certain activities through the provision of its services. Where these services are provided by a third party on behalf of the Councils then this Duty should transfer becoming the third party's responsibility, but the Councils must still ensure, through effective contract management, that the Duty is being undertaken. Examples include:
  - **Safeguarding.** If the requirement may involve the contractor's staff working with or coming into contact with children, young people or vulnerable adults then appropriate arrangements for Safeguarding should be included within the contract documents.
  - **Prevent (Counter Terrorism) Duty.** A Duty to prevent individuals becoming radicalised and report instances of concern.
7. **Other Legal Considerations.** Depending upon the nature of the requirement specific provisions may need to be built into the contract documents. For example, a contract that involved a third party processing data about individuals listed on the Councils' housing registers may be subject to Data Protection regulations. Further guidance and advice is available from Procurement or Legal.
8. **Transfer of Staff.** If the service involves the potential transfer of staff between the Council and a third party or between two third parties then TUPE may apply and Human Resources should be contacted for advice.
9. **Council Policies.** Depending upon the nature of the requirement the Councils may wish the contractor to adopt or mirror certain Policies whilst performing the contract for the Councils. As such specific provisions may need to be built into the contract documents. Examples may include Whistleblowing Policy, Alcohol & Drugs Policy, Dignity at Work Policy, Business Continuity arrangements, etc.

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### Next Steps

Once you have determined the value of the contract and built the appropriate pre-procurement consideration elements into the procurement documentation follow the instructions in the part of the Orders relevant to the value of the requirement. The Orders will explain when you must seek advice from the Procurement or Legal teams. These Orders will ensure that the contract is signed off by the correct person, either your Director or other person delegated to enter into the contract for the Council(s). Below is a table summarising the key elements of each procedure with contract standing orders.

### Procurement Thresholds and Contract Award Procedure

Total Value	Procurement Route	Short-listing of potential suppliers	Receipt of Quotes / Tenders	Delegated Authority for Contract Approval and Award	Method of Contract Completion	Transparency Code Obligations
Under £25,000	Evidence of value for money; recommended seek two written quotations	Head of Service or appointed deputy	Via post or email to department	Head of Service	Signature and/or purchase order raised	Publish details of all contracts over £5,000 in Council's Contracts Register
£25,000 - £100,000	Three written quotations	Tenders to be evaluated by a minimum of two officers.	Quotations submitted via electronic procurement portal and electronically opened after closed date and time has passed	Head of Service	Sealing	Publish details of all contracts over £5,000 in Council's Contracts Register
£100,000 – EU Threshold (see intranet for current EU threshold)	Invitation to tender, by advertisement on the Council's procurement portal and Contracts Finder.  Other media can also be used	Tenders to be evaluated by a minimum of two officers.	Tenders submitted via Council's secure e-tendering platform and electronically opened once closing date and time has passed.	Executive Member, Executive or relevant Committee	Sealing	Advertise all tenders and publish details of the Contract Award on Contracts Finder. Publish details of all contracts over £5,000 in Council's Contracts Register
Above EU Threshold	EU Procedure, or where this does not apply, invitation to tender to at least five Tenderers by advertisement on the Council's procurement portal, Contracts Finder and in the Official European Journal.  Other media may also be used.	Tenders to be evaluated by a minimum of two officers. Approval of shortlist by , Head of Service and relevant Director	Tenders submitted via Council's secure e-tendering platform and electronically opened once closing date and time has passed.	Executive Member, Executive or relevant Committee	Sealing	Advertise all tenders in OJEU and then Contracts Finder. Publish details of Contract Award in OJEU and on Contracts Finder. Publish details of all contracts over £5,000 in the Councils' Contracts Register

**STANDING ORDER 8.1: GENERAL**

- 8.1.1 Every Contract made by the Councils or by the Executives, Committees, Standing Sub-Committees or by a Director shall comply with Part 8 of these Standing Orders except where otherwise required by United Kingdom statute or EU Treaty or EU Directive for the time being in force in the United Kingdom.
- 8.1.2 Save as provided for in Standing Order 8.15.1 (Contract documentation, conditions and execution) and Standing Order 8.5 (Contracts for a value or amount less than £25,000), these Standing Orders shall apply to all Contracts other than those relating to:
- (a) A Contract or series of Contracts not exceeding £25,000 in contract value (see Standing Order 8.5 for further guidance).
  - (b) The award to the Councils Direct Services Organisations of work which is capable of being awarded to it automatically by virtue of any statute.

Advice should be sought from the Procurement team for any planned contract irrespective of the size of the contract.

- 8.1.3 For the avoidance of doubt these Standing Orders apply to all contracts entered into or proposed by the Councils Direct Services organisation.

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#### **STANDING ORDER 8.1: GENERAL**

8.1.4 For further guidance Contract procedure rules shall be drawn up with the intention to inform the interpretation and application of these Contract Standing Orders and they shall be read and construed in accordance with these Standing Orders.

8.1.5 Every Contract awarded by the Councils must comply with the Principles of decision making in Parts 3, 4 and 5 of the Constitution with due regard to the Member and Officer decision making processes. Further advice is available from Democratic Services or Legal.

#### 8.1.6 **PRE-PROCUREMENT CONSIDERATIONS:**

##### 8.1.6.1 Social Value:

Before entering into a Public Services Contract with a value that exceeds the EU threshold, there are now specific legislative requirements arising from the Public Services (Social Value) Act 2012 (the Act), that the Council must be able to show it has considered.

*A 'Public Services' contract means any contract with a service provider. The 'EU Threshold' is currently £172,514 but may vary and should be checked with the Procurement Team.*

Under the Act, if the Council proposes to procure the provision of services by:

- (a) Entering into a public services contract that is not a contract based on a framework agreement; or,
- (b) By concluding a framework agreement of which a public service contract is likely to constitute the greater part by value;
- (c) And the value of that contract (or the services element of it) is or exceeds the EU limit for Services

Then the Council must consider and be able to evidence in writing that it has considered:

- (a) How what is being proposed to be procured, might improve the economic, social and environmental well-being of the relevant area and;

#### 8.1.6 **PRE-PROCUREMENT CONSIDERATIONS:**

- (b) In conducting the procurement process, how the Authority might secure that improvement;
- (c) Before the procurement process starts, whether the Authority should consult as to how best to achieve the requirements and comply with the best value duty.

*For service contracts below the EU limit it is not compulsory to consider social value, but it is considered best practice for all public bodies to consider the inclusion of social value in all service contracts.*

If in doubt about your duty to comply with the Act, speak to the Procurement team or to the Legal team for guidance.

#### 8.1.6.2 Key Decision:

At the point of considering the Contract documentation, Officers must also give consideration about whether a formal Key Decision notice is required on the Forward Plan and comply with the legislation under the Local Government Act 1972 (As amended).

Currently a key decision notice will be required as follows:

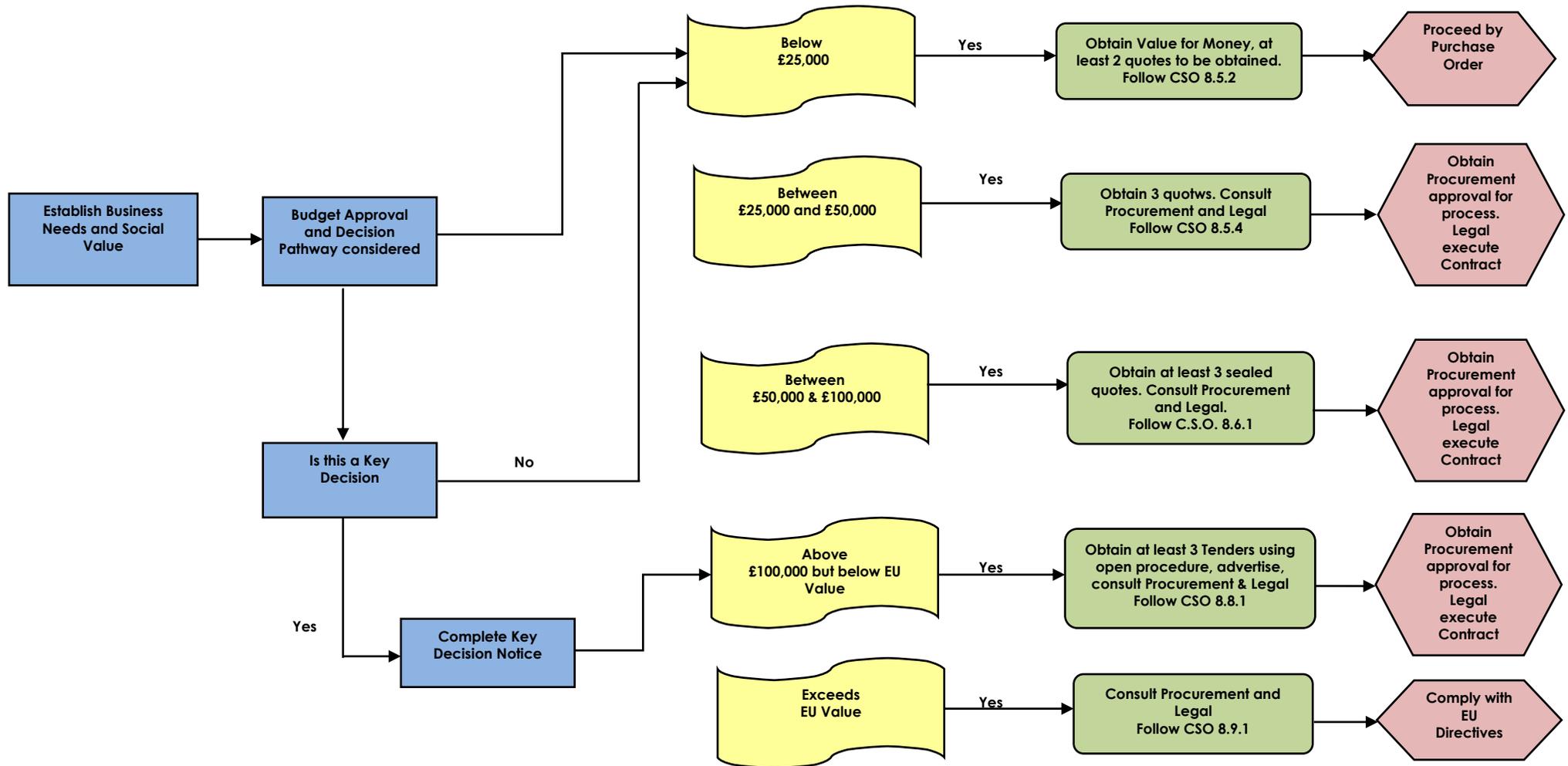
- For the letting/re-letting of contracts of value of £100,000 or more over the period of the contract, where provision has been made in the approved revenue budget; or
- For contracts associated with capital schemes, within the approved Capital Programme, in excess of £250,000;

Contact Democratic Services for information and guidance about key decisions. If due notice has not been given, then there a high likelihood that when a contract is to be awarded there will be a delay whilst due public notice is given of the decision to be made.

The Decisions Pathway must also be completed if a member report is required, guidance on this is available from either the Policy Officer or Democratic Services can assist you with this.

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## CONTRACT STANDING ORDER PROCESS MAP



**STANDING ORDER 8.2: AUTHORISATION OF CONTRACTS**

8.2.1 The Director or their nominee shall have authority to enter into contracts under the scheme of Delegation provided that: ~~Where any proposal is envisaged which would require a Contract or Contracts under these Standing Orders, the Director shall be authorised to proceed provided that:~~

- (a) There is sufficient approved revenue or capital budget to fund the proposed contract throughout its duration; and
- (b) The Procurement team has confirmed that best value has been obtained for those contracts where the value exceeds £25,000.
- (c) The procurement portal is used to carry out the procurement exercise ~~obtain quotations or to carry out a tendering exercise unless it impractical to do so.~~
- (d) The Council's legal representative is consulted about:
  - The most suitable form of contract for all finance and operating leases;
  - The most suitable form of contract for any potentially complex arrangement;
  - The most suitable form of contract for all other contracts where the value exceeds £25,000; and
- (e) The key requirements detailed in standing orders are fulfilled.
- (f) The necessary notice(s) have been given in the Forward Plan of Key Decisions/28 Days' Notice and the requirements of the Member and Officer Decision making rules are complied with

In all other cases, a written report shall be presented by the Director to the respective Executive or Executive Member stating the nature of the proposal, an estimate of the anticipated direct and indirect costs thereof and the implications of the proposal upon the Capital Programme and Revenue Budget of the Council and recommendations as to the way in which the proposal should be carried out (including recommendations as to the mode of tendering or as to whether it is a Specialist Contract).

**STANDING ORDER 8.2: AUTHORISATION OF CONTRACTS**

8.2.2 In authorising the acceptance of a quote regard must be had to whether the quote fully meets the specification before it is evaluated on price. In accepting a tender an assessment should be undertaken in accordance with guidance provided at 8.12 on suitable approaches. Consideration should be given to:

- (a) The supplier's/contractor's technical and financial ability to undertake the proposal and an assessment of the quality of work (see 8.15 for further guidance on assessing tenders);
- (b) The adequacy of the supplier's/contractor's insurance cover for the matters to be undertaken:

But all other things being equal the lowest quotation or tender duly received shall be accepted.

8.2.3 The approval of the relevant Executive Member, Joint Strategic Committee or Council shall be required to the seeking or acceptance of a Tender where the Tender, or the estimated cost of it, together with all relevant fees and costs, exceeds the provision made in the Council's Capital Programme or Revenue Budget, as the case may be, by £10,000 or 10% whichever is the lesser.

**STANDING ORDER 8.3 : SPECIAL CIRCUMSTANCES OR EMERGENCIES**

Note: This procedure cannot be used for a Contract that is over the EU threshold.

8.3 A 'Special Circumstance' or 'Emergency' is defined as a situation which poses an immediate risk to Council services, or the wellbeing of residents, for which urgent action is needed and which cannot be dealt with using the Councils usual processes and procedures.

Exemption from any of the provisions of these Standing Orders may **only** be made as follows:

8.3.1 For Contracts under £100,000:  
Approval must be sought from the Monitoring Officer or any Legal Officer authorised to act on their behalf;

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### **STANDING ORDER 8.3 : SPECIAL CIRCUMSTANCES OR EMERGENCIES**

#### 8.3.2 For Contracts over £100,000:

Approval of the Councils or the Executives or Executive Member or with the approval of the Joint Governance Committee (either at a meeting of the said Committee or by means of consultation with the Mayor/Chairman of Committees and the relevant Executive Members) where the Councils or the said Committee is satisfied that the exemption is justified in special circumstances; provided that:

- (a) Where such approval is given by the Councils or the said Committee, it is recorded in the minutes or record of decisions of the Council or the Committee;
- (b) Where such approval is given by the Consultation Procedure, it is reported as soon as practicable to Members following the making of the decision.

#### 8.3.3 Emergency works:

- Where the Contract exceeds £100,000 for a works contract, ~~and £25,000 in value in for goods and services~~, he shall only do so following consultation with the Joint Strategic Committee, Executives or appropriate Executive Members. The Director shall submit a report explaining the emergency to the next meeting of the Joint Strategic Committee or Executive.
- If it is impracticable to consult with the relevant Members, then the Director shall submit a report explaining the emergency to the next meeting of the Joint Strategic Committee or Executive.
- Advice should be taken from the Monitoring Officer as to the requirement to make any public notice in the Forward Plan of Key Decisions/28 Day Notice.

For the avoidance of doubt recruitment of temporary or agency staff to cover sickness or vacancies is included under this Standing Order.

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### **STANDING ORDER 8.4: - TRANSPARENCY AND THE REQUIREMENT TO ADVERTISE THE CONTRACT**

#### 8.4.1. Contract Opportunities:

Under these standing orders, a procurement opportunity for a contract with a value of less than £100,000 (net of VAT) need not be advertised on the National Contracts Finder if:-

(a) The Council's procurement and legal teams are satisfied it is lawful not to advertise the contract opportunity; and

(b) The Contract will be entered into as a result of obtaining quotations or [after a tender exercise] and the estimated value of the contract does not exceed £100,000;

(c) The Council is offering an opportunity to bid for a contract to a closed group of suppliers who have already been selected onto a Framework Agreement or Dynamic Purchasing System (but this does not apply where the Council is in the process of establishing a new Framework Agreement or Dynamic Purchasing System).

#### 8.4.2. Contract Awards:

~~Any officer that has awarded a contract with a value of £10,000 (net of VAT) or more, to a supplier of goods services or works, after obtaining quotations [or following a tender process or competition through a Dynamic Purchasing System], must forward the Contract to the Procurement Team for posting on the National Contracts Finder e-Procurement portal so as to comply with the Government's guidance on transparency requirements.~~

All Contracts (including those following a competition through a Dynamic Purchasing System) with a value of £10,000 (Net of Vat), must be sent to the Procurement Team for posting on the National Contracts finder so as to comply with the Government's guidance on transparency requirements.

### **STANDING ORDER 8.5: - CONTRACTS FOR A VALUE OR AMOUNT LESS THAN £25,000**

8.5.1 Where possible a corporate Contract/Framework or Dynamic Purchasing System should be used where they exist, regardless of the value of the purchase.

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#### **STANDING ORDER 8.5: - CONTRACTS FOR A VALUE OR AMOUNT LESS THAN £25,000**

8.5.2 For Contracts less than £25,000:

For lower value purchases, ~~formal competitive quotes are not needed, though~~ it is recommended and is good practice to obtain at least two quotes from relevant suppliers before a formal purchase order is issued specifying the supplies, services or works to be procured and setting out prices and terms of payment. Value for money must always be considered.

8.5.3 A record should be made and retained demonstrating how best value was considered and that local supply has been explored.

#### **STANDING ORDER 8.6: - CONTRACTS FOR A VALUE OR AMOUNT EXCEEDING £25,000 BUT NOT EXCEEDING £100,000**

8.6.1 Where the estimated value or amount of a Contract is more than £25,000 but not exceeding £100,000, the following procedures shall be adopted as a minimum, as appropriate, for the selection of a Contractor. However, it may be more appropriate to undertake a more formal tender. The Procurement Officer can advise on the most appropriate procurement route:

- ~~(a) Where the estimated value or amount of the Contract exceeds £10,000 but does not exceed £25,000: the Director or their delegated nominee shall, obtain at least two written quotes for the execution of the Contract from persons or bodies who in the opinion of the Director or the delegated nominee are capable of performing the Contract unless it is impractical to do so due to the specialist nature of supply or the nature of any warranty that exists. Where available a corporate contract shall be used.~~
- (a) ~~Where the estimated value or amount of the Contract exceeds £25,000 but does not exceed £100,000:~~ the Director or their delegated nominee shall obtain at least three **sealed** written quotes or three tenders (whichever is appropriate) from persons or bodies who in the opinion of the Director or their delegated nominee are capable of performing the Contract unless it is impracticable due to the specialist nature of supply or the nature of any warranty that exists. Where available an agreed form of standard contract should be used.
- (b) Details of the quotes received and how the successful contractor was chosen should be submitted to the Procurement team for approval for all contracts.

## **ADMINISTRATIVE PROCEDURES BEST PRACTICE MANUAL**

### **STANDING ORDER 8.6: - CONTRACTS FOR A VALUE OR AMOUNT EXCEEDING £25,000 BUT NOT EXCEEDING £100,000**

- (c) The requirement for written quotes shall not apply where an up to date and relevant pre-tendered framework agreement is in place unless the rules governing such a framework agreement requires competitive tendering or quotes (see Standing Order 8.9)
- (d) All quotes received pursuant to this Standing Order shall either be:
  - opened using the Council's e-procurement portal or by other electronic means; or
  - ~~ii) — Opened in the presence of the Director or their delegated nominee and in the presence of one other Officer designated by the Director.~~
- (e) Quotes should only be evaluated in accordance with the criteria stated by the Council in the original documentation. This should be clearly documented and retained on file.
- (f) The Head of Service shall then have delegated power to accept such a quote but in the case of a quote other than the lowest then the Head of Service must have due regard to the procedure for tenders set out in Standing Order 8.12.4.

### **STANDING ORDER 8.7 : STANDING LIST (MAINLY APPLICABLE TO CONSTRUCTION CONTRACTS)**

- 8.7.1 Standing lists are no longer a recommended approach to procurement and must not be used. Please contact the Procurement team for guidance on alternative methods of procurement.

### **STANDING ORDER 8.8 : CONTRACTS FOR A VALUE OR AMOUNT EXCEEDING £100,000 BUT NOT EXCEEDING THE RELEVANT EU THRESHOLD**

- 8.8.1 Where the estimated value of the Contract is £100,000 or greater, a business case and procurement sourcing strategy should be approved by the Director or their delegated nominee. The business case and procurement strategy should highlight the requirements and businesses need for the contract, explain processes investigated and explain the need for the procurement and the recommended procedure.
- 8.8.2 Where the estimated value of the Contract is £100,000 or greater but less than the relevant EU Threshold, and there is an up to date and relevant pre-tendered framework agreement in place then that framework may be used (see Standing Order 8.10).

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### **STANDING ORDER 8.8: CONTRACTS FOR A VALUE OR AMOUNT EXCEEDING £100,000 BUT NOT EXCEEDING THE RELEVANT EU THRESHOLD**

8.8.3 Where no suitable framework is available, the Director or their delegated nominee shall seek tenders in accordance with the procedure below obtain ~~at least 5 sealed tenders using either the open or restricted procedure, unless it is impractical to do so.~~

#### **Open Procedure**

8.8.4 The open procedure requires the publication of a notice on the Council's E-Procurement Portal, the National Contracts Finder e-Procurement Portal (<https://www.gov.uk/contracts-finder>), a Local Publication and a Trade Journal. Additionally advice should be sought by the Procurement team as to whether the notice should be published on the Official Journal of the European Union.

The public notice shall specify:

- i) A suitable time period (which is proportionate to the procurement being undertaken) within which interested parties may submit their tender to the council; and
- ii) The Link to where interested parties can access, view and download the tender documentation, how and who to respond to and any other requirements

When using the open procedure please ask "suitable assessment" questions, and the questions can be related to appropriate selection issues. If in doubt please contact the Procurement team for advice or refer to the Procurement Toolkit which provides further guidance on the type of information that may be sought from potential bidders.

#### **Restricted Procedure**

~~8.8.4 The restricted procedure cannot be used for any contract (including works contracts) for a value under the Goods and Services EU procurement threshold.~~

- 8.8.5 In all cases, every invitation to tender shall include the following:
- a) Statement that the tendering process will be conducted within the Council's e-procurement portal;
  - b) Full instructions on how to submit their tender to this system;
  - c) Advice as to the deadline for submission of tenders to this system.

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### **STANDING ORDER 8.8: CONTRACTS FOR A VALUE OR AMOUNT EXCEEDING £100,000 BUT NOT EXCEEDING THE RELEVANT EU THRESHOLD**

- 8.8.6 The invitation to tender shall state the evaluation criteria, including sub-criteria and sub-sub criteria (where used), weightings and scoring criteria that will be applied in the award of the Contract. These criteria must be capable of objective assessment, including price and other relevant factors, please refer to Contract Standing Order 8.12 Acceptance of Tenders.
- 8.8.7 The invitation to tender shall also include (where possible) the terms and conditions that will apply to the Contract.

### **STANDING ORDER 8.9 TENDERING PROCEDURES FOR CONTRACTS ABOVE THE RELEVANT EU THRESHOLD**

- 8.9.1 The EU Public Procurement Directives set a financial threshold beyond which prescribed tendering procedures must be followed. The EU Thresholds are reviewed annually, and the updated figures can be found on the Intranet.
- 8.9.2 Where the estimated value of the Contract is in excess or within 20% of the relevant EU Threshold, the procedures set out in the EU Public Procurement Directives must be followed.
- 8.9.3 Advice from the Procurement team **MUST** be sought for all Contracts that are in excess or within 20% of the relevant EU Threshold.

### **STANDING ORDER 8.10 : USE OF FRAMEWORK AGREEMENTS AND PROCUREMENT FROM CONSORTIA ORGANISATIONS**

- 8.10.1 Consortium organisations and framework agreements/**Dynamic Purchasing Systems can** be used when it can be demonstrated that good value for money can be achieved.
- 8.10.2 The Councils can benefit from a framework agreement/**Dynamic Purchasing System** for services, supplies or works provided that the framework agreement is up-to-date. The rules regulating such framework agreement require competitive process but in some circumstances a direct award may be allowed. Always consult with the Procurement team if you intend to use a Framework Agreement.
- 8.10.3 Any contract entered into between the Councils and the successful bidder shall be deemed to comply with these Standing Orders provided that the Framework establisher has itself adopted the same or broadly similar tendering procedures in relation to the letting of Contracts as are contained in these Standing Orders.

**STANDING ORDER 8.11: SUBMISSION OF TENDERS OVER £100,000**

8.11.1 Where in pursuance of these Standing Orders an Invitation to Tender is made, every Invitation shall state:

- (a) That the Councils shall not be bound to accept the lowest of any tender which may be received; and,
- (b) That no tender will be received unless it is submitted electronically via the specified e-tendering solution
- (c) The last date and time of day by which tenders must be submitted via the procurement portal
- (d) The method of evaluation to be used. Tenders should only be evaluated in accordance with the criteria stated in the original tender advert and tender documentation. This should be clearly documented and retained on file.
- (e) The tender evaluation panel and evaluation should be agreed at the commencement of the procurement process and should be documented and held on file.

8.11.2 **Electronic Receipt (e-tendering)**

All information must be submitted via the e-tendering solution by the date and time stipulated in the Invitation to Tender.

All tenders will be stored electronically by the e-tendering provider in a secure inbox until opened after the deadline.

All information regarding tenders received, their submission date, time and their opened date and time will be stored by the system.

8.11.3 In all appropriate cases, invitations to tender shall stipulate a Commencement Date and a Completion Date for the proposed Contract and shall require Tenderers to confirm in their tenders that they will be able to comply with such dates.

**E-Auctions**

8.11.4 Before proceeding with an e-auction the Procurement team must be consulted and their advice taken.

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### **STANDING ORDER 8.12 : ACCEPTANCE OF TENDERS**

~~8.12.1 For the purposes of the Standing Order, "Tender" includes a written sealed quote.~~

~~8.12.2 Where tenders are issued without specifying that they may be subject to negotiation, the tenders submitted should be accepted or rejected as they stand.~~

8.12.1 Whilst a quotation may be negotiated, amendments to a tender response must follow rules in the Public Contract Regulations 2015 and advice should be sought from Procurement or Legal if any alterations are required.

8.12.2 Tenders should only be evaluated in accordance with the criteria stated in the original tender advert and tender documentation. This should be clearly documented and retained on file. Any comments, notes or scoring should be based on the advertised award criteria.

8.12.3 The evaluation team should be carefully considered and all members of the evaluation team must declare any conflicts of interests prior to commencing any evaluation.

8.12.4 Award must be based on a recognised assessment method; typically Officers should use the Most Economically Advantageous Tender method (MEAT) also known as the Economically Most Advantageous Tender (EMAT) method.

Elements of MEAT or EMAT criteria must include price and may include other criteria including:-

- Technical aspects
- User views
- Quality
- Environmental Issues
- Aesthetic consideration

Criteria used must:

- a) Be agreed in advance and applied equally to all tenders;
- b) Be appropriate to the subject matter of the tender;
- c) Be a legitimate client interest;
- d) Not be anti-competitive.

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#### **STANDING ORDER 8.12 : ACCEPTANCE OF TENDERS**

- 8.12.5 Weighting must be given to each criterion used, which reflects the importance of each aspect required for that particular type of contract. Price must be a criterion and normally must have a weighting of not less than 30%. Where the award requires adopting a price weighting of less than 30%, this will need to be justified to and agreed with the Procurement team. The remaining number of criteria used other than price must be greater than 1 and will have a combined weighting of no more than 70%, apart from where, as above, the Procurement team has sanctioned a departure from this general rule.
- 8.12.6 ~~Scoring for each criteria (e.g. Health and Safety) shall be consistent across all tenders.~~ Assessment criteria must be consistent across all questions and all tenders. It is recommended that the template assessment criteria in the Procurement Toolkit is used wherever possible. Further advice on evaluation and assessment criteria are available from Procurement.
- 8.12.7 A Tender may not be altered after the time and date specified for the return of tenders. If an error in the Tender is discovered the Tenderer shall be given the opportunity to confirm or withdraw the Tender as it is submitted; provided that, if there are, in the opinion of the Section 151 Officer, exceptional circumstances, a tenderer may be allowed to correct any arithmetic error in the Tender subject to this fact.

#### **STANDING ORDER 8.13: CONTRACT REGISTER**

- 8.13.1 A register of all Contracts over **£10,000** placed by the Council shall be kept and maintained by the Director for Digital and Resources in conjunction with the Councils' Procurement team. The register shall be open to inspection by any Member of the Council.
- 8.13.2 The joint Contracts Register shall identify, where appropriate, the following for each Contract:
- Contract Reference Number
  - Title of Agreement
  - Department Responsible
  - Description of Contract
  - Contract Start Date
  - Contract End Date

**STANDING ORDER 8.13: CONTRACT REGISTER**

- Contract Extension period (if applicable)
- Contract Review Date
- Contract Value
- Irrecoverable VAT
- Supplier Name
- Supplier Type (legal standing of the organisation)
- Procurement process used

8.13.3 A regular report should be presented to the Council's Procurement Working Group by the Director for Service or his/her nominated representative identifying all those Contracts due to expire and the proposed action to be taken.

8.13.4 The report identifying these Contracts should be presented in a timely fashion to allow for sufficient time to re-procure if necessary.

**STANDING ORDER 8.14: NOMINATED SUB-CONTRACTORS**

8.14.1 Where it is anticipated that the main supplier of the Contract will want to sub-contract out to a third party any part of the service, goods or works to be supplied in the main contract, the Director for Service must ensure that:-

- a) The sub-contractor **and his/her role** has been approved
- b) The main supplier has carried a best value exercise in line with these Contract Standing Orders and that best value for the sub-contractor has been approved by the Procurement team; and
- c) Any sub-contractor is paid under the same payment terms as the main contractor **or as per the EU requirement of 30 days; whichever is quicker**

8.14.2 **There shall be inserted in every Contract a clause detailing the sub-contracting arrangements**

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#### **STANDING ORDER 8.15: CONTRACT DOCUMENTATION, CONDITIONS AND EXECUTION**

See also para. 8.1.2.

8.15.1 The formal advice of the Legal team must be sought for the following Contracts. This advice must be sought in good time:

- where the Total Value exceeds £25,000 for all Contracts
- those involving finance leasing arrangements
- those which are complex in any other way
- where it is proposed to use a supplier's own contract terms and conditions

8.15.2 Unless the Council, Executive or approved Executive Member otherwise resolves the following requirements shall apply to all Contracts.

1. Contracts less than £10,000 need not be in writing but there must be document to support the arrangement
2. Contracts between £10,000 and £25,000 must be in writing and in a form approved by the Director for Service or his/her delegated nominee
3. Contracts in excess of £25,000 must be in writing and in a format approved by Legal and must be executed by Legal.

8.15.3 Every Contract shall specify the goods, materials or services to be supplied and the work to be executed; the price to be paid together with a statement as to the amount of any discount(s) or other deduction(s); the period(s) within which the Contract is to be performed and such other conditions and terms as may be agreed between the parties.

8.15.4 Where a Contract exceeds the sum determined under EU Directive threshold, in amount or value, the Contractor shall give sufficient security acceptable to the Legal team following consultation with the Section S151 Officer for the due performance of the Contract this may be in the form of a performance bond or a parent company guarantee.

8.15.5 In the case of every Contract for the execution of works with a value over £50,000, the following clause or a clause having like effect shall be inserted:

"The Contractor shall make available for inspection any vouchers, records, receipts and other documents, samples of materials and any other information or thing which may be reasonably required by any Officer of the Council in order to ascertain whether or not the terms of the Contract are being complied with."

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#### **STANDING ORDER 8.16: STANDARDS**

8.16.1 Where an appropriate British Standard Specification or British Standard Code of Practice issued by the British Standards Institution or EU Standard Specification or Code of Practice is current at the date of the Contract every Contract exceeding £25,000 shall require that all the goods and materials used or supplied, and all the workmanship under the Contract shall be at least of the standard required by the appropriate British or EU Standards Specification or Codes of Practice current at the date of the Contract. **At all times Legal should advise on the appropriate standards required.**

#### **STANDING ORDER 8.17: CONTRACT PERFORMANCE**

- 8.17.1 The Contractor's performance against contractually agreed criteria should be monitored. The monitoring should be proportionate to the nature and duration of the contract.
- 8.17.2 Contract performance should be reported to management and, if significant issues are arising, Members on a regular and timely basis via the regular monitoring reports.
- 8.17.3 Progress against agreed actions arising out of formal feedback to the contractor should be monitored, recorded and reported on for achievement and continuing compliance.

#### **STANDING ORDER 8.18: PREVENTION OF BRIBERY AND CORRUPTION**

- 8.18.1 There shall be inserted in every Contract exceeding £25,000 in value or amount a clause empowering the Council to cancel the Contract and to recover from the Contractor the amount of any loss resulting from such cancellation, if the Contractor (including its employees or any person so associated with it):-
- Has offered, promised or given, a bribe to another person or has requested or agreed to receive or accept a bribe, offered or given or agreed to give to any person any gift or consideration of any kind as an inducement or reward for doing or not doing any action in relation to the obtaining or execution of the Contract or any other Contract with the Council or;
  - Has failed to prevent bribery by a person acting on its behalf where the bribery was intended to obtain or retain a business advantage for the Contractor or its organisation or for showing or forbearing to show favour or disfavour to any person in relation to the Contract or any other Contract with the Council (whether with or without the actual knowledge of the Contractor) or;

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### **STANDING ORDER 8.18: PREVENTION OF BRIBERY AND CORRUPTION**

- If in relation to any Contract with the Council, the Contractor has committed any offence under the Bribery Act 2010 or any statutory modification or re-enactment thereof or shall have given any fee or reward the receipt of which is an offence under Section 117 (2) of the Local Government Act 1972 or any statutory modification or re-enactment thereof.

### **STANDING ORDER 8.19: ENGAGEMENT OF CONSULTANTS**

- 8.19.1 It shall be a condition of the engagement any consultant (not being an Officer of the Councils) other than Legal Counsel, who is to be responsible to the Councils for the supervision of a Contract on its behalf, that in relation to that Contract he/she shall:
- (a) Comply with these Contract Standing Orders in consultation with the relevant Head of Service or Director
  - (b) At any time during the carrying out of the Contract, produce to the Head of Service or Director on request, all the records maintained by him/her in relation to the Contract; and
  - (c) On completion of the Contract, transmit all such records to the Head of Service or Director or to any other Head of Service duly authorised by the Council for this purpose.
- 8.19.2 The terms of engagement of consultant (not being an Officer of the Councils) who is to be responsible to the Councils for the supervision of a Contract on its behalf shall be set down in a form approved by the Legal team.
- 8.19.3 The employment status of any consultant should be confirmed prior to the engagement and, if appropriate, the consultant should be paid via the payroll system. Guidance is available from the Procurement Team or the Payroll Team.
- 8.19.4 Where the cost of the appointment of any consultant is likely to exceed £10,000 £25,000 the following actions should be taken:
- (i) A business case should be made for each appointment of a consultant. As a minimum, this ~~(outside of framework agreements or other contracts for regular provision of a service where it is assumed that such a business case will have already been presented).~~ This should detail the reason for seeking external expertise, for example, lack of internal capacity or capability due to specialist nature of services. This business case should be approved by either the Chief Executive or the Director and his/her delegated nominee.

**STANDING ORDER 8.19: ENGAGEMENT OF CONSULTANTS**

- (ii) Financial checks of lead consultants' financial stability should be made which should also include any consortium members.
- (iii) Details of consultants professional indemnity insurances should be filed with copies of the Contract documentation (manual or electronic). Insurance expiry date should be monitored by Project Managers except in those cases where the insurance Section is directly responsible for such insurance. Ongoing checks of valid insurance renewals should be undertaken during the lifetime of contracts.

8.19.5 Previous employees should not be engaged as consultants until a period of at least 6 months has elapsed since they ended their employment with the Councils.

**STANDING ORDER 8.20: TERMINATION OF CONTRACTS OVER EU THRESHOLD**

8.20.1 No Contract which has been entered into under the authority (which can be given through the Consultation Procedure) of the Councils, Executives or appropriate Executive Members shall be terminated either by agreement or by unilateral action on the part of the Councils without the authority of the Joint Strategic Committee, Executives or appropriate Executive Members which shall first consider the full financial, legal and other effects of such termination upon the progress of any scheme or other activity of the Councils.

**FOR ALL OTHER CONTRACTS**

8.20.2 Contracts may be terminated by the appropriate Head of Service early by agreement prior to the expiry date or in accordance with the Termination Provisions set out in the Contract. Legal advice shall be sought before terminating any contract.

**STANDING ORDER 8.21: EXTENSIONS TO CONTRACTS**

8.21.1 This Standing Order is only to be used in the following circumstances:-

- The extension is required to undertake an evaluation of the future requirement of the contract/service/service delivery;
- There has been no previous extensions of the original Contract (other than an extension which as an agreed contractual term of the original contract during a procurement process);

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### STANDING ORDER 8.21: EXTENSIONS TO CONTRACTS

- The budget has been obtained and approved; and
- Where the Director for Service or Officer acting with delegated authority on his/her behalf proposes to extend a fixed-term Contract to include additional works, services, goods he/she shall only do so in accordance with Standing Orders 8.2.1 and 8.2.2
- ~~The value of the extension does not exceed a sum which greater than:~~
  - ~~10% for works contracts; and~~
  - ~~The total value of the contract including the value of the extension is not within 20% of the current EU Financial Threshold as confirmed with the Procurement Team;~~

8.21.2 The terms of the contract extension must not breach the requirements of Regulation 72 of the Public Contract Regulations 2015, or the EU Treaty principles. Seek advice from Procurement or Legal if the proposed extension exceeds 25% of the total original contract price or could materially alter the nature of the contract.

- The extension must be on the same terms as the original Contract including terms as to price, although an increase in the price payable for the goods, services or works, which reflects an RPI increase is acceptable;
- The original Contractor has agreed the additional goods, services or works will be supplied on the same terms;
- The extension is necessary and a legitimate business case for it has been approved and recorded in writing by the Director for Service or Officer with delegated authority to extend the contract;
- The extension must be made during the term of the original Contract or continue immediately following the expiration of the original Contract without any break in continuity between the expiration of the original Contract and the extension of it;
- In the case of construction works, the proposed additional works are on the same site as the original Contract or of a similar nature;
- The procurement for the original Contract complied with Contract Standing Orders

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#### **STANDING ORDER 8.21: EXTENSIONS TO CONTRACTS**

- ~~The original Contract has not previously been extended under this Standing Order (contracts over £25,000 only) other than that allowed under the original contract and~~ The extension is for no more than 18 months;
- A contract variation or amendment regarding the extension has been approved by the Head of Legal Services.

8.21.3 In all cases, consideration should be given as to whether approval should be obtained from the **relevant Executive Member** ~~Joint Strategic Committee~~ before any extensions are granted.

#### **STANDING ORDER 8.22: VARIATIONS TO CONTRACTS**

The terms of the contract variation must not breach the requirements of Regulation 72 of the Public Contract Regulations 2015, or the EU Treaty principles. Seek advice from Procurement or Legal if the proposed variation exceeds 25% of the total original contract price or could materially alter the nature of the contract.

All of the following clauses shall apply to a contract variation.

8.22.1 All contract variations must be within the scope of the original contract. The variation will be in scope if it is within a similar range of goods, services or works supplied under the original contract and the variation is required in order to complete an aim or purpose of the original contract.

8.22.2 Where Officers are in doubt as to whether the variation is within the original scope of the contract or consider the variation will significantly impact upon the works and services provided it must be reported to and approved by the Legal team prior to any action being taken in respect of the variation of the proposed variation.

~~8.22.3 If the variation will increase the cost to the Council beyond an RPI increase or its effect is to bring the value of the contract within 20% of the current EU Threshold, no variation may be made unless the value of the variation has been assessed and advice is sought from Procurement and Legal teams. If the value cannot be accommodated within existing budgets, then additional resources must be sought at the earliest opportunity.~~

8.22.3 In all cases, there should be a clear statement setting out the business justification, the cost, the benefits and the duration of the variation provided to the Legal team in a timely manner to allow sufficient to properly assess the likely legal and financial impact of the proposed variation and where appropriate Legal shall refer the variation to the finance department for analysis of the figures.

## **ADMINISTRATIVE PROCEDURES**

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#### **STANDING ORDER 8.22: VARIATIONS TO CONTRACTS**

- 8.22.4 All contract variations must be authorised by the Director for Service or have relevant member approval having regard to the business case and any comments made by the Procurement and Legal teams. The variation must be in writing and signed by both the Council and the contractor. Where the value of the contract variation exceeds £25,000 it must be executed by the Legal team. The value of the variation must be assessed and authorised before signing the variation.
- 8.22.5 In all circumstances at the time the variation is proposed, Officers must review and give consideration to the need to Members, to obtain authority and approval for the variation.

#### **STANDING ORDER 8.23: LIQUIDATED DAMAGES**

- 8.23.1 Every contract which is estimated to exceed £100,000 in value or amount and is for the execution of works or for the supply of goods or materials by a particular date or series of dates must provide for liquidated damages in case the terms of the contract are not duly performed unless the Legal team or the Head of Finance approve another or another form of financial protection. The amount to be specified in each such contract shall be made available to the Legal team or the Head of Finance upon request.
- 8.23.2 For contracts below £100,000 there may be circumstances where it is necessary to include a clause requiring payment of liquidated damages. Such a clause would put the Council in a stronger position in the event of default by the Contractor and having assessed the risk, such a clause is desirable.



Ward: All

## **Elected Member Involvement in the Appointment and Discipline of the Councils' Senior Officers**

### **Report by the Monitoring Officer**

#### **1.0 Summary**

- 1.1 The Monitoring Officer has undertaken a review of the Councils' existing arrangements for the recruitment, appointment, discipline and dismissal of its Senior Officers and, with a view to ensuring an efficient, streamlined, independent and fair process, has made proposals for change.
- 1.2 If the proposals are adopted by the Councils, they will be subject to consultation with Unison, and consequential changes will need to be made to the Officer Employment Procedure Rules and the Terms of Reference of Staffing Committees within the Councils' Constitutions. Further, it is likely that the Committee structure will change, with the abolition of the Joint Senior Staff (Appeals) Committee. Further, consequential changes will need to be made, by Human Resources Officers, to the Councils' Recruitment & Selection and Disciplinary Policies.

#### **2.0 Background**

- 2.1 The Councils have discretion to decide upon their own procedures relating to the appointment and dismissal of some Senior Officer posts, whereas arrangements relating to other posts are set out in statute.
- 2.2 The Councils have set out the procedures relating to the appointment and dismissal of its Senior Officers in the Officer Employment Procedure Rules, which form part of the Constitution. The Rules were last updated in July 2015 when changes were imposed by legislation, primarily relating to the posts of s151 Officer and Monitoring Officer.
- 2.3 The current procedures provide for Officers to deal with the recruitment, appointment, discipline and dismissal, of some Senior Officers, whilst such matters relating to other Senior Officers are within the remit of the Councils' three Staffing Committees:
  - the Joint Staff Committee;
  - the Joint Senior Staff Committee; and
  - the Joint Senior Staff (Appeals) Committee.

2.4 There is a lack of consistency in the current arrangements.

### **3.0 Legislative Constraints**

#### **3.1 Statutory Officers**

The posts of Head of Paid Service, s151 Officer (Chief Finance Officer) and Monitoring Officer (Solicitor to the Council) are defined in the *Local Government and Housing Act 1989* as being the posts of the Councils' "Statutory Officers".

Legislation, in particular the *Local Authorities (Standing Orders)(England) Regulations 2001 and 2015*, set out the mandatory requirements relating to the appointment and dismissal of the Councils' Statutory Officers which requires such decisions to be the responsibility of the full Council. There is therefore no discretion in terms of procedures and arrangements relating to the Statutory Officers.

The Councils' current arrangements in respect of Statutory Officers comply with legislative requirements and there are no proposals for change.

#### **3.2 Chief Officers and Deputy Chief Officers**

Certain postholders within the Councils' Senior Officer structure are defined as "Chief Officers" and "Deputy Chief Officers". These definitions are set out in statute in the *Local Authorities (Standing Orders)(England) Regulations 2001 and 2015*, and the Councils have no discretion in their interpretation.

3.2.1 Chief Officers are defined as those postholders who are direct reports of the Councils' Chief Executive, (other than those holding purely administrative roles). For Adur and Worthing Councils this would include the following posts:

- Director of Digital & Resources;
- Director of Communities;
- Director of Customer Services;
- Director of Economy;
- Head of Communications; and
- Head of Policy.

3.2.2 Deputy Chief Officers are defined as those who are direct reports of those directly reporting to the Councils' Chief Executive, so direct reports of Chief Officers (other than those holding purely administrative roles). Based on the current staff structure for Adur and Worthing Councils' the Deputy Chief Officers would be:

- Head of Culture;
- Head of Place and Investment;
- Head of Growth;
- Head of Housing;
- Head of Wellbeing;
- Head of Environment;
- Head of Revenues and Benefits;
- Head of Waste and Cleansing;
- Head of Customer Contact and Engagement;

- Head of Building Control and Land Charges;
- Head of Digital and Design;
- Head of Human Resources and Organisational Development;
- Head of Business and Technical Services;
- The Scrutiny Officer (by virtue of being a direct report of the Director of Digital and Resources);
- All direct reports of the Head of Communications.

Due to the Councils' current structure this results in a disparity and lack of consistency in the grade and seniority of staff being defined as Chief Officers and Deputy Chief Officers. For example, a grade 4 direct report of the Head of Communications would be defined by legislation as a Deputy Chief Officer, as would a grade 13 Head of Service.

Please see appendix 1 to this report.

#### 4.0 Current Arrangements

	Appointment & Dismissal	Appeal against Dismissal
Chief Officers - Directors	JSSC *	JSS(A)C *
Chief Officers - non Directors	HofPS *	JSSC *
Deputy Chief Officers	HofPS *	JSSC *

JSSC = Joint Senior Staff Committee

JSS(A)C = Joint Senior Staff (Appeals) Committee

HofPS = Head of Paid Service (or an Officer nominated by Him)

\* = subject to Statutory consultation with the Executives.

#### 4.1 Statutory Officers: Head of Paid Service, s151 Officer and Monitoring Officer

The Councils' current procedures provide that the appointment of the Head of Paid Service is dealt with by the Joint Senior Staff Committee (JSSC), who must make a recommendation as to appointment, to Full Council, who are ultimately responsible for making such an appointment.

Similarly, disciplinary action in respect of the Head of Paid Service must be considered by JSSC, who must receive a report from a panel of the Councils' Independent Persons if they are considering dismissal, before making a recommendation to Full Council, who are responsible for the ultimate decision.

Since legislative changes were introduced in 2015, recruitment and dismissal of the s151 Officer and Monitoring Officer, the Councils' two other statutory post holders, must now also be considered by JSSC, who must make a recommendation to Full Council, having considered a report from the panel of Independent Persons in the case of dismissal, for a decision.

## 4.2 Chief Officers

### 4.2.1 Chief Officers - Directors

Current procedures provide that the appointment of Directors is dealt with by JSSC. There is no requirement for approval of the appointment by Full Council. JSSC are however statutorily bound to undertake consultation, via the Monitoring Officer, with both Executives.

Similarly, disciplinary action, including dismissal, of Directors is currently dealt with by JSSC, who have the power to dismiss Directors without the involvement of a panel of Independent Persons, or Full Council approval, provided they comply with statutory consultation with the Executives.

Directors currently have a route of appeal against dismissal by JSSC, to the Joint Senior Staff (Appeals) Committee (JSS(A)C).

### 4.2.2 Chief Officers - Non-Directors

Current procedures provide that the Head of Paid Service, or an Officer nominated by him, is responsible for the appointment of Chief Officers who are non-Directors. Such appointment is subject to statutory consultation with both Councils' Executives.

The discipline, and dismissal, of Chief Officers who are not Directors, is also currently dealt with by the Head of Paid Service, or an Officer nominated by him, again subject to consultation with the Executives.

There is a route of appeal against dismissal from the dismissing Officer to JSSC.

## 4.3 Deputy Chief Officers

Current procedures provide that the appointment of a Deputy Chief Officer is dealt with by the Head of Paid Service, or an Officer nominated by him, subject to the requirements as to statutory consultation with both Councils' Executives.

Also, the dismissal of Deputy Chief Officers is dealt with by the Head of Paid Service, or an Officer nominated by him, subject to consultation with the Executives.

Deputy Chief Officers have a route of appeal against dismissal from the dismissing Officer to JSSC.

## **5.0 Proposals and Options**

### 5.1 Statutory Officers

There are no proposed amendments to the current procedures relating to the Councils' Statutory Officers.

## 5.2 Chief Officers and Deputy Chief Officers

The Council does have discretion as to its own internal arrangements for the appointment and dismissal of Chief Officers and Deputy Chief Officers, subject to the mandatory consultation with the Executives.

### 5.2.1 Option 1: The Status Quo

	Appointment & Dismissal	Appeal against Dismissal
Chief Officers - Directors	JSSC *	JSS(A)C *
Chief Officers - non Directors	HofPS *	JSSC *
Deputy Chief Officers	HofPS *	JSSC *

There is a lack of consistency in the current arrangements in that Chief Officers are treated differently, depending on whether they are Directors or non-Directors; this may or may not be considered desirable.

Responsibility of Members for the appointment and dismissal of Director Chief Officers, and the determination of appeals of all Chief Officers and Deputy Chief Officers, could be considered onerous in terms of Member time. This is particularly the case should a dismissal lead to an internal appeal, an appeal to the Employment Tribunal, and potentially an appeal to the Employment Appeals Tribunal, where Members of the Staffing Committees would be required to act as witnesses for the Councils.

It could further be argued that having such matters dealt with by the staffing committees leads to a lack of agility in decision-making by having to comply with statutory time frames for arranging meetings and issuing agendas and reports; if such decisions were in the Officer arena they could potentially be made more quickly. Possibly having one decision-maker rather than a panel of 6 would be more efficient, but it could be said that a panel provides less risk of bias and greater impartiality.

There is a further difficulty with the current arrangements in that if a Director is dismissed by the JSSC and appeals against the decision to the JSS(A)C, every Member of the appeal committee would be conflicted as the current composition of the two committees is the same: the Leader, the Deputy Leader and the Leader of the opposition (or next largest Group). If the status quo is maintained, some thought needs to be given to the appointments to these two committees.

### 5.2.2 Option 2: All matters dealt with by the Head of Paid Service

	Appointment & Dismissal	Appeal against Dismissal
Chief Officers - Directors	HofPS *	HofPS *
Chief Officers - non Directors	HofPS *	HofPS *
Deputy Chief Officers	HofPS *	HofPS *

An alternative to the current arrangements would be for all matters relating to the appointment and dismissal of all Chief Officers and Deputy Chief Officers to be dealt with by the Head of Paid Service, or an Officer nominated by him.

Members of the Councils would still be involved in such decision-making as it is a statutory requirement that the appointing or dismissing Officer would need to consult, via the Monitoring Officer, with Members of both Councils' Executives before confirming such appointment or dismissal. In the case of a Chief Officer or Deputy Chief Officer appointment, it is proposed that the applications and/or CV's, together with all supporting documentation, of all applicants reaching the final round of the selection process, be provided to the Executive to ensure that meaningful consultation can be undertaken.

If Members are minded to agree with the proposal for appointment and dismissal of all Chief Officers and Deputy Chief Officers to be the responsibility of the Head of Paid Service, or an Officer nominated by him, then it is further proposed that there be a route of appeal against a decision to dismiss to another Officer, being the Head of Paid Service, or an Officer nominated by him. Clearly any Officer hearing an appeal would need to be independent of the dismissing Officer; the appeal Officer would either be the Head of Paid Service or an Officer nominated by him, of whom he is satisfied as to competency and independence. In some circumstances this could lead to the Head of Paid Service nominating an external expert to hear an appeal, such as an Officer from Solace or a Chief Executive from another Authority, to avoid conflicting internal Officers and to ensure independence and fairness in the process. The rules of natural justice would continue to apply to any process and the Officer would be entitled to a fair and impartial hearing, with the right to be heard and/or represented.

### 5.2.3 Option 3: All appointments and dismissals dealt with by the Head of Paid Service with a route of appeal to the Joint Senior Staff Committee

	Appointment & Dismissal	Appeal against Dismissal
Chief Officers - Directors	HofPS *	JSSC *
Chief Officers - non Directors	HofPS *	JSSC *
Deputy Chief Officers	HofPS *	JSSC *

An alternative option would be for the Head of Paid Service, or an Officer nominated by him, to be responsible for the appointment and dismissal of all Chief Officers and Deputy Chief Officers, with a route of appeal against dismissal for all such Officers, to the Joint Senior Staff Committee.

Members would still be involved in the appointment process of all such Officers due to the consultation requirements with the Executive. Members would retain the responsibility of determining any appeals against dismissal.

5.2.4 Option 4: All appointments and dismissals dealt with by the Joint Senior Staff Committee with a route of appeal to the Joint Senior Staff (Appeals) Committee

	Appointment & Dismissal	Appeal against Dismissal
Chief Officers - Directors	JSSC *	JSS(A)C *
Chief Officers - non Directors	JSSC *	JSS(A)C *
Deputy Chief Officers	JSSC *	JSS(A)C *

If this option is preferred, some changes will need to be made to the appointment of Members to the two staffing committees to ensure lack of conflict.

This option would result in a considerable increase in workload of Members sitting on the Joint Senior Staff Committee and likely increased costs of Democratic Services and Legal Officers supporting that Committee.

5.2.5 Option 5: All appointments and dismissals to be dealt with by the Head of Paid Service with a route of appeal for Chief Officers to the Joint Senior Staff Committee.

	Appointment & Dismissal	Appeal against Dismissal
Chief Officers - Directors	HofPS *	JSSC *
Chief Officers - non Directors	HofPS *	JSSC *
Deputy Chief Officers	HofPS *	HofPS *

An alternative option would be for the Head of Paid Service or an Officer nominated by him to deal with appointments and dismissals of all Chief Officers and Deputy Chief Officers, with Chief Officers having a route of appeal against dismissal to the Joint Senior Staff Committee and Deputy Chief Officers having a route of appeal to the Head of Paid Service or an Officer (independent of the dismissing Officer) nominated by him.

5.2.6 Option 6: Appointments and dismissals of Chief Officers to be dealt with by the Joint Senior Staff Committee with a route of appeal to the Joint Senior Staff (Appeals) Committee, and appointments and dismissals of Deputy Chief Officers to be dealt with by the Head of Paid Service with a route of appeal to the Joint Senior Staff Committee.

	Appointment & Dismissal	Appeal against Dismissal
Chief Officers - Directors	JSSC *	JSS(A)C *
Chief Officers - non Directors	JSSC *	JSS(A)C *
Deputy Chief Officers	HofPS *	JSSC *

## 6.0 The Councils' Staffing Committees

### 6.1 The Joint Staff Committee

This is a joint Committee governed by the Joint Committee Agreement and established under *s101 Local Government Act 1972*. It comprises 6 Elected Members; 3 from Adur and 3 from Worthing. Its terms of reference include:

- the power to determine the terms and conditions on which all staff (other than the Statutory Officers) hold office, including employment procedures.
- the making of agreements with other Local Authorities for the placing of staff for the disposal of those other Authorities, to the extent that it relates to the discharge of non Executive functions.
- functions relating to Local Government pensions.

### 6.2 The Joint Senior Staff Committee

This is a joint Committee governed by the Joint Committee Agreement and established under *s101 Local Government Act 1972*. It comprises 6 Elected Members (3 from Adur and 3 from Worthing) and must include at least one Executive and one non Executive Member from each Council. Its current terms of reference include:

- the power to appoint and dismiss Directors.
- the appointment, discipline and dismissal of the Statutory Officers and the making of recommendations to full Council for determination.
- the determination of appeals against dismissal of non-Director Chief Officers and Deputy Chief Officers.

### 6.3 The Joint Senior Staff (Appeals) Committee

This is a joint Committee governed by the Joint Committee Agreement and established under *s101 Local Government Act 1972*. It comprises 6 Elected Members (3 from Adur and 3 from Worthing) and must include at least one Executive and one non Executive Member from each Council. Its current terms of reference include:

- the determination of appeals against dismissal by Director Chief Officers.

It should be noted that depending on which option at paragraph 5 is adopted by the Councils there will be consequential changes required to the terms of reference of the staffing Committees, and the Monitoring Officers seeks authority in this report to implement such changes to the Constitution.

In particular it should be noted that if option 2, 3 or 5 from paragraph 5 is adopted by the Councils it would result in the abolition of the Joint Senior Staff (Appeals) Committee as it would no longer have any function or purpose.

## **7.0 Legal**

7.1 The Local Authorities (Standing Orders) (England) Regulations 2001 set out the statutory procedures relating to the appointment and dismissal of Chief Officers and Deputy Chief Officers of a Local Authority.

7.2 The Local Authorities (Standing Orders) (England) Regulations 2015 set out the statutory procedures relating to the appointment and dismissal of a Local Authority's Statutory Officers.

## **8.0 Financial implications**

8.1 There are no financial implications arising from this report other than a potential saving arising from less Staffing Committee meetings; reduced staff resource for such committees and reduced printing and postage costs.

## **8.0 Recommendation**

The Joint Governance Committee is recommended to:

8.1 Determine which option in paragraph 5 of this report is their preferred option;

8.2 To recommend to both Councils the adoption of their preferred option, subject to consultation with Unison; and

8.3 To recommend to both Councils that they delegate the authority to the Monitoring Officer to implement the adopted option and in particular to make consequential changes to the Officer Employment Procedure Rules and the terms of reference of the Staffing Committees in each Council's Constitution.

**Local Government Act 1972**

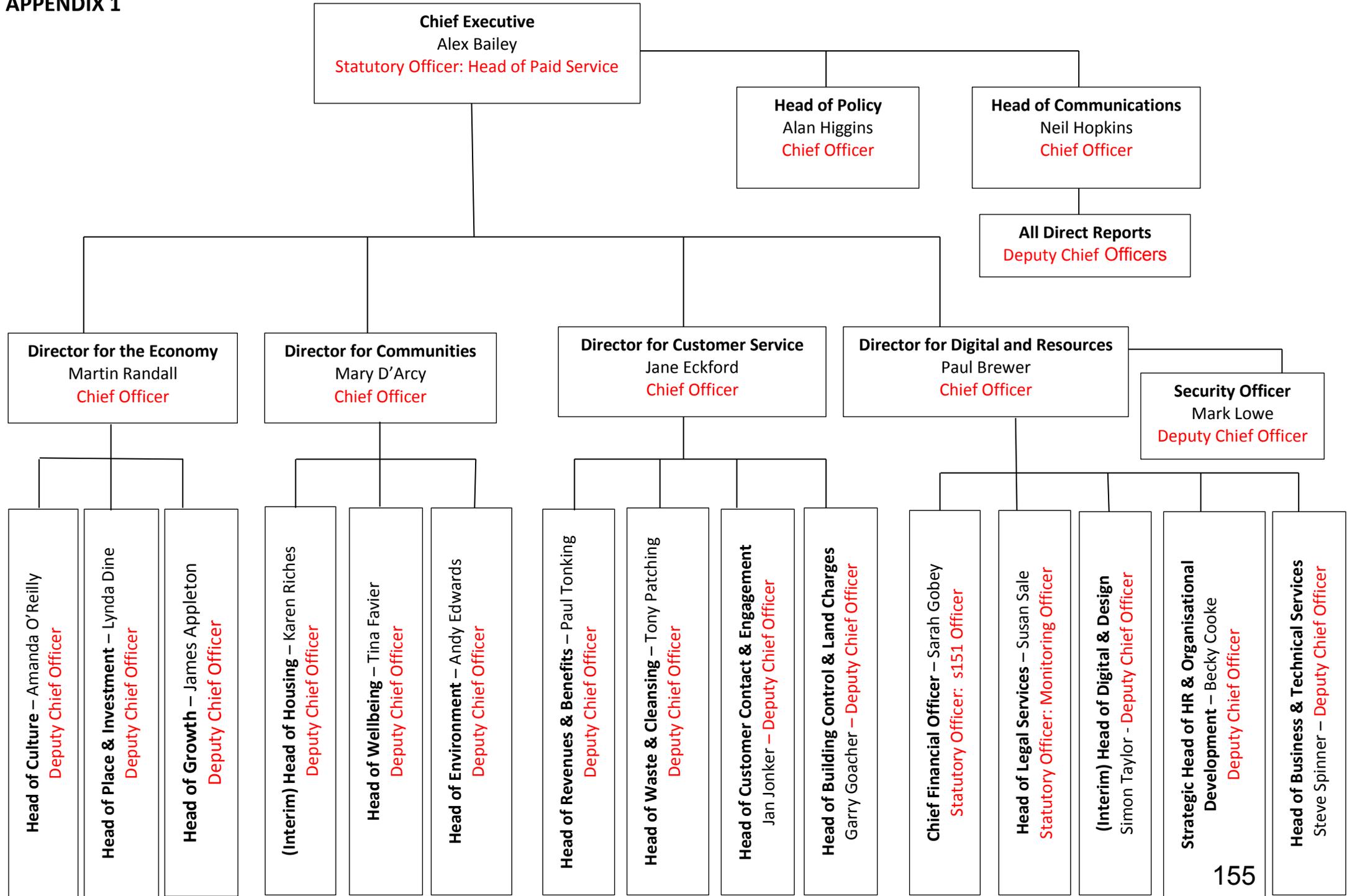
**Background Papers:**

Officer Employment Procedure Rules  
Worthing Borough Council Constitution

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**APPENDIX 1**



## **Schedule of Other Matters**

### **1.0 Council Priority**

- 1.1 Matter considered and the issue of Joint Officer Employment Procedure Rules and Joint Staffing Committees relates to the Council priorities relating to partnership working.

### **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 Every individual has the right to a fair hearing and it is considered that the proposals comply with the principles of natural justice and the Human Rights Act.

### **7.0 Reputation**

- 7.1 Matters considered and no issues identified

### **8.0 Consultations**

- 8.1 The proposals are subject to consultation with Unison.

### **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 The Joint Staffing Committees operate under the Joint Committee Agreement and support the principles of partnership working.